

QUESTIONS AND ANSWERS

RWANDA INTEGRATED IMPROVED LIVELIHOODS PROGRAM (IILP)

RFA-696-11-000002

QUESTION 1. Is IILP intended to be primarily a "rural livelihoods " program or a "rural financial services" program? Or is it a balanced combination of the two? In the early part of the RFA, including the Results Framework, and illustrative activities (pgs. 29-33) the emphasis appears to be equally on smallholder agribusiness development and rural financial services, with improved nutrition as a third, ancillary result. However, in Figure 5 on Page 28, referring to Program Elements, Outputs, Outcomes, and Results, only rural finance, enterprise management skills, and improved nutrition are mentioned. There is no specific mention of agriculture, as in IR.7.1 on Page 24, although most of the poor in the target area are smallholder farmers, especially women. Please clarify.

ANSWER: The Integrated Improved Livelihoods Program (IILP) is a rural livelihoods program. An important aspect of improving rural livelihoods in Rwanda is increasing the demand for and supply of rural financial services, and enterprise development is part and parcel of increasing the demand for financial services. Because the IILP targets rural areas, USAID expects the vast majority of enterprise development activities to be related to agribusiness development. Please also note that strengthening adult literacy and numeracy is considered an important element of increasing the demand for rural financial services.

QUESTION 2. Can USAID/Rwanda make available to bidders copies of the OTF, CARANA and CHF value chain analyses mentioned in Paragraph 3 on Page 30 of the RFA?

ANSWER: Yes, please see attached.

QUESTION 3. Does USAID have any objection to a portion of the budget being set up as a loan fund to kick-start lending in the target areas?

ANSWER: Offerors are free to propose any intervention that they feel would contribute to the achievement of the program's objectives.

QUESTION 4. Is the illustrative PMP mentioned on page 24 subject to a page limit? Page 24 says it "shall be included as an annex." Pages 6 states that the "application is limited to 40 pages." Page 7 states that the "Monitoring and Evaluation Plan" is to be "5 pages maximum." Page 7 does specify that annexes are not included in the page limit. However, there

is no mention in the subsequent listing of illustrative annex material of PMPs. Should we assume that there is no page limit to the length of the illustrative PMP if it is included in the Annexes?

ANSWER: Total technical approach is limited to 40 pages. PMP should be included in the technical approach in 5 pages.

QUESTION 5. To what extent should the 10 indicators included in Figure 1: Economic Opportunities Results Framework (page 24) be considered central to the IILP? Page 18 of the pre-solicitation Program Description said that “reporting is required” for five of these indicators. However, this language was not contained in the final RFA. Also, should the IILP report on higher level indicators listed in the page 24 results framework under Assistance Objective 7 (i.e. % change in rural income, and # of person days of employment)?

ANSWER: The Results Framework depicted in Figure 1 was included in the RFA in order to provide the strategic context in which the IILP will be operating. The indicators depicted are currently undergoing revision to better align with Feed the Future indicators. Offerors are free to propose the indicators they feel are most appropriate for the program and within the program’s manageable interest, but USAID encourages the use of Feed the Future indicators to the extent possible. See <http://www.feedthefuture.gov/monitoringevaluation.html> for the list and definitions of Feed the Future indicators.

The IILP has been selected by USAID for its Rigorous Evaluation Initiative. As part of activity start-up, the IILP implementer will need to collaborate with USAID’s Office of Learning, Evaluation, and Research to design a rigorous impact evaluation of the program that may involve experimental or quasi-experimental methods. Such impact evaluations typically require collection of baseline data, as well as a second round of data collection mid-way through the project or after interventions have been fully implemented. Funding for the impact evaluation, including collection of baseline data, will be additional to the total estimated cost of the IILP.

QUESTION 6. On p. 23, the RFA states that IILP shall contribute to achievement of USAID’s Assistance Objective 7: Increased Economic Opportunities in Rural Areas. It also states the Program shall also substantially contribute to the achievement of USAID’s Assistance Objective 6: Improved Capacity for sustained and improved health outcomes. Figure 1 on p. 24 provides the Results Framework for Assistance Objective #7 only. Can USAID also provide the Results Framework for Assistance Objective #6 as indicated?

ANSWER: USAID’s Assistance Objective 6 related to health is currently undergoing revision. Rather than provide offerors with a dated Assistance Objective as context, USAID suggests offerors use the Feed the Future Results Framework, particularly its nutritional objective, as strategic guidance for the nutritional aspects of the IILP. The Feed the Future Results Framework is available at <http://www.feedthefuture.gov/monitoringevaluation.html>.

QUESTION 7. Does the M&E Specialist need to be Rwandan? The Key Personnel description (page 21) lists “3) M&E Specialist, a local ...” If the bidder identifies a non-Rwandan or East African native as the best fit for this position (or in an STTA capacity), would it be acceptable to propose them?

ANSWER: USAID would prefer a Rwandan but each offeror must submit their best candidate.

QUESTION 8. p. 35, the RFA refers to “The chart below” that describes the multitude of factors leading to under nutrition in Rwanda. The chart does not appear to have been included below. Will USAID provide the indicated chart?

ANSWER: There is no chart – USAID apologizes for this oversight. This sentence should be removed.

QUESTION 9. Pg. 29 - 1B: Increased Access to Microenterprise Management and Extension Services

-What definition of a microenterprise applies to this context? (i.e. size, scale, turnover)

ANSWER: Please refer to Automated Directives Systems Chapter 219, available at <http://www.usaid.gov/policy/ads/200/>.

QUESTION 10. Pg. 35 - Health & Nutrition component: "This component realization is subject to availability of funds. In case the funds are available the nutrition activities would not start until Year 2."

-When will it be determined if funding is available for health and nutrition (component 4)?

-Will USAID provide a breakdown of total funding by component? How much total funding will be available for this intervention if Program Element 4, Health & Nutrition, is not included?

ANSWER: USAID requests that offerors now consider initiating nutrition activities from the start of the project. Of the total estimated cost of the IILP, approximately 10 percent is expected to be devoted to nutrition activities.

QUESTION 11. Is USAID able to share the studies and reports referenced in RFA to applicants? Specifically, can USAID share the following reports?

Pg. 30 - Value chain analyses carried out by OTF, CARANA and CHF

Pg. 32 - Recently conducted study of the supply of financial services in Rwanda as well as a skills census in the financial sector.

ANSWER: Yes, please see attached.

QUESTION 12. Under Program Element 4: Health and Nutrition, the RFA indicates: “However, it should be clear that this component realization is subject to availability to funds. In case the funds are available the nutrition activities would not start until Year 2”. We kindly request clarification on how USAID would like applicants to plan and budget for health and nutrition activities under program element 4. Should all proposed health and nutrition activities commence in Year 2? Additionally, can USAID please provide an amount or expected percentage of the total RFA budget that is currently unfunded, and should therefore be dedicated towards health and nutrition?

ANSWER: See answer to question number 10.

QUESTION 13. Under Program Element 4: In relation to the expected outcomes, the RFA indicates that “IILP will contribute to achieve the USG outcomes especially the last four...” Can USAID please clarify more specifically the expected nutrition targets for IILP, and if targets are per district, or a subset of target beneficiaries?

ANSWER: The nutrition targets on page 35 of the RFA are national targets that will reflect a broad range of investments by various stakeholders, including the Government of Rwanda, other donors, etc. The IILP is expected to contribute to the achievement of some of these targets.

QUESTION 14. Under Program Element 4: Health and Nutrition, the RFA refers to a chart describing factors leading to malnutrition in Rwanda; however this chart does not follow. Can USAID please include the chart referred to?

ANSWER: See answer to question number 8.

QUESTION 15. The cover letter and Section A of the RFA indicate that a minimum cost share of 10% is required. In Section B the RFA indicates that a 10% cost share is encouraged. Can USAID kindly provide clarification on the cost share requirement?

ANSWER: 10% is required and any amount over 10% is encouraged. USAID endorses cost-sharing resources as an important principle in USAID-recipient relationships. Cost share is legally binding and reported on a periodic basis on payment forms.

QUESTION 16. USAID has cited many existing models reviewed, and mentions specific existing partners in the RFA background and in the illustrative activities section as successful. We respectfully ask that USAID please confirm that it will equally consider applications from all organizations that are responsive to the RFA.

ANSWER: Through the IILP, USAID is equally interested in scaling up interventions that have proven effective in improving the livelihoods of the rural poor in Rwanda and experimenting

with new models that may hold promise. USAID will equally consider applications from all organizations that are responsive to the RFA.

QUESTION 17. In Section C-III the RFA indicates that the analysis used the “service coverage of Urwego Opportunity Bank (UOB) as a proxy in the absence of detailed information on the outreach of microfinance providers...” Given the current service coverage of UOB in the target districts of the RFA, and since it is a licensed commercial bank in Rwanda, it will likely be a key and necessary partner during program implementation, working with one or more successful applicants. As such, it is concerning that UOB has entered into a consortium arrangement that we understand is exclusive, and thereby limits the extent to which other organizations can strategically engage UOB in the proposal development process. Can USAID kindly confirm that it will give equal consideration to all applicants that propose working with a range of MFIs, including UOB?

ANSWER: USAID confirms that it will give equal consideration to all applicants that propose working with a range of MFIs.

QUESTION 18. After reading the RFA, it is clear that this RFA is primarily focused on finance and microfinance opportunities, particularly for women. On p. 24 of the RFA the mention of “improved agricultural productivity”. 1) Can the proposal focus first on improved agricultural productivity of livestock and then address issues associated with financing and access to micro financing?

ANSWER: See answer to question number 1.

QUESTION 19. Will you please provide examples of what is allowable as matching funds?

ANSWER: All cash and in-kind contributions must meet the criteria set forth in 22 CFR 226.23 and may be in any combination of in-kind support, staff salaries, waiver of overhead, etc.

QUESTION 20. Please clarify how applicants should program and budget for activities under Program Element 4. Should applicants only propose activities and budget starting in year two of the award? If so, should budgets reflect this activity as a potential modular add-on?

ANSWER: See answer to question number 10.

QUESTION 21. If funding is available for nutrition activities, would this be in addition to the \$13.4 million of anticipated funding for this program?

ANSWER: See answer to question number 10.

QUESTION 22. The RFA states that funding for Program Element 4: Health and Nutrition might become available starting in Year 2 of the program. However, are applicants still expected to collect baseline data on nutrition indicators in Year 1 of the program? Or will relevant nutrition data only be collected in Year 2 of the program if and when funding becomes available?

ANSWER: See answer to question number 10.

QUESTION 23. On page 20 of the RFA, it says that “applicants should organize the narrative sections of their applications in the same order as the selection criteria set forth below.” On page 6 of the RFA, however, it says that the “technical application shall follow the following format.” Each of those two formats are slightly different. Could USAID please confirm which format the technical application should follow?

ANSWER: The applicants should follow the format indicated on page 6. Technical Evaluation Selection Criteria sub-sections shall be reflected and clearly addressed in the proposal format as shown on page 6.

QUESTION 24. On page 7, the RFA references conflicting requirements for page limits for the CVs. Under the Management and Staffing heading, it says “3 pages maximum per CV,” while under Annexes, it says “two page maximum per individual.” Could USAID please confirm whether the maximum number of pages allowed for CVs is 2 or 3 pages?

ANSWER: The maximum number of pages allowed for CVs is 2 pages.

QUESTION 25. On page 22, the RFA states that “A 10% cost share is encouraged.” However, in the cover letter, it says the “minimum cost share requirement for this RFA is 10% of the total USAID funds.” Could USAID please clarify whether the cost share is required or encouraged?

ANSWER: See answer to question number 15.

QUESTION 26. On page 35, the RFA makes reference to a “chart below” that “describes the multitude of factors leading to under nutrition in Rwanda,” however no chart is included. Could USAID please provide that chart for reference?

ANSWER: See answer to question number 8.

QUESTION 27. Page 5, paragraph f states that applications will be sent by email in Microsoft Word or Excel. Which version of Microsoft Office applications would be acceptable, Microsoft Word/Excel 2007 or 2003?

ANSWER: Microsoft Word/Excel 2010 is preferred however Microsoft Word/Excel 2007 or 2003 is acceptable.

QUESTION 28 Pg. 21, ‘Institutional Capacity and Past Performance’ – Is inclusion of PPRs in an annex rather than in the body of the technical proposal acceptable?

ANSWER: Past Performance References can be included in an annex rather than in the body of the technical proposal.

QUESTION 29. A Canadian not for profit and non governmental organization working in international development in Africa, Asia, Latin Americas and the Caribbean for more than 50 years. We executed and still are executing projects funded by USAID.

- Are we eligible to apply on this grant opportunity?

ANSWER: Yes

- Can we apply with a consortium composed of other Canadian organizations which have never executed projects funded by USAID?

ANSWER: Yes

- Looking at the goal of the program, the dimension of "increased economic opportunities and incomes" shall be mainly in the agricultural sector? or the interest of the program is to enlarge women economic activities in different sectors ?

ANSWER: See answer to question number 1.

END OF QUESTIONS AND ANSWERS

CENSUS OF EXISTING SKILLS IN THE FINANCIAL SECTOR OF RWANDA

Final Report



Oxford
Policy
Management

July 2010

Executive summary

Background

In order for the financial sector to play its important role in Rwanda's economic development, the government of Rwanda (GoR) recognizes that relevant human capacity will need to be developed within the sector that will allow various financial institutions to manage their businesses well. The GoR therefore seeks to develop a Financial Sector Skills Development Strategy with an objective to address skills gaps that have already been broadly discussed in previous studies and identified as a key constraint to financial sector development in the country.

This present study on the census of skills in Rwanda's financial sector builds on the findings of these previous studies and seeks to provide the needed information on existing skills and skills gaps in the sector. The study considers the existing skills in the sector and provides a detailed analysis of where the gaps lie – taking international best practice and standards into account, while also considering the needs specific to the Rwandan context. The findings of this study will inform the strategy to be formulated by the GoR to support the development of skills in the financial sector.

The study involved extensive consultations with advisers in the Financial Stability Directorate (FSD) of the Banque National du Rwanda (BNR or the Rwandan Central Bank) and interviews held with institutions providing financial services in the country. These include:

- Commercial banks (including specialized banks);
- Non-bank financial institutions (insurance companies, insurance brokerage firms and one pension fund);
- Microfinance institutions; and
- the BNR.

In addition to the institutions in these categories, interviews were also held with various support institutions – especially those engaged in capacity building activities in the financial sector (e.g. apex organisations or trade associations).

Key findings

The key issues emerging from the foregoing analysis of the skills stock, skills gaps and skill shortages in the financial sector – across the different types of financial institutions – are as follows:

- There is a tendency for disproportionate reliance on academic qualifications as a proxy for cognitive skills. Academic qualifications, however, do not guarantee the existence of important qualities such as the capacity to critically analyze, make decisions and exercise discretionary judgement – which in turn reveals more fundamental problems associated with the quality of education in the country and the implications for the quality of graduates being produced by the education system.
- Work activities associated with loan appraisals and evaluations have been facilitated by rigorous processes, but the deficiencies in analysis and discretionary judgement have constrained good lending and slowed down the introduction of new or more sophisticated products. There is an observed weakness in applying understanding and knowledge not merely in terms of general market awareness and strategic business focus, but in more technical skills such as product pricing, and in the assessment and modelling of risk.

Census of Existing Skills in the Financial Sector of Rwanda

- The importance of management skills in the sector cannot be over-emphasised. The overwhelming consensus was that management skills tended to be “poor”, despite heavy investment in training and attachments. Four key issues have been raised in this regard:
 - The candidates for promotion tended to be few, so appointments were made that would inevitably stretch the new jobholder. In some instances, more junior managers are thrust into positions of responsibility for lack of other options.
 - The management training most valued by employees was too theoretical and qualification-based.
 - Branch Managers and many functional managers lacked the leadership skills necessary to strategically plan, manage and drive activities to meet objectives. Heavy criticism was levelled at management for “ticking boxes” and “robotically” carrying out tasks without applying critical assessment or judgement and modifying actions as a result.
 - Middle managers and supervisors are typically those with the responsibility for work-based training of junior staff. Given skills deficiencies at this level, there appears to be a closed loop where poor levels of management and supervision will place a ceiling on the skills acquisition of new staff.
- The most obvious effect of skills shortages is on salary levels, especially among senior or specialist staff. Targeting competitor talent is not unusual, especially for senior level staff with experience and client relationships, and this has been very evident with the influx of new banks and restructuring in the sector. The excessively high salaries paid to specialists that perform very important functions within banks also has serious implications for the way institutions are able to price the services they extend to their clients, and therefore impact banks’ capacity to expand and reach into low-income markets.
- Related to this, staff retention among government-owned financial institutions and the BNR is a serious issue. Salary structures in these organizations do not reflect the market rate, which leads to the inability of these institutions to retain the skills needed and attract the kind of talent they require.
- Skills shortages in the sector lead many financial institutions to hire expatriate staff for hard-to-fill vacancies or specialist roles within organizations.

Where there are efficient labour markets, skill gaps and lags will tend to be short-lived. But the financial institutions are well aware that the labour market in Rwanda is not efficient and that there is a chronic lack of training provision. The result is that there are widespread skill gaps that are significant in terms of volume and in roles that are critical to the functioning of these organizations. As the external skills pool is growing slower than the demand for certain specialist skills, the sector is handicapped by skill shortages that in many cases can only be filled by regional recruitment or secondment from those with parent companies or partner organisations.

Where skills gaps are widespread, as our research has shown is the case in Rwanda, the development needs will mirror existing skills gaps. The needs identified by this study appear to be systemic in that the gaps create shortages, inflated salary packages, and distortions in pay and grading.

The development needs of the current workforce can be prioritised into the following key roles:

• Branch Managers;	• Loans Officers;
• Relationship Managers;	• Accounting staff;
• Customer Service and Sales Staff;	• Product Development officers;

Census of Existing Skills in the Financial Sector of Rwanda

- Credit Analysts;
- Risk Managers;
- Front Office Managers;
- Tellers;
- Trade Finance Officers;
- Corporate Relationship Managers;
- Business Risk Managers (general and sector specialists);
- Foreign exchange dealers;
- Back Office Operations personnel;
- Insurance Managers.

The scope of skill deficiencies may be surprising at first glance; but as we have observed, these will be accounted for by skill lags, where staff are yet to exhibit skills because of lengthy learning cycles, or more often where required skills are present but not at the required level. To illustrate this point, most employees in the sector would consider themselves numerate, but employers required advanced numeracy skills to deliver more complex products and services, so gaps and shortages were especially evident in terms of:

- Risk management;
- Computational finance – math skills, ability in programming, the ability to bridge the gap between theory and practice in developing models, and knowledge of specific asset classes and products;
- Modelling and pricing expertise;
- General analytical skills; as well as
- Senior management skills linked to subject matter expertise at a strategic level (e.g. Head of HR, Head of Finance, Head of Audit, Head of Risk, and Head of IT).

The amount of training taking place, as reported by all institutions, belies the fact that the market of training providers in Rwanda is non-existent or of negligible size. The staff development that is taking place is largely a collection of improvised solutions to a systemic sector need.

The table below summarizes these key issues and shows the degree of significance of constraints to each group of financial institutions.

Categories (financial institutions)	Broader constraints		Skills gaps and shortages		Problems manifested in financial institutions		
	Limited labour pool	Limited supply of training (locally available)	Technical skills	Management skills	Sector salary volatility	High rate of staff turn-over	Required to recruit foreign staff
BNR	++	+	++	+	++	++	-
Commercial banks	++	++	++	++	++	++	++
NBFIs	++	++	++	+	+	+	+
Microfinance institutions – small	+	-	+	+	-	-	-
Microfinance institutions – large	+	++	+	+	-	-	-

Note: - Not significant + Significant ++ Highly significant

Recommendations

The findings of this study highlight the urgency and scale of the current skills deficiency in the financial sector. The immediate and longer term goal is to enable all financial institutions to minimize skills gaps and avoid encountering skills gaps as they seek to expand and grow their services in line with the development of the Rwandan economy. This can be achieved through the closer cooperation between the institutions themselves, with the regulator, and with relevant stakeholders in the higher education sector, in tandem with the introduction of professional vocational training resources and better strategic management of human resources.

The key recommendations for addressing the current skills deficiency include:

- Developing a sector-wide approach to skills development in the financial sector;
- Facilitating / actively engaging in developing reforms in the education system;
- Promoting / encouraging performance measurement in order to better identify and address skills gaps within organizations;
- Making available relevant and demand-driven training, and ensuring that sector growth is matched with growth in the skills pool;
- Establishing or strengthening the support institutions; and
- Rationalizing the remuneration and other relevant conditions of employment at government-owned financial institutions, including the BNR.

The following points will need to be carefully considered in the formulation of the strategy for skills development and in the design of action plan to implement the strategy:

- A sector-wide approach will be necessary in developing the skills in the sector and this needs to be aligned with regulatory frameworks of compliance.
- The activities to address the skills deficiencies will need to be capable of volume delivery, while being responsive to specialised demands – whether those be in the form of specialized training in microfinance, derivatives or actuarial programmes.
- The training measures will need to be of a quality that commands the respect and engagement of all, in order to avoid a two-tier outcome, where well-resourced banks use their own training programmes, while the smaller weaker institutions are the only ones using local training supply.
- The strategy will need to take a comprehensive view of learning and development options that:
 - are linked with international standards of qualification;
 - uses all available media, e.g. web-based training, distance learning, peer group learning, platform courses, etc.; and
 - is based on the principle of continuing professional development for all levels of employees.

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Abbreviations

AIB	Alliance Insurance Brokers Ltd
AMIR	Association of Microfinance Institutions in Rwanda
ASSAR	Association of Insurance Companies in Rwanda
ATM	Automated teller machine
BCR	Banque Commerciale du Rwanda
BDR	Banque Rwandaise de Développement (Development Bank of Rwanda)
BHR	Banque de l'Habitat du Rwanda (Housing Bank of Rwanda)
BNR	Banque National du Rwanda
BPR	Bank Populaire du Rwanda
Cogear	Compagnie Generale d'Assurances et de Reassurances au Rwanda
CSR	Caisse Sociale du Rwanda
EDPRS	Economic Development and Poverty Reduction Strategy
FSD	Financial Stability Directorate
FSDP	Financial Sector Development Programme
GoR	Government of Rwanda
IFC	International Finance Corporation
IFIs	International finance institutions
IIK	Insurance Institute of Kenya
JRA	Job Requirements Approach
KCB	Kenya Commercial Bank
KIB	Kenyan Institute of Banking
MFIs	Microfinance institutions
MINECOFIN	Ministry of Finance and Economic Planning
NBFI	Non-bank financial institutions
NPL	Non-performing loans
OPM	Oxford Policy Management
RAMA	Rwandaise d'Assurance Maladie

Census of Existing Skills in the Financial Sector of Rwanda

RBA	Rwanda Bankers' Association
RML	Rwanda Microfinance Ltd
SACCOs	Savings and credit cooperatives
SFB	School of Banking and Finance
SOC	Standard Occupational Classification
SONARWA	Société Nouvelle d'Assurances du Rwanda
SORAS	Société Rwandaise d'Assurances
UOB	Urwego Opportunity Bank

1 Introduction

1.1 Background

Financial sector development is at the core of Rwanda's Economic Development and Poverty Reduction Strategy (EDPRS). In order for the financial sector to play its important role in Rwanda's economic development, the government of Rwanda (GoR) recognizes that relevant human capacity will need to be developed within the sector that will allow various financial institutions to manage their businesses well. The GoR therefore seeks to develop a Financial Sector Skills Development Strategy with an objective to address skills gaps that have already been broadly discussed in previous studies and identified as a key constraint to financial sector development in the country.

1.2 Objectives of the study

Important studies that inform the understanding of the patterns in the demand and supply of financial services in the country have already been commissioned and completed. Among these are the FinScope survey and supply side study of financial inclusion in Rwanda. These studies are crucial in enhancing understanding of Rwanda's financial landscape and in helping to identify the key issues that need to be addressed to promote overall financial sector development and to expand financial access.

This present study on the census of skills in Rwanda's financial sector builds on the findings of these previous studies and seeks to provide the needed information on existing skills and skills gaps in the sector. The study seeks to consider the existing skills in the sector, covering the key skills and key posts in banks and the range of non-bank financial institutions operating in Rwanda. The study also seeks to provide a detailed analysis of where the gaps lie – taking international best practice and standards into account, while also considering the needs that might be specific to the Rwandan context.

A key objective of this study is to inform the strategy to be formulated by the GoR to support the development of skills in the financial sector. Thus, recommendations are also provided at the end of this report, for policy consideration by the GoR.

1.3 Methodology used

This study was informed by earlier work undertaken in the area of skills audits and financial sector training needs – which have been typically used in the context of developed country environments. While this previous work has been valuable, this understandably did not cover all the key research questions that were deemed important in the case of Rwanda. Adjustments were therefore made to the methodology and the research tools to better reflect the characteristics of Rwanda's financial sector.

The key components of the methodology included the following:

- A desk review was undertaken of relevant literature and documentation on the financial sector in Rwanda, including a review of documentation on skills assessments previously conducted, and capacity development options.
- A quantitative survey of stakeholder institutions was carried out, comprising a series of matched employer-employee questionnaires, as well as questionnaires covering technical specialisations. The analytical framework used aimed to compile a complete view of the skills in the sector.

- Qualitative information was also collected via interviews with senior managers, functional heads and selected jobholders in a large sample of financial institutions and associated organisations. (A full list of interviewees is provided in Annex C).
- A detailed analysis of selected roles was then undertaken using the Job Requirements Approach (JRA). The JRA seeks to identify the key roles within financial institutions, the competencies required for those key roles, and how existing personnel match those identified competencies.
- The survey data were then processed and analysed to form the basis of the current report, which highlights the key findings and recommendations for developing the skills in Rwanda's financial sector.

Following the desk review and extensive consultations with advisers in the Financial Stability Directorate (FSD) of the Banque National du Rwanda (BNR or the Rwandan Central Bank), the consultants drew up a list of institutions providing financial services in the country, and identified various peer groups according to the institutions' legal charter or type. These peer groups comprise of:

- Commercial banks (including specialized banks);
- Non-bank financial institutions (insurance companies, insurance brokerage firms and one pension fund);
- Microfinance institutions; and
- the BNR.

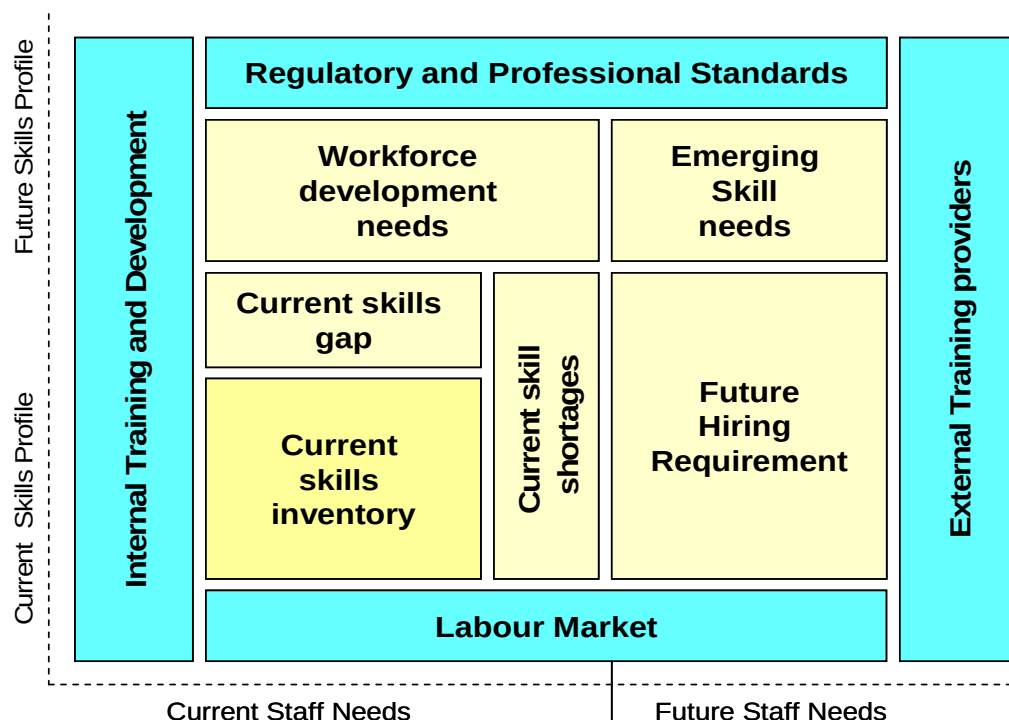
In addition to the institutions in these categories, interviews were also held with various support institutions – especially those engaged in capacity building activities in the financial sector (e.g. apex organisations or trade associations).

Recognizing that there were limitations in the field work that could be implemented within the scope of this study, a two-tier approach was adopted that allowed the consultant team to gather *basic* data for all organisations, and undertake a more *extended*, in-depth review of skills in a smaller number of representative banks. This fieldwork was conducted by the OPM team in April and May 2010.

Data gathering focused primarily on *employer* and *employee* surveys of key informants in financial institutions. Additionally, where available, bundles of *performance data* were also collected, which included annual performance reports, productivity data, customer satisfaction surveys, staff turn-over, cycle times, etc. These bundles of performance data helped to validate the information gathered during the survey and interviews held with the various financial institutions.

The consultations held with the BNR helped to identify the key occupations to be analysed using the Job Requirements Approach (JRA); they also highlighted broader issues that affect the way human resource capacity is developed within financial institutions in Rwanda – e.g. legal and regulatory considerations, observance of professional standards, existence / availability of facilities for training in certain skills or professions, etc. These broader issues have important implications for the way financial institutions operate and behave; they form part of the analytical framework, as is shown in Figure 1.1 below. This framework allows an analysis that goes beyond merely reviewing the standard causes of skills gaps, often characterised as “the failure to obtain, train and retain the right people”. The analytical framework allows us to consider the significant influences of factors like the general characteristics of the Rwandan labour market (i.e. the general labour pool), the regulatory standards in place, and the availability of internal and external training provision.

Figure 1.1 A Skills Census Framework



Source: Adapted from the UK Financial Sector Skills Council.

The analytical framework therefore seeks to provide answers to the following key questions:

- What are the current skills employed in the financial services sector?
- What are the skills gaps and shortages and where do they lie?
- How are the current needs being met? How may we characterize the methods presently employed by the market to address these skills needs?
- What are the most important areas of workforce development need?
- How can we meet the future skills needs of the sector?

1.4 Key concepts, classifications and terminology

In the light of the earlier studies carried out in the areas of skills audit and skills development strategy in Rwanda,¹ it is important to define the terminology used in this study and the rationale for adopting certain classifications.

The term **skills** is defined as “the ability to perform a task to a predefined level of competency”.² It is important to note that the term “competency” is often used interchangeably with the term “skills” in this report, although the former can be used more precisely to denote skills, knowledge, and understanding. Skills are divided into:

¹ See: David Butcher and Associates (2009): Draft Skills Development Strategy for the Rwandan Financial Sector.

² Labour Market Trends, January 2002, see pp17-27.

- “general” or “transferable” skills – i.e. those skills that are applicable across a range of different occupations; and
- “technical” or “vocational” skills – i.e. specific skills needed to work within an occupation.

In order to establish a degree of international comparability, the consultants have chosen to use the Standard Occupational Classification (SOC) to categorise the roles within financial institutions.³ While this classification can be criticised for using groupings that are broad, a narrower categorisation would make a sector-wide survey of this sort unduly complex. This classification encompasses two aspects of skills, which are used in the analysis of survey data:

- The skill **level** relates to the complexity of the tasks and duties to be performed. These levels are often incorporated in different bandings in competency frameworks, and can be linked to the estimated length of time necessary to become fully competent in the role, together with professional training or qualifications.
- The skill **specialisation** is the body of knowledge required for competent, effective and efficient completion of these tasks and duties.

The ‘**skills stock**’ can be defined as the internal skills pool available to employers, together with the skills present in the external labour market that are accessible should the need arise to buy in additional resources to service business volumes or new products, services or operations. The level of skills stock for any sector will be the result of various factors influencing the elasticity of supply, such as access to educational and training sources, the relative attractiveness of sector careers and rewards, the specificity or transferability of skills, and the efficient working of the labour market.

‘**Skills shortages**’ are shortages of accessible individuals with the required skills in the external labour market (potential workforce). This “accessibility” factor is key when considering issues such as the salary scales, and the free flows of labour across the region. Skill shortages are generally evidenced by the proxy of difficulties encountered in recruiting, or “difficult to recruit” positions.

‘**Skills gaps**’ are deficiencies in the skills of an organisation’s existing workforce, both at the individual level and overall, which prevent the organisation from achieving its objectives. Such gaps can be defined in two ways: broadly as where all establishments report that at least some of their staff lacked full proficiency; or a more narrow measure where a significant proportion of the workforce was reported lacking full proficiency. In the case of this study, the more narrow definition is used to allow for skill lags.

And lastly, ‘**skill lags**’ are deficiencies caused by the period of time between the introduction of a new product or practice that requires new skills for a certain role, and the spread of these new skills among the workforce. The concept of ‘skill lags’ is widely accepted and evident in any sector where labour markets are thin. Performance management systems tend to work in long cycles and even when external recruiting is possible, there are often long periods of orientation and firm-specific training necessary before a new employee becomes fully operational. Skill lags may, however, still exist even in highly efficient labour markets; but unduly long ones are a sign of shortages or gaps.

³ The Standard Occupational Classification is reproduced in Annex D of this report.

1.5 Layout of Report

In the following chapter, Chapter 2, we provide a brief overview of Rwanda's financial sector by describing the characteristic patterns in the demand and supply of financial services in the country, as well as the macro framework and meso-level institutions that support the interaction between users and providers of financial services in the country.

The following chapters – Chapters 3, 4, 5 and 6 – we discuss the findings for each sub-sector or group of institutions, namely (i) commercial banks, (ii) non-bank financial institutions (NBFIs), (iii) microfinance institutions (MFIs), and (iv) the Banque National du Rwanda (BNR). In each of these chapters, the skills stock, skills gaps and skills shortages in each of the sub-sectors are analyzed and discussed.

In Chapter 7, the current supply of training and skills development in the country is described, and their relevance to the needs of financial institutions is analyzed.

This is then followed by Chapter 8, which first provides a summary of the issues in skills development in the financial sector, and followed by a discussion of the development needs of the current workforce.

The last chapter, Chapter 9, elaborates on the recommendations for addressing the skills gaps and the key constraints in building capacity in the financial sector.

2 Characteristics of the Rwandan Financial Sector

2.1 The financial services landscape

Characteristics of the demand for financial services

According to the FinScope survey, only 14% of the adult population of Rwanda is banked, with the vast majority (96%) of these individuals being clients of Bank Populaire du Rwanda (BPR). Similar to what can be observed in other countries in Africa, a large proportion (52%) of the adult population in Rwanda remains financially excluded – i.e. they do not make use of any financial service, formal or informal. This segment typically comprises individuals who have low incomes and many of them (53%) say that they keep cash at home or in a secret hiding place – i.e. they do not keep their savings in financial institutions, even in informal savings groups. Insurance usage also tends to be practically non-existent.

While the proportion of those financially excluded are comparable between rural and urban dwellers, the discrepancy in terms of those with access to formal and informal types of services is striking (Mark Napier/Genesis Analytics, 2010): about 33% of urban dwellers are either banked or use some other formal financial product, compared to only 19% in rural areas. On the other hand, informal product usage is much higher in rural areas, which suggests (a) the need for financial services despite high levels of poverty (in rural areas), and (b) the limited reach of formal financial service providers in more remote areas of the country.

The supply of financial services

The range of financial service providers in Rwanda includes commercial banks, non-bank financial institutions that provide insurance or pension services, and microfinance institutions (MFIs). Even as MFIs outnumber all other types of financial institutions (in terms of the number of operators), commercial banks are by far the largest players in terms of total assets, making up approximately 60% of the sector.

Table 2.1 Financial institutions operating in Rwanda

Types of institutions	Number of (registered) institutions	Total number of branches
Commercial banks (including specialized banks)	8 commercial banks 2 specialized banks; 1 microfinance bank; 1 discount house	194 (of which, 128 are BPR's)
Non-bank financial institutions	1 pension fund; 8 insurance companies; 2 insurance brokers	92
Microfinance institutions	85 SACCOs; 11 deposit-taking (publicly-owned) companies; 1 credit-only (privately-owned company)	188

Source: Banque National du Rwanda database, 2010.

In recent years, the financial sector in Rwanda has seen significant changes in terms of the level of competition within the sector. The former Union des Banques Populaires has been transformed into a bank (Banque Populaire du Rwanda or BPR), which saw the consolidation of numerous individual financial cooperatives into one (cooperative) bank. There have also been new entrants in the banking sector – e.g. Ecobank, Access Bank, Opportunity International Bank and Kenya Commercial Bank. Similar movements have also been seen in the insurance sector with the entry of a number of regional players that have now set up operations in Rwanda. MTN's Mobile Money business has also started operations in the country, facilitating cheap electronic transfers. The microfinance industry encountered major problems in recent years, which led to the closure of a number of operators and the re-capitalization of those that survived the crisis. The sector now faces increasing competition both from banks and from the government-sponsored Umurenge SACCO programme.

The recent supply side study of financial inclusion in Rwanda confirms that there is an adequate spread of institutions that target and provide services to the mass market. This is especially the case when we take into account institutions like BPR that has an extensive branch network, and Urwego Opportunity Bank (UOB) that has a particularly pro-poor mandate as an institution. Despite this, however, there is a very low penetration of banking services among adults in Rwanda. The findings from the recent supply side study indicate that even while there is reasonable institutional coverage across the market, banks still tend to focus mostly on high-end market segments such as corporates, larger (formally registered) SMEs, salaried individuals or those with regular incomes, and individuals with high net worth.

This tendency among formal financial institutions to target the higher end of the market is also evident when we look at non-banks such as insurance companies and pension funds. Insurance providers and pension companies target salaried individuals only and their coverage remains extremely narrow.

2.2 Meso-level institutions

The payments system

The payments system in Rwanda has undergone a process of liberalization, with the introduction of changes to the payments system infrastructure. Many stakeholders in the financial sector viewed these changes as having the potential to transform the way payment transactions are made in the country and contribute to a higher level of efficiency in the system. In 2007, the national switch (SIMTEL) was restructured and recapitalised, which has led to a slight improvement in the performance of the payments system. But the banks are still highly critical of SIMTEL, given the high frequency of automated teller machine (ATM) downtimes and lengthy delays in card processing.

This issue has significant implications for the capacity or willingness of banks and other financial institutions to consider other more innovative methods for delivering their services and reaching the mass market, especially low-income individuals. The problems with regard to the payments system infrastructure mean that banks will not (as yet) be able to aggressively push for the use of electronic or card-based services and other more innovative ways of facilitating customer transactions (e.g. mobile phone-based transactions) that could effectively bring a significant proportion of adults into the banking system at relatively low costs.

Support institutions

There are three important institutions supporting the functioning of the financial system and of member-financial institutions: (a) the Rwanda Bankers' Association (RBA); (b) the Association of Insurance Companies in Rwanda (ASSAR); and (c) the Association of Microfinance Institutions in Rwanda (AMIR).

The **Rwanda Bankers' Association (RBA)** is the only significant meso-level body for the banking sector, geared towards the provision of representative as well as support functions for its member-banks. RBA can, however, best be described as an institution that is still very much in a nascent stage, having only recently been formed and even more recently appointed an Executive Secretary. The formation of the RBA was a development welcomed by the BNR.

The RBA represents all banks but has no executive authority. Nevertheless, it clearly has the potential to exert a strong positive influence on the sector by providing a single voice and enabling the development of the banking sector by helping to address those issues that cut across all banks operating in Rwanda.

It is important to note that the RBA's current focus is on addressing the major skills issues impacting the operations and profitability of its member-banks. As the current head of the RBA remarked, "In Rwanda the biggest competition is for staff not customers". The Association takes a sector-wide view of two key aspects of the skills issue:

- The numbers of trained staff required: while each bank invested in training its own staff, there was a general consensus among members that enterprise-level responses to skill gaps will continue to be inadequate in a period of expansion.
- The costs of current strategies are unsustainably high: by grouping together and helping to facilitate skills training and capacity building across all its member-banks, the sector can take advantage of economies of scale in addressing skills deficiencies within individual institutions.

The second support institution is the **Association of Insurance Companies in Rwanda (ASSAR)**. According to the insurance companies interviewed in this study, ASSAR acts as a representative of the insurance sector but does not really provide capacity building activities for its member-organizations at the moment. It organizes a number of seminars, but does not provide training activities for the staff of member-institutions.

Lastly, the **Association of Microfinance Institutions in Rwanda (AMIR)** is the support institution representing the microfinance sector in the country. AMIR was established in 2007, following the approval of the National Microfinance Policy, which was drafted by the Ministry of Finance and Economic Planning (MINECOFIN). It has the mandate to provide developmental support to the microfinance industry. AMIR currently has 84 members, which include publicly-owned companies and financial cooperatives (savings and credit cooperatives or SACCOs) of various sizes.

AMIR operates capacity building activities for the sector by providing training of trainers (TOT) and basic training services directly to MFIs. Its training services are not limited to its members; they have been extended to non-members like the recently formed Umurenge SACCOs. Just like the RBA, AMIR considers capacity building to be at the core of its function as a support institution. At the moment, the focus of its capacity building support is towards smaller MFIs. With funding from the World Bank, it offers basic training in nine key areas spanning basic accounting and financial analysis, governance and internal control.

2.3 The policy, legal and regulatory framework

In the span of the last five years, the GoR has introduced a range of policies and regulatory changes to strengthen the country's financial sector. Among these is the Financial Sector Development Programme (FSDP), which is a core component of the EDPRS. Other national policies have also been drafted – many of which underpin the need for greater financial inclusion in the country. These include the National Microfinance Policy Implementation Strategy and the National Savings Mobilization Strategy. These policies have also been accompanied by legislative reform in microfinance, the payments system and the introduction of the new credit bureau.

Another important initiative of the GoR is the reorganization of the Bank Supervision Department at the BNR into three distinct directorates: a Microfinance Supervision Department, a Non-Bank Financial Institutions Supervision Department, and a Banking Supervision Department. This reorganization has helped to improve the supervisory focus of the BNR. At the moment, however, in the face of an expanding financial sector, the BNR Bank Supervision Department experiences high staff turnover and capacity within the department tends to be heavily strained.

The BNR recognizes the utmost significance of skills issues in the financial sector. It has actively promoted the skills audit process as a first step towards understanding the current range of skills and the skills gaps in order to design and implement measures to upgrade skills across the different financial institutions it supervises.

2.4 Financial sector development and its overall importance in Rwanda's economic development

As discussed in the supply side study recently undertaken in Rwanda, there has been a limited degree of financial deepening within the economy: financial sector assets account for only 19% of the country's GDP. There was a marked growth in banking sector assets (33%) in the year 2007-2008, but this slowed down in the following year (only 7% in 2008-2009). This slow growth has been partly attributed to liquidity constraints experienced in the market. In Rwanda, there is a lack of long-term institutional deposits, given the small size of the insurance and pension sectors, which are considered the main providers of long-term finance.

Despite its size, the financial sector continues to be an important source of finance that can and does fuel economic activity in the country. As in many African countries, it is the services sector that is among the largest beneficiaries of commercial bank loans: this includes trading businesses, restaurants and hotels. The other sectors benefiting from the bulk of bank loans include public works and the housing sectors. The increased lending to the services industry has contributed to its growth, and to its becoming a major contributor to the country's productivity. Many stakeholders, however, hope for improved lending in the coming years to other strategically important sectors such as agriculture and real estate.

The supply side study identifies and analyzes the barriers to financial sector development in the country – which include the range of demand-driven and supply-side constraints, as well as those constraints at the macro and meso levels. Significantly, an important issue confronting the financial sector in Rwanda that is underscored in the said study is the issue of skills development. This is a pressing concern considering the expanding nature of the sector – with the entry of new players in the market and the need to expand the provision of financial services into under-served or un-served market segments, as has been noted above. The recent supply side study notes that the lack of skilled staff emerged as the

dominant constraint to business development for all of the respondents who were interviewed in that study. Skills gaps were noted not just in terms of specialised roles, but also in terms of basic functions such as at the level of tellers or claims officers.

3 Commercial banking sector

3.1 Overview

The recent supply side study describes the banking sector in Rwanda as “diverse and comprehensive” given that its current composition allows the sector to cater to various businesses and individuals. However, as noted earlier, the commercial banking sector as a whole still continues to be primarily focused on businesses and individuals that are typically considered ‘bankable’. The market they are currently able to reach still leaves out many smaller businesses and low-income individuals, especially those who are rural-based. Indeed, rural based agriculture and agribusinesses, big and small, are currently under-served by the banking sector.

The composition of the banking sector in Rwanda is provided in Table 3.1 below.

Table 3.1 Composition of the banking sector in Rwanda

Organization	Ownership	No. of branches
Commercial banks		
Access Bank	Access Bank Group (75%)	7
Banque Commerciale du Rwanda	Actis (80%)	11
Kenya Commercial Bank	KCB Group (100%)	9
Banque de Kigali	Government of Rwanda (100%)	18
Ecobank	Transnational (90%)	15
Banque Populaire du Rwanda	Rabobank (35%)	188
FINA Bank	Fina Group (55.7%)	7
Cogebank	International investors (40%)	0
Microfinance Bank		
Urwego Opportunity Bank	Opportunity International (100%)	7 (24 sub branches)
Specialized banks		
Banque de l'Habitat du Rwanda (BHR)		1
Banque Rwandaise de Développement (BRD)		5

Source: Data presented in the Supply Side Study (Napier/Genesis Analytics: 2010); BNR database, 2010; and interviews with individual financial institutions.

The recent supply side study provides an in-depth analysis of this sector; and this present report in no way wishes to duplicate that analysis. The picture that emerges from the research undertaken within the context of this skills census⁴ is of a sector that is in the

⁴ The research undertaken within the scope of the skills census benefited from input derived from all of the commercial banks listed above, except Cogebank and BHR. (The exclusion of these two institutions had to be made, given limitations in the field work, which required the team to interview

throws of significant transition – given recent acquisitions (whether partial or total), new investments, changes of status, and restructuring – the effects of which are yet to be fully realised. What is consistent in all this transition activity is the need to significantly raise the standards of performance to improve profitability and improve the cost to income ratios.⁵ The poor profitability reflects, among others, high start-up costs for the new entrants, and a major burden of non-performing loans (NPL) for those that have been established for a longer period. The NPL ratio is now down to an average of 11.5% according to the BNR, but a number of banks are still struggling to clear the results of many years of poor lending decisions.

As noted earlier, Rwanda has a low proportion of banked population (14% of adults) that are currently served by the eight commercial banks. While there may be degrees of differentiation in terms of market targeting – e.g. FINA Bank targeting SMEs, UOB having a strong pro-poor focus – the majority of banks have segmented the market along similar lines and there is growing competition for the salaried and high net worth customers, independent of the corporate client base. Among all the banks, only one – BPR – is represented in all regions of the country, in both rural and urban areas, and is effectively reaching 96% of all of those who are currently banked.⁶ The commercial banks currently supply a relatively narrow range of services to match a narrow range of demand, although new products are gradually emerging for more mature corporate and individual clients. The bulk of transactions are deposits and withdrawals from accounts – which is important to consider in the context of this present study.

BPR stands out among all the banks given its unique history, its national spread and client base. BPR currently has 188 branches, compared to the largest other branch network, which is only 18; the BPR workforce totals roughly 1,500, compared to the average of 200-300 for the other banks. Despite BPR's uniqueness, it does provide services similar to that of other banks and its operational model is also comparable to other organizations in the banking sector. This therefore allows us to treat and analyze BPR in a similar way to all the other banks in this study.

Instead of looking at distinctions in terms of size and network, what has become apparent during the data gathering process was the distinction between the indigenous banks and those that are regionally affiliated – which include Access Bank, Ecobank, FINA Bank, and the most recent new-comer, Kenya Commercial Bank (KCB). The distinction between these two groups is evident in terms of the banks' approaches to performance standards, workforce development, their associated human resource management policies, and the amount of resources at their disposal. Some similar patterns in the approaches used and the advantages that regionally affiliated banks enjoy can also be seen among those institutions that are not part of a regional group but have international shareholding – such as BPR and BCR, or through partnering arrangements such as that of UOB. In the absence of industry occupational standards and professional accrediting organisations, the skill standards that are applied by those banking institutions that are wholly Rwandan owned and managed tended to differ from those applied by those that are regionally affiliated and/or maintain significant international shareholding.

only a sample of financial institutions across the various types. Nevertheless, the sample of institutions interviewed covered the range of bank types currently operating in the country.)

⁵ The level of profitability of the commercial banking sector in Rwanda is among the lowest in the region.

⁶ Napier / Genesis Analytics (2010): Supply Side Study of Financial Inclusion in Rwanda; Genesis Analytics. At the time of field work, BPR was undergoing an audit and staff movements, however visits were made to three branches in and around Kigali.

Other studies have been clear in their assessment that skill deficiencies are a major constraint to the growth and efficiency of the banking sector, and leading figures in the industry cite the “general lack of adequate local talent” as one of the challenges of operating in Rwanda.⁷ Nevertheless, there is an inventory or pool of relevant skills present within the workforce that is being utilised and developed to carry out normal business. In the following sections, we examine the skills that do exist (to the required level), the distribution of skills between occupations, and the various strategies that have been used to build this skills pool.

The headline findings across the sector are as follows:

- The sector is drawing on a limited pool of skills, experienced and qualified people, especially technical experts, from which all employers are recruiting.
- The competition for key staff has increased salary levels dramatically, which places some local banks (and even the BNR) at a disadvantage.
- Important variations exist in the levels of skill deficiency recorded across occupations and sectors.
- The size and structure of an organisation did not appear to have a significant effect on the skill deficiencies it is likely to experience, however ownership did.

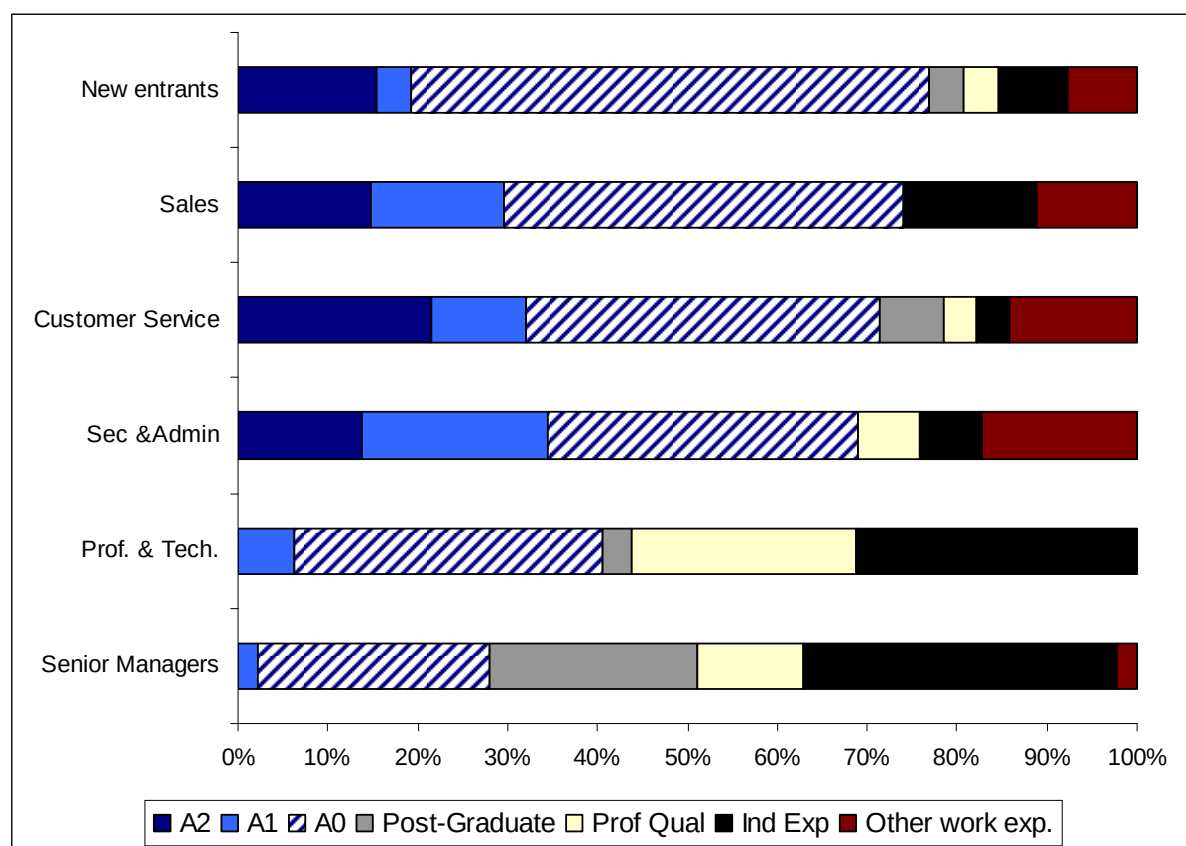
3.2 Educational profile of bank employees

All commercial banks have a policy of graduate recruitment targeting the “best” in class, although this did not always lead into a structured graduate training programme for all the banks. This policy of growing rather than buying talent was viewed as something of a necessity in a tight skills market, but employers expressed satisfaction with such schemes as a means of building the workforce, and “building a corporate culture”. This policy of early career stage recruitment meant that some established banks even reported having 60% of their staff classified as “new employees” – an important consideration when discussing skill gaps and skill lags in the sector. In cases where some regional banks have newly entered the market – and have done so quite aggressively – there was a rapid period of recruitment, which was then followed by a period of consolidation and minimal recruitment.

The strategies that organisations have in terms of recruiting staff are a key determinant of the profile of the workforce. As shown in Figure 3.1 below, over 60% of those entering the industry had first or second degrees and/or some professional qualification. This is a pattern consistent for managers and professional and technical staff. This suggests a positive picture for a sector that is moving towards higher educational standards.

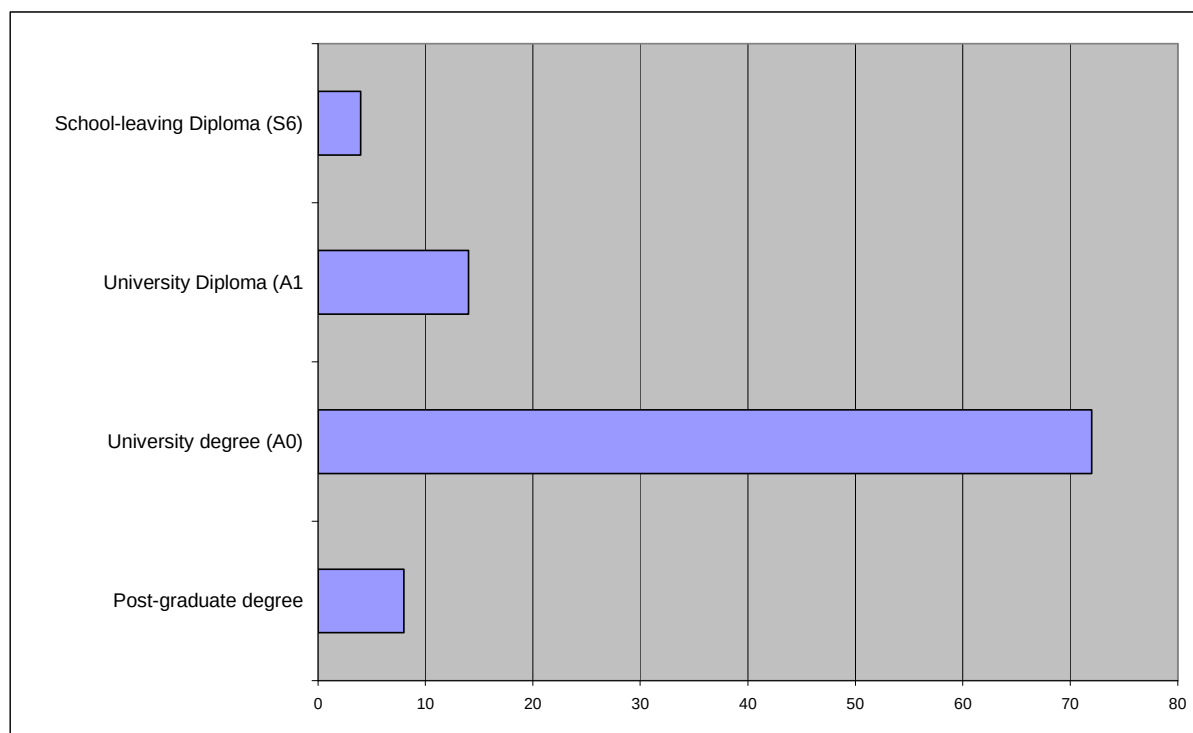
⁷ Mr Maurice Toroitich, CEO of KCB, quoted in the Daily Nation, Kenya; 25th April 2010.

Figure 3.1 Level of educational attainment, by occupational group (for banks surveyed)



This requirement for higher educational standards was also evident in the level of education reported by non-managerial employees. Interestingly, only BPR reported significant recruitment of school-leavers (those with the basic school-leavers' certificate).

Figure 3.2 Level of educational attainment of non-managerial employees (for banks surveyed)



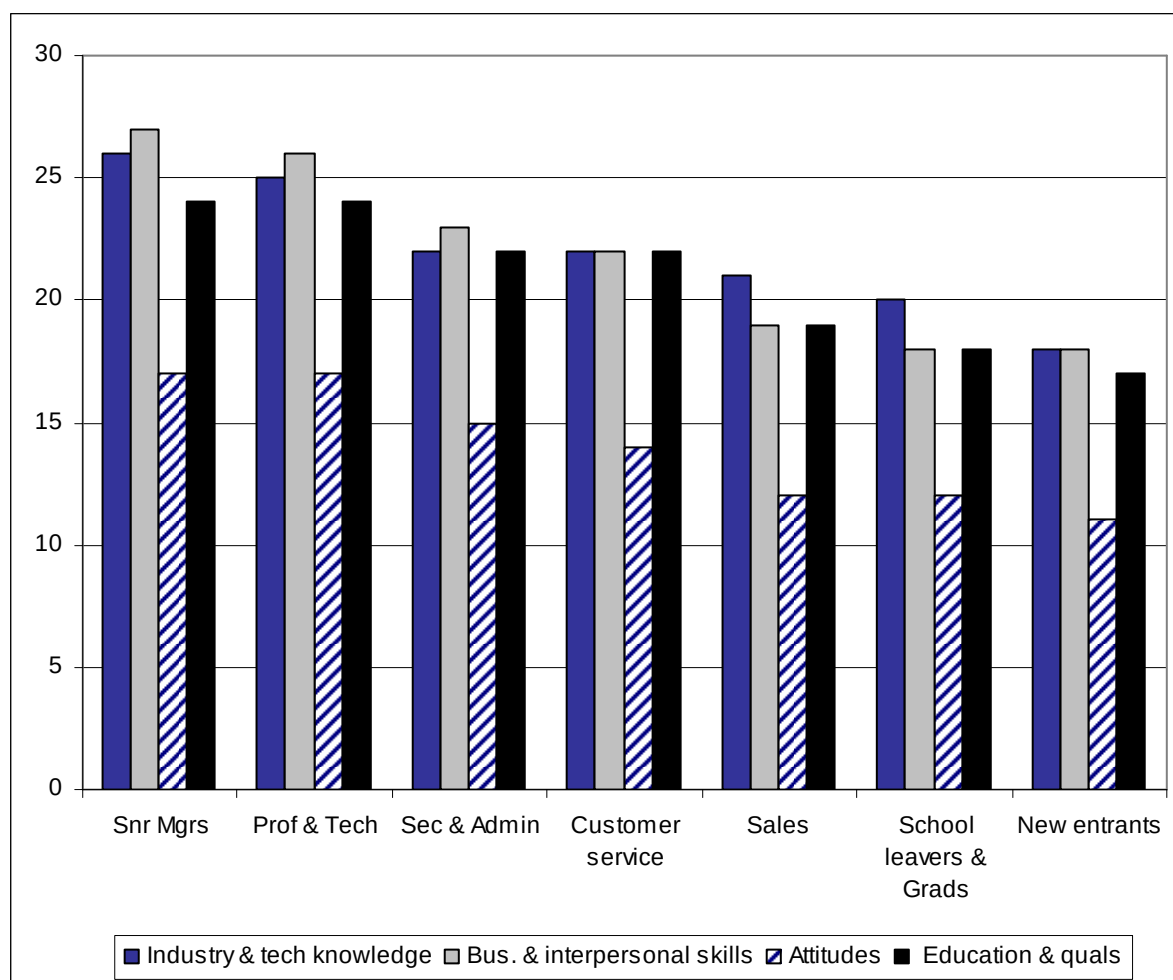
While this high proportion of graduates in the banking sector workforce appears to be very positive, this needs to be cautioned by how the majority of employers, especially the regionally-affiliated ones, were highly critical of the general standard of *cognitive skills* among many graduates (who have been either considered for positions or those who have been hired). The sentiment among these respondents was that local schools and universities (including the School of Finance and Banking, SFB) awarded high grades for lower standards than what these employers observe in their other countries of operation. The fundamental problem regarding the quality of graduates is captured in a comment made by one of the respondents: “We Rwandans study to pass exams” rather than to gain knowledge and understanding. Thus, for many new entrants, the training gap that employers needed to fill was seen as excessively large and costly. Local banks tended to be less dissatisfied with the competency level of new graduates, although even they have expressed a considerable degree of dissatisfaction with the quality of graduates.

Figure 3.3 below depicts how there is very little variation in the selection criteria used for senior managers or school leavers. This appears to be counter-intuitive but interviews with the bank managers reinforced the point that in the absence of robust performance management systems and a very limited labour pool from which to select candidates, educational qualifications remained the preferred proxy for applicable skills.

The strong requirement for *industry and technical knowledge* even among school-leavers and graduates was validated during the interviews: local banks tended to restrict their searches to graduates in relevant disciplines such as economics, finance, business and accountancy. The regional banks, on the other hand, were more likely to have a talent policy based on the expectation that new entrants would have no existing banking skills of value to the organisation. Some of them looked for the highest achievers with their preferred attitudes and aptitudes from any academic discipline (e.g. in Humanities courses), and then provided

a comprehensive (and often relatively lengthy) training programme to develop them into competent bankers. (For example, one regional bank reported recruiting “70 graduates from all disciplines”.)

Figure 3.3 Factors considered in recruiting, according to occupation (for banks surveyed)



While there is always competition for the very best talent, the commercial banks experienced little difficulty in attracting employees that are still at an early stage in their careers. Reportedly, the banking sector has a prestigious status and is therefore very attractive to many young job seekers. Mid-career and senior management level recruitment took place to fill routinely occurring vacancies resulting from turnover, growth or company expansion, and the launch of new products, services or other operational changes.

3.3 Current skills stock

Employers were almost unanimous in bemoaning the prevalence of skill gaps and the constraint that this has on the development of the sector.⁸ However, at the same time, all institutions reported areas of strength within their own organisations. In some instances, these areas of strength included facets of institutional capability – such as having a stable

⁸ The one exception was BRD.

front office team of bank tellers, with low instances of cash differences, on-target transaction times and good customer satisfaction ratings. More often, however, banks attributed their strength to one or two highly competent individuals within their organizations – such as a conscientious, highly experienced Loans Officer. This reliance on key individuals, rather than institutionalised competence, can represent a major operational risk that most employers are very aware of.

Overall, in the banking sector, the skills required to proficiently carry out roles are conventionally categorised into *Industry and Technical Knowledge*, *Business and Interpersonal Skills*, and *Attitudes*. Respondents were asked to identify present skills and skills deficiencies within their organizations. Table 3.2 below indicates the ranking of skills (in descending order), which are considered to be most present by employers, according to occupational group.

Table 3.2 Most frequently reported skills, by occupational group (in descending order of rank)

Senior managers/ Managers	Professional & Technical	Secretarial & Admin	Sales	Customer Service	School leavers & Graduates
Industry knowledge	Technical & operational knowledge	Working with others	Product knowledge	Understanding customer needs	IT systems and applications
Understanding customer needs	Working with others	Technical & operational knowledge	Management of customer relationships	Product knowledge	Technical & operational knowledge
Product knowledge	Finding and communicating solutions	Showing empathy with customers	Showing empathy with customers	Showing empathy with customers	Numeracy
	Product knowledge	Ability to communicate clearly	Understanding customer needs	Clearly conveying information to customers	

Industry and Technical Knowledge includes those skills that are specific to the financial sector, and those that have a clear knowledge element (e.g. how to model a certain type of risk), without which it would not be possible to carry out normal business. These are important in selecting professional and technical staff; and in many cases, staff are promoted to management grades as a result of their technical skills.

Business and interpersonal skills are often viewed as being key to management progression and more transferable between sectors. However, they are increasingly seen as critical to service delivery roles, where a combination of technical knowledge and interpersonal skills is required – a combination essential for Branch Managers.

While *Attitudes* may be seen as marginal to considerations of skill, employers frequently quote these as key role requirements, and they are notable drivers of productivity and quality improvements. Essentially, possession of skills may enable an employee to 'carry out the job', but their attitude determines whether they 'will' do the job consistently and well. Many

employers recruit on the basis of attitudes and aptitudes, considering that technical skills can be trained; attitudes take far longer to change.

The areas of relative confidence in the skill stock noted in Table 3.2 above are broadly in line with expectations of the skill profile for these occupational groupings. What is more questionable is the level of skills against which these assessments are benchmarked. The new entrant banks, or those with new external ownership, observed relative strengths among their teams but reported that skill levels across all functions were a cause for concern and remedial action; and, in particular, the combination of skills, knowledge, understanding and attitudes that are needed for complete competence was rare.

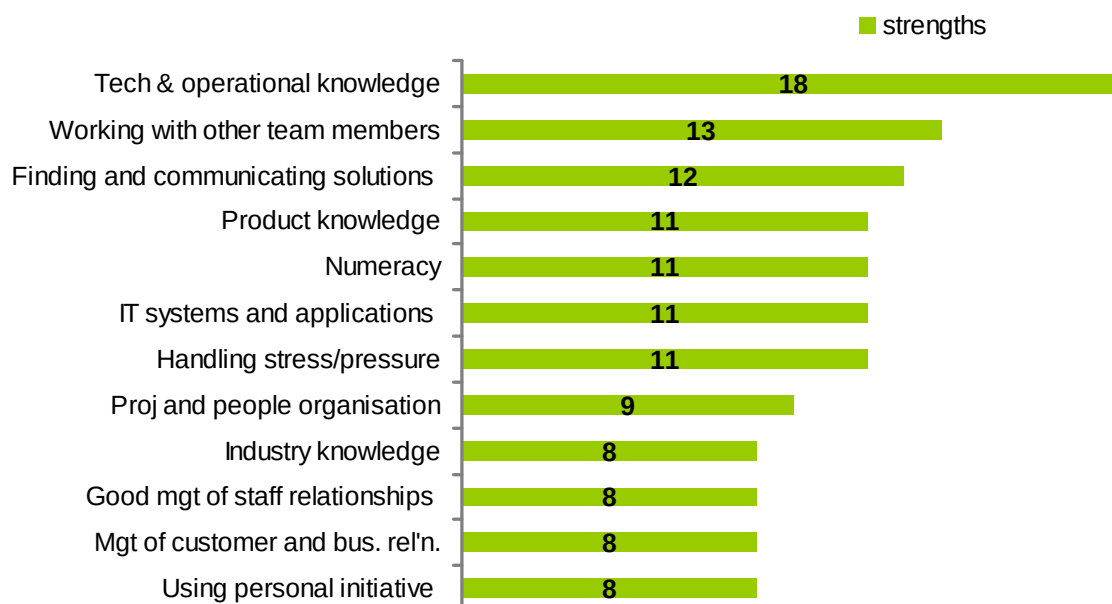
This caveat is important to consider when reviewing the strengths of the occupational groups in more detail for two groups – Managers, and Professional and Technical staff – as is shown in Figures 3.4 and 3.5 below. The profile of the skill stock is encouraging and suggests that basic competencies are in place. However, the added value that management roles should be able to contribute was reported to be less than satisfactory. Completion of technical tasks, for example, may be carried out as part of a management role, but critically assessing the objective of the task and how this can be achieved more effectively and efficiently is very rare. So the primary drivers of continuous performance improvement in any enterprise are lacking.

Figure 3.4 Skills stock among senior managers and managers



Note: Values represent the number of respondents (not percentage points).

Figure 3.5 Skills stock among professional and technical staff



Note: Values represent the number of respondents (not percentage points).

For Sales and Customer Service staff, the most present skills were product knowledge, management of customer relationships, and empathising and understanding customers' needs. However, the operational knowledge and confidence to apply these skills to actually achieve results for customers are less evident.

In summary, the current skill stock was reported to be **barely adequate** for current levels, and inadequate to address the complexity of the business, with only a few exceptions. The levels of performance were lower than what would have been required for full competency. The existing skill stock was not believed to be capable of rapid adoption of new products, services and technologies to meet market or regulatory requirements; nor was it viewed as capable of supporting growth, given the limited options available for management positions. Moreover, the strategies that are currently in place among many banks in order to achieve the current stock of skills – such as significant investments in training (up to 12% of payroll costs) and extraordinary salary increases – also raise the question as to whether this can be sustained in the long term.

3.4 Skills gaps

Understanding skills gaps is important for two reasons: they affect the efficiency of firms and they signal where future skills shortages might arise. For example, if a large number of firms were to hire to remedy the same skills gap, a surge in the demand for these skills would emerge. If the supply was not adequate, recruitment difficulties would result (leading to external skills shortages).

With the exception of one specialized bank, all institutions believed that they had skills gaps in their workforce. The key gaps are shown in Table 3.3, in descending order of ranking.

Table 3.3 Most frequently reported gaps, according to occupational group (for banks), in descending order or rank

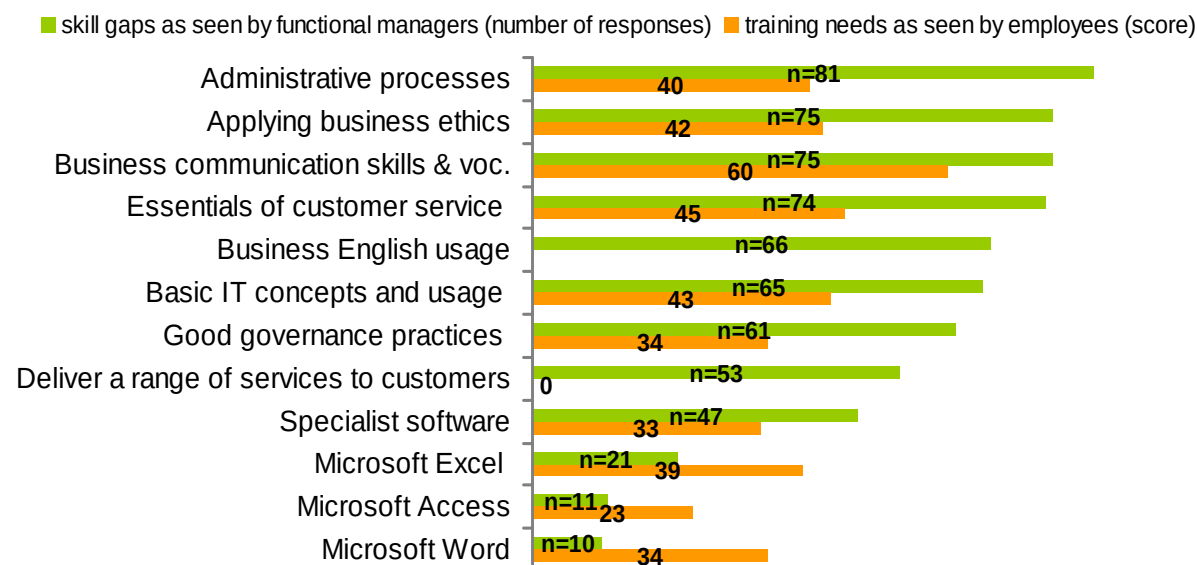
Senior managers/ Managers	Professional & Technical	Secretarial & Admin	Sales	Customer Service	School leavers & Graduates
IT systems and applications	Industry knowledge	Product knowledge	IT systems and applications	IT systems and applications	Industry knowledge
Tech & operational knowledge	Learning from criticism & setbacks	Understanding customer needs	Tech & operational knowledge	Tech & operational knowledge	Understanding customer needs
Understanding customer needs	Product knowledge	Tech & operational knowledge	Industry knowledge	Industry knowledge	Product knowledge
Conveying information to customers	Mgt of client relations	Industry knowledge	Doing more than expected	Numeracy	IT systems and applications
Learning from criticism & setbacks	Doing more than expected	IT systems and applications	Learning from criticism & setbacks	Using personal initiative	Tech & operational knowledge

In most fields, clerical and junior grades were satisfactory, but at senior management and management levels, banks have emphasized that it was “rare to find someone who is good technically and with strong management skills”. It was even quite common to find senior positions being occupied by relatively junior managers, who may have the potential to become seasoned managers in specialist fields in the future, but are already thrust into positions of responsibility, given the shortage of candidates who could be considered for many of these posts.

General competencies

As shown in Figure 3.6 below, the general competencies that concern both senior manager and employees the most centre around **communication** and implementing organisation-wide issues related to **processes**. By definition, these involve handovers and horizontal integration across departments, and require more in-depth understanding of banking operations, rather than simply being a matter of task completion. The figure below illustrates that senior managers and employees have different perceptions as to where the skill gaps and training needs are, a point explored further below. It is all the more interesting to see where both agree (i.e. on communication and process). This points to a strong gap and one that, when addressed, is likely to be supported both by senior managers and employers.

Figure 3.6 Skills gaps and training needs: general competencies



Note: Values represent the number of respondents (not percentage points).

Business ethics and administrative processes describe not only a flow of tasks but also the role of decision-making and accountability in any organisation. One persistent skills issue cited by employers was the widespread reluctance among staff at all levels to take decision and exercise discretion. This may require staff to essentially have a sense of ownership of the tasks entrusted to them. This may also require an atmosphere where staff members feel that it is safe to take decisions and that they will receive support (rather than blame) from senior management in case of difficulties.

This is far more serious than simply a lack of assertiveness. Conventionally, a banks' operating model is based on a framework of formal decision-making *limits* assigned to roles and jobholders. These assigned responsibilities are a risk management mechanism, but they also require jobholders to assume decision-making responsibilities up to a certain level, rather than to always and routinely have to refer decisions up the chain of command. This practice causes unnecessary delays and bottlenecks in the process. It also places an unduly heavy burden on a company's management that may not be able to effectively delegate certain tasks (and concentrate on more strategic issues), given the lack of willingness or inability of staff to make certain decisions related to the tasks assigned to them.

Many institutions have also reported resistance by some managers to efforts to train and coach staff into assuming appropriate responsibilities. Thus, in some cases, managers were noted to actually contribute to this poor sense of ownership of tasks among bank staff.⁹ At

⁹ The seminal work by Hofstede on the role of cultural factors in influencing work behaviour is clearly of relevance here and informs further analysis and recommendations. See: Hofstede, G. (2001): *Culture's Consequences, Comparing Values, Behaviors, Institutions, and Organizations Across Nations*. Thousand Oaks CA: Sage Publications. Hofstede developed five dimensions of culture that affected the way people behaved. While the study looked at only one firm (IBM), it is still considered the most useful indicator of how cultural factors affect work practices. Hofstede also developed the Power Distance Index, which measures the extent to which the less powerful members of

the same time, it should be pointed out that junior staff respond to the incentives set by senior management. The fact that junior staff feel safest by passing up decision-making responsibilities may also be a symptom of an atmosphere that is not conducive to decision making at lower levels (e.g. disproportionate negative repercussions in case of wrong decisions and lack of support from senior management). If the lack of decision making responsibility is seen as a major problem, it may be useful to further explore the perceptions of junior staff and senior staff with respect to possible repercussions of wrong decision making. Figure 3.6 above shows that the perceptions of employees and senior management differ greatly with respect to skill gaps. It would not be surprising if they also differ when it comes to decision-making and the atmosphere surrounding this.

In terms of other skills, banks have reported that they have adequate levels of **IT skills** for basic functionality, but these are scarce for the more complex work that tend to characterize networked, card-based and automated payment systems, and notably weak among senior managers and managers who are responsible for defining needs and managing usage of technology. For a bank like BPR, which currently has 90% of branches working with manual systems and 50% operating with no electricity, this lack of IT skills in management will be a major constraint in managing the transition to automated systems.

All retail banks reported issues with **customer service**, which was rated poorly by customers: in the recent supply side study, more than 50% of those surveyed found it difficult to carry out simple tasks with their bank.¹⁰ There were reported strengths in the core competencies of understanding customer needs and empathising with customers and general product knowledge. However, there were potentially disabling gaps in the skills and knowledge to quickly and effectively meet customer requirements, as is depicted in Figure 3.7 below.

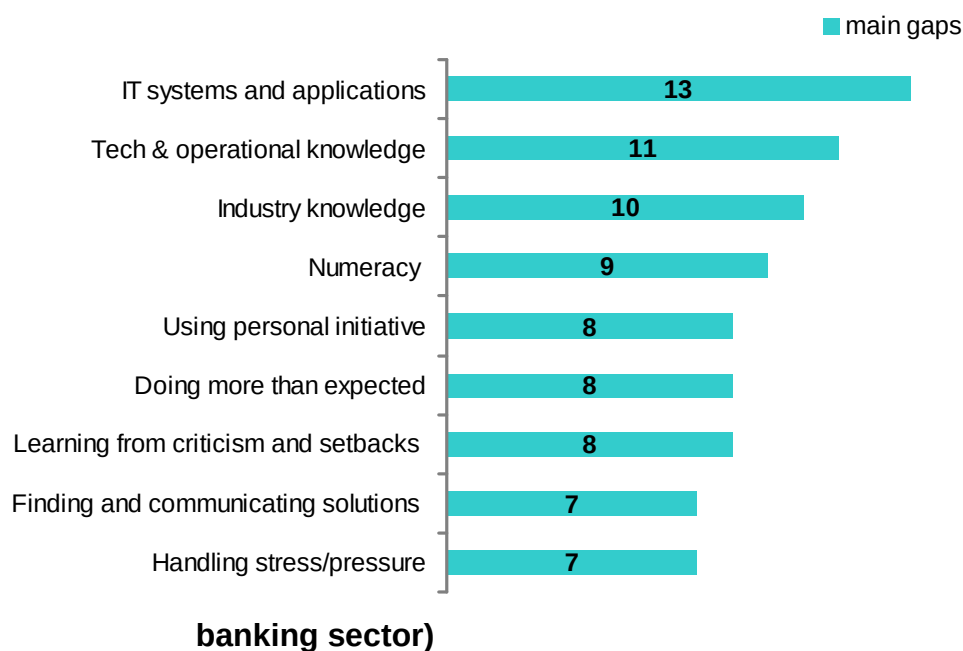
Substantial investment has been made in developing customer service skills among many of the banks and this is an ongoing process. Two mechanisms were observed: (i) in one case dedicated customer service officer positions (e.g. Personal Bankers) were created to act as an interface between customers and the various departments of the bank; and (ii) general training on “service values” for all staff has been provided. One of the banks interviewed in this study is considering investing in an organisation-wide, internationally-sourced modular programme to inculcate service values in all staff over two years.¹¹ Despite these efforts, none of the banks claimed that customer service was an area where they felt they had adequate skills.

organizations accept and expect that power is distributed unequally. This represents inequality and suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. See: <http://www.clearlycultural.com/geert-hofstede-cultural-dimensions/power-distance-index/>.

¹⁰ This finding was cited in Napier / Genesis Analytics (2010).

¹¹ The programme is offered through Service Quality Institute, an US-based institution providing customer service training and strategy. (See: <https://www.customer-service.com/t-service-culture.aspx>.)

Figure 3.7 Identified skills gaps among customer service staff (for the



Note: Values represent the number of respondents (not percentage points).

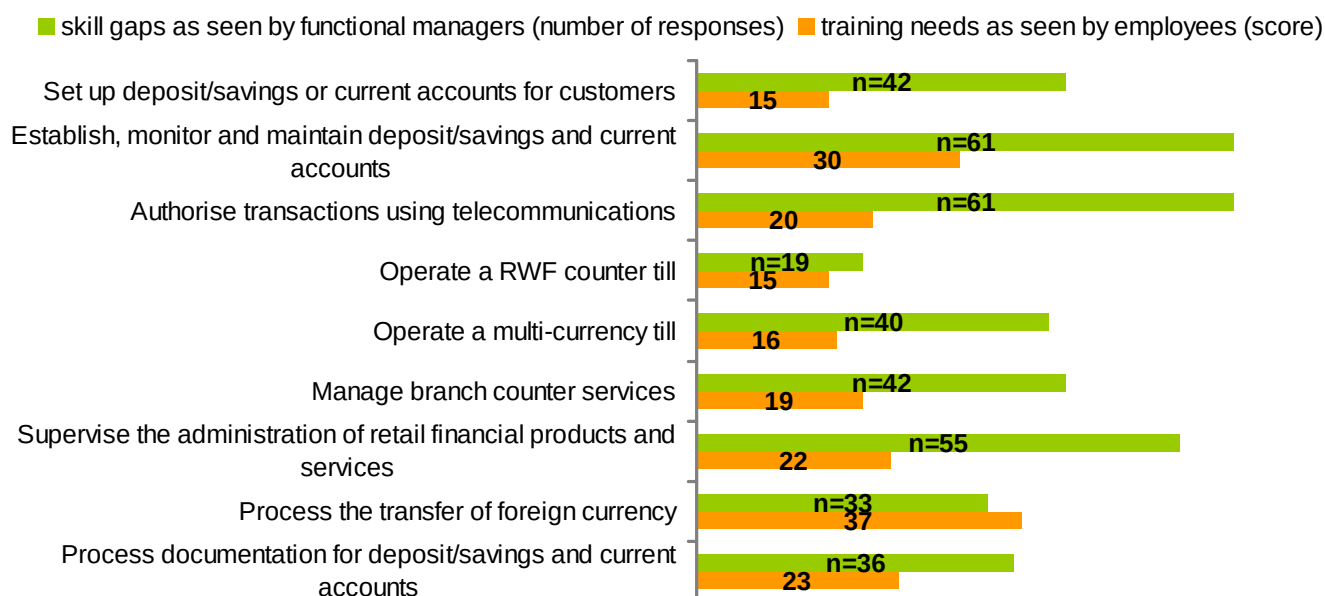
Technical Competencies

Service delivery operations and transactions are the core areas of activity for retail banking, and cover front and back office tasks. With the exception of basic local currency teller services, significant skill gaps were identified in all other areas.

These gaps may in fact more likely be “skill lags”: often these roles are filled by entry-level staff, who still need to undergo training during their rotation in different departments. For example, a graduate trainee will typically spend a period of time carrying out duties to maintain current accounts as a training and orientation activity. By the time they are trained and competent in the role they will soon be moving on to their next rotation.¹² Skill levels are clearly linked to the length of time deemed necessary for a person to become fully competent in the job, or the required amount of on-the-job training. But employers were clear that while these functions were staffed and core tasks carried out, it was not at the level that they required of fully proficient staff. Interestingly, the training needs assessment by employees in these areas very much follows the same ranking made by the employers.

¹² As noted in the earlier sections of this report, there are significant volumes of new staff in some of the new entrant banks.

Figure 3.8 Skill gaps and training needs in banking services and operations



Note: Values represent the number of respondents (not percentage points).

Banks in Rwanda have had a history of poor lending – which, in some cases, may have also involved significant lending activity to staff..The need to maintain or improve the quality of the loan portfolio, especially in an environment where “lending is largely for consumption”, means that skills required for *prudent lending* are of particular significance. Figure 3.9 below indicates some weaknesses in terms of appraising borrower loan applications. While this function may have benefited from remedial attention (i.e. relative to the other skills listed under product development and operations), there was a consistent theme in employer interviews that **staff failed to fully understand products and services in relation to the market, and to match the need to promote and sell with the need to manage exposure to risk. Work activities associated with loan appraisals and evaluations have been facilitated by rigorous processes, but the deficiencies in analysis and discretionary judgement constrained good lending and slowed down the introduction of new or more sophisticated products.**

This weakness in applying understanding and knowledge was noted not merely in terms of general market awareness and strategic business focus, but in more technical skills such as product pricing and modelling risk. The observation was made that employers often had to recruit experienced functional specialists who lacked any banking knowledge, in order to fill this skills gap.

Figure 3.9 Skill gaps and training needs in product development and operations



Note: Values represent the number of respondents (not percentage points).

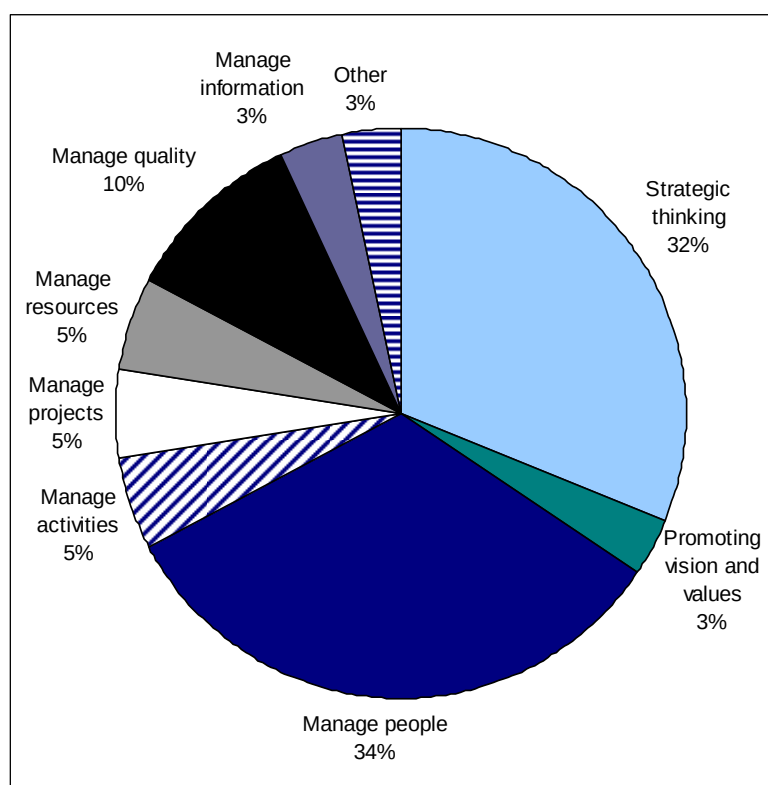
The importance of management skills in the sector cannot be over-emphasised. With the exception of one specialized bank, the consensus among all commercial banks was that **management skills were “poor”**, despite heavy investment in training and attachments. Four major issues were raised by the employers in this regard:

- Managers were typically appointed from within on the basis of technical skills rather than task or people management skills. The candidates for promotion tended to be few, so appointments were made that would inevitably stretch the new jobholder.
- The management training most valued by employees was too theoretical and qualification-based. The investment in MBAs, for example, was substantial but no return on investment analysis had been carried out in terms of increased sales or productivity. Training in applied management skills was required.
- Almost without exception, Branch Managers and many functional managers lacked the leadership skills necessary to strategically plan, manage and drive activities to meet objectives. Heavy criticism was levelled at management for “ticking boxes” and “robotically” carrying out tasks without applying critical assessment or judgement and modifying actions as a result.
- Middle managers and supervisors are typically those with the responsibility for work-based training of junior staff. In the first place, training and coaching requires highly developed skills in transferring knowledge and capability, as well as excellent technical command of the tasks. Secondly, this internal training resource can only train to the standards that already exist among those carrying out the training themselves. In effect, there is a closed loop where poor levels of management and supervision will place a ceiling on the skills acquisition of new staff.

It appeared that as managers progressed, they tended not to keep abreast of technical developments, and there was a lack of capability to absorb information from a variety of sources and proactively use that information to make informed judgements. One of the observations made cited that, “they are managers, but still followers rather than leaders.” Again, there tended to be a wide variation in expectations of performance standards between those managers who only had experience in Rwanda, returnees and regional expatriates.

The most valued attributes of Managers and Senior Managers by some margin were ‘strategic thinking’ and ‘managing people’, as is shown in Figure 3.10 below. Interviewed employers were generally disposed to categorise these skills as areas of weakness rather than strengths in their organisations: in fact, there seemed to be an acceptance in some banks that people management issues were referred directly to the Human Resource Manager (only).

Figure 3.10 Skills most required of managers



As mentioned above, in the Rwandan setting it may be more accurate to talk of skill lags (than skill gaps) in some instances – meaning those periods between the introduction of a new product, process or standard that requires a new skill set, and the spread of that desired skill set into the workforce. In a period when products are regularly being launched onto the market (such as trade finance or insurance), there will inevitably be lags. Similarly, where organisations take on bank status from a microfinance background (e.g. UOB), the organisation will need to rapidly acquire deposit-taking skills and banking compliance standards. At the same time, when hiring such skills, the new recruits are unlikely to have any experience of the organisation’s history in microfinance. However, where skill lags are long-term or even a permanent feature of the labour market – as they appear to be in

Rwanda – they may represent skill gaps and a failure in skills development. Skill lags observed by this study include:

- Foreign exchange risk management;
- Portfolio structures;
- Strategic management of credit and market risk; and
- IT networking and automated systems.

3.5 Skills shortages

Skills shortages arise when there are more vacancies with certain skill requirements than there are people available with those skills. If an organisation cannot develop enough skills internally, it must buy in those skills from the external labour market; but if skills are unavailable or so expensive that sourcing them is not economically viable, shortages will persist. The typical proxies for skill shortages are difficulties in recruitment for posts, lengthy vacancies, and recruitment of non-residents or expatriates.

Employers reported that they were most affected by skills shortages in high skill occupations, typically requiring long periods of education and training. Frequently, the response was to substitute quantity for quality: as one bank CEO has said, “We have three people doing the job of two”.

At the time when the survey for this study was being conducted, all establishments reported vacancies. And these vacancies, while in some cases small in number, represented critical roles in the business (e.g. Head of Finance, and Head of Risk). Around 80% of all vacancies are considered hard to fill due to problems specifically linked to skills. The roles giving the greatest cause for concern are:

- Senior Managers with specialist skills in areas such as Trade Finance, Accounting, Finance, Credit Risk, Market Risk, Compliance, Pricing;
- Analysts;
- Risk Managers;
- Branch Managers;
- Customer Service staff;
- Back Office Operations Managers; and
- Specialists in Financial Modelling.

Quantitative skills in general, involving a range of competencies required in modelling risk, actuary, accountancy, and product pricing, among others were especially difficult to find. One bank also reported that they lacked specialists in specific sectors of lending (e.g. construction and agriculture), making it very difficult for them to accurately price the risk. In fact, they had sometimes resorted to asking the potential borrower to provide an expert assessment.

Across the sector, there was agreement that, especially in areas of specialisation (that tend to have high value added), the pool of skilled and experienced people tends to be very limited, and it is also not growing fast enough to keep pace with the demand for these skills. With minimal training resources within Rwanda and heavy reliance on importing costly regional trainers and training programmes, this skills shortage is perceived to be likely to persist in the face of growing demand. This would inevitably exacerbate the effect of

increasing competition for key specialists, exceptional pay awards, and levels of staff mobility that can be highly destructive to many firms.

The issue of skills shortage in Rwanda is very clearly depicted in Figure 3.11 below, which highlights the most common causes of difficulties in filling management vacancies; a similar ranking of causes was also reported for professional and technical staff vacancies. It is worth noting that where there are skill shortages due to the departure of a skilled and experienced middle manager – the most mobile segment in the labour market – there will be a leveraged effect in that a valuable, internal coaching capability is also lost, which the sector depends upon as its primary source of training for junior staff or new recruits.

Figure 3.11 Most common causes of difficulties in filling management vacancies



Note: Values represent the number of respondents (not percentage points).

The impact of skill deficiencies and vacancies that are hard to fill are made evident in terms of:

- Delays in developing new products;
- Meeting customer service standards; and
- Increased operating costs.

The presence of expatriates in senior specialist roles, whether on an employed or contracted basis, is difficult to ascribe only to skill shortages in the labour market. Such appointments can also be the result of regional banks wishing to provide their own leadership branding and embed their own culture and values. However, where organisations have been long established but still need to recruit regionally, we must conclude that this represents a genuine skill shortage in the local market.

The other most obvious effect of skills shortages is on salary levels, especially among senior or specialist staff. One bank reported a tripling of salaries since 2009, which in turn increases operating costs, and employees reported being “poached” by new entrant banks at multiples of 3-4 times what was offered by their employers. Targeting competitor talent is not unusual, especially for senior level staff with experience and client relationships, and this has been very evident with the influx of new banks and restructuring in the sector.

Both of these responses fall into the category of “zero sum” strategies – in the sense that they are adding little to the overall skills pool in the sector. In the former case, expatriate staff can diffuse skills into an organisation as they manage and coach teams, and often this is a component of their role. But they can be fully stretched in their own operational tasks. In the latter, again, the skills pool is not enlarged: above-market salaries only serve to redistribute skills in favour of those who can better afford to pay them. Moreover, the excessively high salaries paid to specialists that perform very important functions within banks also has serious implications on the way institutions are able to price the services they extend to their clients, and therefore impact banks’ capacity to expand and reach into low-income markets.

In summary, where there are efficient labour markets, skill gaps and lags will tend to be short-lived. But the banks are well aware that the labour market in Rwanda is not efficient and that there is a chronic lack of training provision. The result is that there are widespread skill gaps that are significant in terms of volume and in roles that are critical to the functioning of these organizations. As the external skills pool is growing slower than the demand for certain specialist skills, the sector is handicapped by skill shortages that in many cases can only be filled by regional recruitment or secondment from those with parent companies or partner organisations.

4 The non-bank financial institutions (NBFI) sector

4.1 Overview

The non-bank financial institutions (NBFI) sector in Rwanda consists of eight insurance companies, two insurance brokers and one pension fund. This is an important sub-sector of the financial system: not only can insurance companies play a critical role in the management of loss and damages, but these non-banks (including pension fund companies) are also crucial in the mobilization of long-term savings and in intermediating these funds through investments. It is, however, important to note that the activities of these non-banks are characterized by cyclicalities, requiring diversification and balancing of portfolios. Unlike other financial institutions, the practice of statutory accounting and actuarial analysis in these companies are often more complex, and therefore, require a specialized skill-set.

The total assets of the non-bank sector in Rwanda were valued at RWF 85 billion, and total premiums at RWF 32.1 billion, as of September 2009. Insurance companies in the country provide different kinds of services ranging from life, health or medical coverage, to automobile and property coverage. The majority of sector assets are in real estate, equity and other investments.

Table 4.1 Key performance ratios for the non-bank sector

	As of end 2008	As of Sept. 2009
Earning assets to total assets	67%	64%
Return on equity	27%	17%
Return on assets	16%	10%
Claims ratio	43%	44%
Expenses ratio	34%	30%
Liquidity ratio	116%	105%

Source: BNR.

The sector is dominated by the insurance companies, Société Nouvelle d'Assurances du Rwanda (SONARWA) and the Société Rwandaise d'Assurances (SORAS), which jointly represent 51% of the sector's gross premiums.¹³ Other important players include Caisse Sociale du Rwanda (CSR), a state-owned pension fund that caters to all formally employed individuals; and Rwandaise d'Assurance Maladie (RAMA), a medical insurance provider for salaried individuals. RAMA provides its services via companies or firms, and operates in areas where there is access to health centres or hospitals. According to RAMA, the majority of its beneficiaries are low-income individuals; it estimates about 60% of its members are public school teachers.

¹³ SONARWA is the largest insurance company in Rwanda, with total assets exceeding RWF 20 billion (or approximately a 20-25% share of the market). It operates through 23 branches across the country and serves more than 110,000 policyholders. SORAS, on the other hand, is the second largest insurer in the country with RWF 11.3 billion in total assets. It operates a total of 18 branches nationwide and serves more than 170,000 policyholders.

The insurance industry in Rwanda has a very narrow reach, with only less than 2% of the population estimated to be covered by insurance. The target market of many of these institutions comprises salaried individuals who can afford regular premium payments. While some of these non-banks have considerable number of branches through which they operate, most of their outlets are strategically located in urban areas or high-traffic areas (such as border towns). Motor vehicle insurance, group life and education endowment policies are the most common products offered by the insurance sector. Some companies, like SONARWA, are only starting to explore the provision of micro-insurance products, including crop and livestock insurance.

Apart from the issue of expanding the reach of non-banks into under-served markets, the insurance and pension fund industry also has limited scope for reinvesting client premiums and savings, given the narrow range of domestic securities and property. The underdeveloped capital market in Rwanda is considered a constraint on the development of the industry.

4.2 Educational profile

Employers in this sector appear to require high educational qualifications for both their managers and professional and technical staff. When recruiting managers, a university degree is required. Industry experience is preferred, but not necessarily required of candidates being recruited for managerial positions. This is not surprising considering that even while some insurance companies in Rwanda have been operating for a long period (some companies trace their origin all the way back to the 1970s), the sector is still very small and there appears to be less movement of managers between the various firms in this sector. The size of the industry very much determines the amount of professionals with working experience in the insurance sector.

This also helps explain why 'other work experience' is considered important when recruiting professional and technical staff. Similarly, industry experience is preferred by employers, but relevant work experience in the specified roles is considered sufficient, along with the appropriate educational qualifications. For school leavers and new graduates, educational qualifications are a key consideration in the recruitment process; but at the same time, employers place a strong emphasis on the attitudes of candidates.

Most of the insurance companies do hire new graduates for entry-level positions. And like most of the banks, the NBFIs also tend to limit their hiring from among graduates of Economics, Management or Finance/Accounting. Unlike the other insurance companies, RAMA tends to hire a lot more individuals who have a diploma or a degree in the medical field – whether in public health or nursing. These individuals are then hired as desk officers (which constitute the bulk of RAMA's workforce), who then work in pharmacy and benefits handling. These desk officers are the front-line personnel who undertake sales and customer service functions, as well as verify the claims made by members and accredited health service providers.

In the absence of any local institution providing professional qualifications and skills training in insurance, most companies in this sector run their own in-house training programmes. However, none of the non-banks interviewed in this study claimed to have a structured training programme in place – except for the basic training at induction stage for new employees.

Regionally-affiliated institutions like Phoenix are able to take advantage of facilities shared with sister companies in the region: new staff at Phoenix are sent to one of its sister companies in Uganda, Tanzania or Kenya for 1-2 week work attachments.

Re-insurers also provide support through the provision of training to their affiliated insurance companies in Rwanda. These re-insurers provide training, especially in under-writing, with the intention of assuring good policies.

Following its restructuring in 2006, the pension fund, CSR, have recruited a lot of new graduates. Those considered for entry-level and other positions were typically graduates in Economics, Finance and Management. These candidates have to take an entrance examination; and according to CSR, from a pool of 1,000 new graduate candidates, only less than 5% pass the CSR entrance exam. The vast majority of its officers are new graduates and therefore need to be trained. CSR's management believes that it is difficult to recruit from other industries or from other financial institutions because it considers its business to be highly specialized and unique from that of other institutions in the financial services industry.

CSR has an induction and orientation programme that runs over a period of six months. Each department prepares a training plan for the year. The problem, however, is in the implementation of these training plans: as a public company, CSR needs to get the approval of MINECOFIN and the Ministry of Public Service when procuring services of trainers or consultants. Even for trainings abroad that are financed by donors, CSR managers still need to get the required clearance to depart the country and participate in the training. And the process of getting approval from the respective government agencies can be cumbersome: it can take 1-2 months to get approval before actually starting to implement the training programme.

CSR recognizes that even while its employees have the required educational qualifications for their jobs, staff are still highly encouraged to acquire professional qualifications. For example, 80% of CSR staff in the Finance Department staff are currently preparing for an SCCA qualification. CSR management recognizes that this will enable them to prepare financial statements in accordance with international standards and will therefore benefit the company. CSR staff are encouraged to participate in professional courses – primarily in audit and SCCA – which are reportedly provided by a local private institution out of Kampala, with operations in Kigali. However, the problem it is confronted with at the moment is that there are no clear incentives in place for those who are able to achieve and complete certain professional qualifications.

4.3 Current skills stock

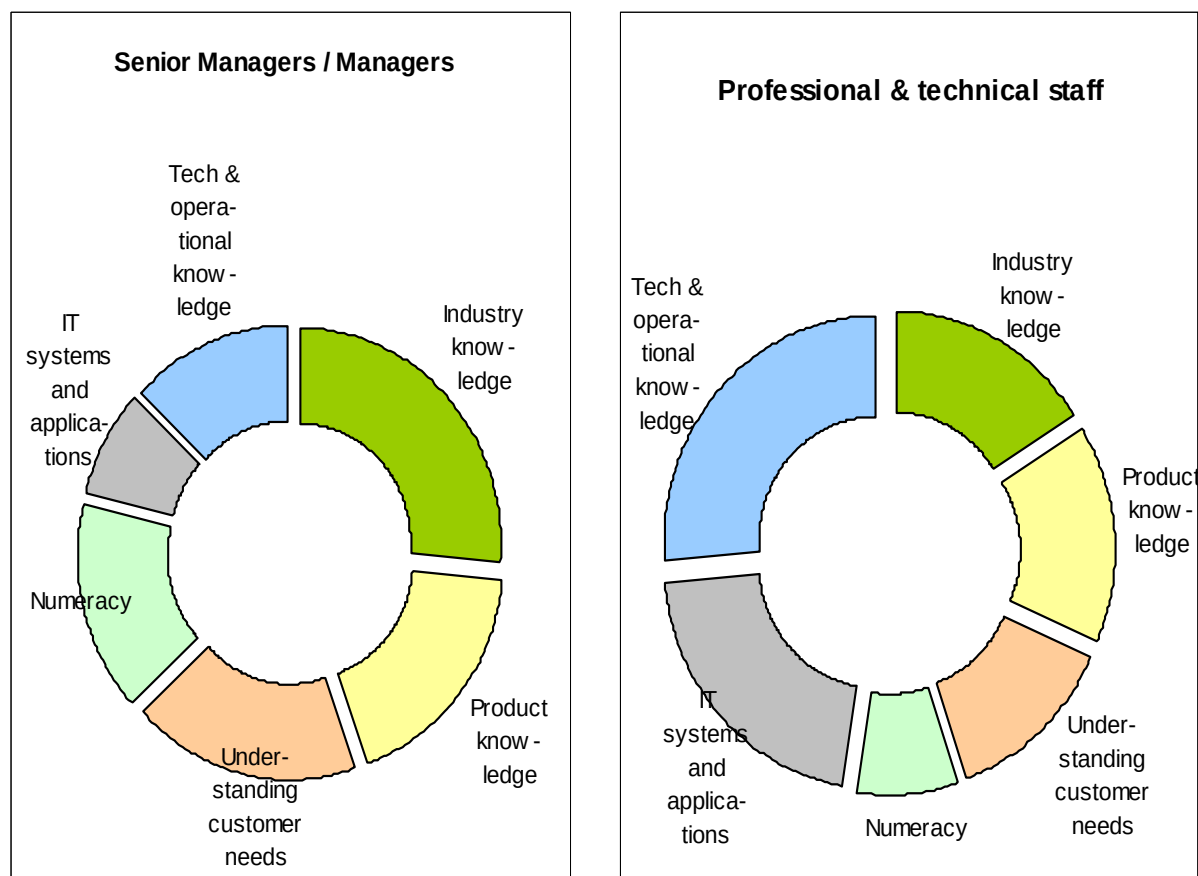
Figure 4.1 below shows the range of skills where managers and professional and technical staff of non-banks are considered most competent in.

Managers tend to be strongest in terms of industry knowledge, product knowledge and understanding customer needs. Being able to manage people and communicate effectively is crucial to insurance businesses: managers need to be able to provide advice and communicate effectively with both their staff and clients.

On the other hand, while professional and technical staff are also strong in terms of industry knowledge, they appear to complement managers by being strongest in terms of technical and operational knowledge, as well as in IT systems and applications.

It is, however, striking that both managers and professional and technical staff do not possess strong numeracy skills, which is considered a skill that is at the foundation of the activities undertaken in the financial services industry as a whole, and in insurance and pension fund companies, in particular.

Figure 4.1 Competencies of managers and professional & technical staff (for non-banks surveyed)



There are also a number of insurance brokers operating in the country; and it is expected that the number will increase in the coming years as the sector develops and expands. Brokers fulfil a dual role – they simultaneously act as the representative of their clients and the insurer – and conflicts of interest may arise if they fail to offer unbiased advice to clients. They receive incentives for selling policies of a particular insurer. It is therefore crucial for brokers to take a serious approach to their role as representatives of their clients. Too strong a focus on the sales aspect (i.e. the profits / commissions to be generated), can lead to a significant risk of mis-selling.

AIB, one of the insurance brokers interviewed in this study, notes that it has all the skills necessary to run its business. In brokerage, sales and customer service are crucial: the broker needs to see the client, sell the product, and must therefore know all the products available, and must also be able to design a policy.

In order to maintain this skill-set among managers and staff of non-banks, these institutions spend a considerable amount of resources in training – whether through in-house facilities or through externally-sourced training programmes. This is despite the absence of any formal or structured training programme, especially for new graduates or more generally for new employees.

SONARWA, for example, has allocated RWF 30 million this year for training. SORAS employees are also encouraged to undertake a 2-year on-line training programme covering 12 modules; and this alone costs the company RWF 60 million per year. The extreme case is CSR – which has reported that it spends RWF 335 million per year on staff training. These training and skills development programmes are meant to maintain the current skill stock within these companies, as well as address any need for updating skills and addressing skills gaps.

But even while many of these companies view these efforts as a positive step towards improving the level of skills within their organizations, they recognize that there are considerable skills gaps within their firms, and in the sector as a whole, that these training programmes are highly unlikely to be able to address adequately.

Lastly, staff retention does not appear to be a serious issue in the sector as a whole: there is less movement of management and staff between the different firms or even between the non-bank and banking sector. However, there is one institution that does experience severe staff retention problems – CSR. This pension fund company attributes this problem to its nature as a publicly owned company. As a state-owned financial institution, CSR is required to follow government benchmarks for its compensation structure. As the CSR management has pointed out, this makes it very difficult for them to attract the kind of talent needed to properly manage a \$250 million fund. Clearly, there is a need to re-visit the national policies that govern state-owned financial institutions in Rwanda – especially considering the strategic importance these institutions have in the financial sector and in the economy.

4.4 Skills gaps

As noted earlier, a number of the NBFIs interviewed in this study have expressed that they do not experience high staff turn-over or grave difficulties in recruiting for certain posts. RAMA is among those institutions: as the only provider of medical insurance (that is of significant volume) in the country, RAMA does not face any competition for the kinds of skills it requires of its desk / frontline officers. But it is important to note that as the provision of medical insurance evolves in the future to include a greater number of firms (including those in the private sector), the level of competition for skilled frontline staff may change.

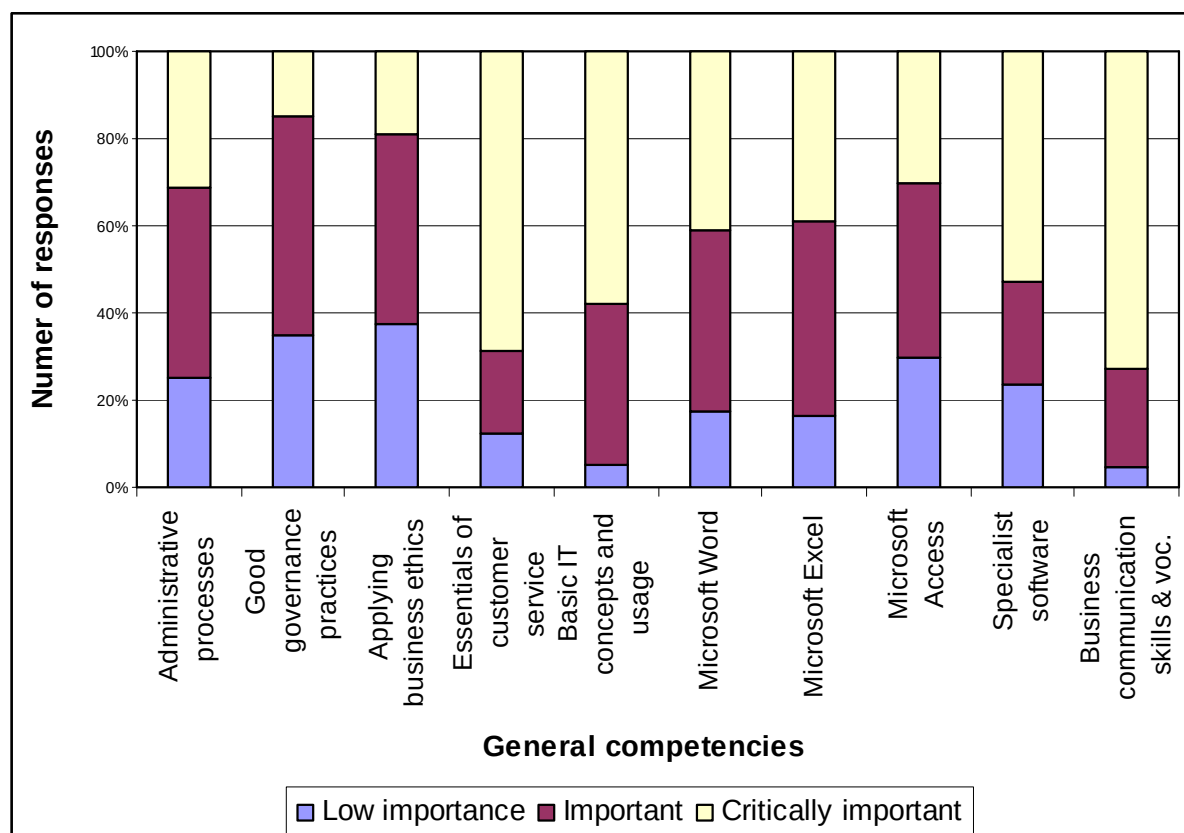
There also appears to be a considerable degree of stability in terms of the management positions among many of the insurance companies. In the case of SORAS and SONARWA, for example, managers tend to have been with the respective companies for a long period (10-15 years), suggesting that there are less erratic patterns in the companies' leadership. This may be explained by the relative strong positions that both SORAS and SONARWA enjoy as the leading insurance companies in the country. However, there are already some early indications of how this trend might start to change in the near future. New entrants like Phoenix, for example, have already started poaching from more established insurance companies like SONARWA: about five of its 11 employees are from other insurance companies (typically SORAS or SONARWA). Cogear has also pointed out that in view of the growing competition in the market, it has had to adjust its salary policy in 2009. In the last year, Cogear started to experience some movement among its staff and management: it has

even lost one of its department directors to Ecobank. SORAS has also pointed out that younger companies tend to take their staff.

The need for senior management talent is also quite pronounced when we look at the case of CSR. At the time this study was conducted, CSR has reported that its former Director General has recently left the company for a post with the International Monetary Fund (IMF). A significant number of the positions of responsibility in the firm are currently designated as 'Acting Heads of Departments' – given that the company is still in the process of recruiting for these senior management positions and already expect that it will take them a considerable amount of time before they manage finding suitable candidates for these posts.

The bulk of CSR's workforce is in the Contributions Department – where it also experiences the highest turn-over: in the past few months alone, more than 10 have reportedly left for better-paying jobs in other sectors and industries. Some of those who are even bonded have opted to pay for the costs of training in order to join the new firms. (These costs were reportedly paid for by the new employer.) CSR does not consider this a skills gap per se – but rather a skill lag, considering the amount of time and resources needed to build competent staff within the Contributions Department. Staff in this department appear to have a profile similar to bank loan officers: they need to have strong investigation and inspection skills, as well as customer care skills, and need to be able to also contribute towards educating their client-contributors by informing them about the prevention of occupational hazards.

Figure 4.2 General competency training needs, according to employees surveyed (for non-banks)



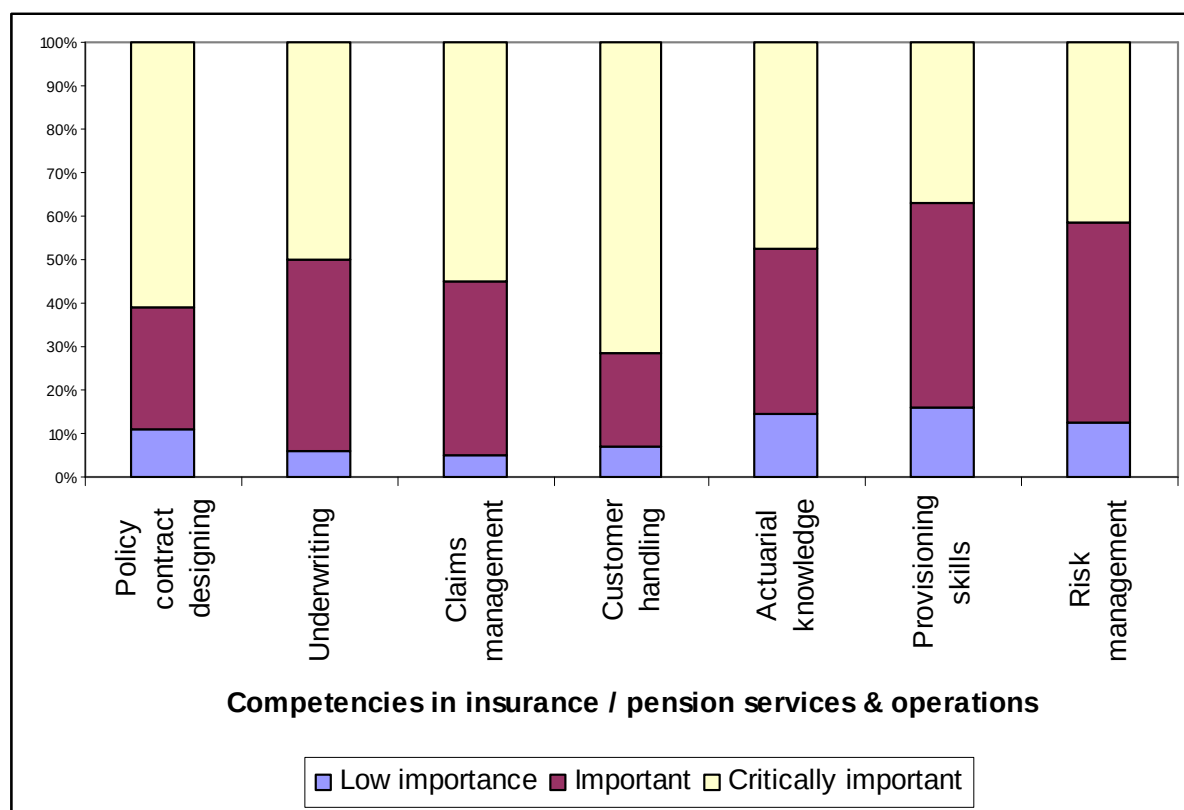
As in the banking sector, customer care is also considered important in the non-bank sector. As one manager of an insurance company has pointed out, “Insurance is not bought – it is sold. We therefore need people with product understanding and who understands the client very well.” Customer care therefore encompasses the following:

- It is primarily the capacity to care for and pay attention to the client and his or her needs.
- This goes beyond merely listening to the client and responding to customer complaints, etc. Assessment skills are an important element, which enable the determination of client needs.
- There is also an element of being able to communicate effectively with clients: in the insurance and pension services industry (much more perhaps than in banking), providing sufficient information or advice to clients (financial education) is often an important step in generating sales and in finalizing client policies – especially considering that a vast majority of individuals know very little about insurance or pension products.
- There is also an element of customer care, which involves the broader set of systems in place – such as using simple claims settlement procedures, with appropriate risk mitigation techniques against fraud or moral hazard.

Employers in the non-bank sector recognize that customer care is among the skills that staff need to develop further. This is also recognized by employees themselves, as is depicted in Figure 4.2 above. Moreover, the other skills relevant to dealing with clients – such as business and communication skills – are also among those that employees consider to need further training in, and which are critically important to their functions.

In terms of technical competencies, the patterns that can be observed are quite similar to those in the banking sector. Many employers and employees recognize the need for improved skills in financial analysis. Skills in financial analysis encompass the kinds of skills required in internal audit and fraud management – which includes assessing, prevention, detection and control. For example, CSR has noted that in the entire country, there is only one professionally qualified financial analyst. And this is a skill that is desperately needed for fund managers and asset managers. And the process of acquiring a professional qualification in financial analysis (i.e. a CFA) is not that easy for many. It requires registration with an institution based in the USA, purchasing the reference materials and books from the USA and sitting in exams in Nairobi. At the moment, there are no relevant professional courses offered in Rwanda. Thus, in view of this skills gap, CSR has had to hire a World Bank consultant to temporarily act as the CSR asset manager.

Figure 4.3 Training needs in competencies specific to the insurance/pension sector



For most insurance companies, however, the biggest gap lies in actuarial skills. These skills are most crucial to this sector as it deals with the financial impact of risk and uncertainty. Actuaries provide expert assessments by evaluating the likelihood of certain events and quantifying the contingent outcomes in order to minimize losses that are associated with uncertain events. The risks that are associated with these events and the resulting losses can affect firms' balance sheets and their assessment lies at the very core of the insurance industry. Thus, this is a skill that requires asset management, liability management, and valuation skills. More broadly, controlling risk requires strong analytical skills and business knowledge.

There are currently no qualified actuaries in Rwanda. In the case of CSR, they are in need of an actuary in their Planning Department, and they currently have one who is pursuing this qualification through studies in Europe. For many of the insurance companies, hiring expatriates seems to be only option. The problem, however, is that many firms (especially the smaller ones) are unable to meet the cost of hiring these professionals from abroad.

Given the nature of their business, those firms that are engaged only in short-term insurance – like Phoenix – naturally tend to be less concerned about not having actuarial skills.

According to the insurance companies interviewed in this study, while many of these non-bank firms do have within their workforce the underwriting skills needed to run their businesses, they foresee this to be an area that needs to be further supported and developed, especially as the sector explores opportunities for growth and expansion in the future. Underwriting skills are especially needed if new products are going to be developed and offered to the public. This entails having adequate knowledge of re-insurance – including

the pricing of risk. If insurance companies are going to expand the reach of their services into un-served markets, meeting the real underwriting risks that low-income markets require will be among the capacities that need to be developed.

In terms of IT skills, the perceived skills gaps are in terms of business analysis, networks and software development. IT skills tend to be something that can be easily traded across different sectors and industries, which does make it difficult for some of the non-banks to retain talent. In CSR's case, for example, it has already lost six personnel from its IT Department over the last 3 years; and it tends to lose one person from this department every 6-8 months.

4.5 Skills shortages

Most of the skills gaps in terms of the technical competencies actually appear to be more like skills shortages for the sector as a whole. These include:

- **General technical competencies in the insurance business** – Many of the non-banks attribute this skills shortage to the absence of any specialized school for insurance in the country. Even an insurance broker like AIB has had to hire three middle managers who have studied in Kenya (of which, two are actually expatriates). In the case of SONARWA, its chief accountant is actually a Kenyan expatriate, and both the Managing Director and Chief Finance Officer are from Nigeria.
- **Risk assessment skills** – SORAS, for example, acknowledges that there are shortages in terms of assessment skills in the country. Currently, it has even hired one European expatriate to undertake motor assessment for the company.
- **Actuarial skills** – As already noted earlier, the pool of actuarial skills in Rwanda does not exist and many firms supply these skills by hiring from other countries. These skills are crucial not only in terms of the particular need to manage risk, but also more generally needed in investment planning.
- **Legal skills** - There are also needs in the legal departments of larger, more established non-banks. At CSR, for example, legal skills are needed – particularly those which are linked to social security issues (e.g. management of occupational hazards and investments). While there is a fairly large pool of lawyers in the country, CSR notes that the industry is in need of not just any kind of lawyer, but of business or corporate lawyers. This is currently a very limited pool of professionals and thus, these professionals tend to be very expensive.

There are important skills shortages cited by some of the financial institutions that do not necessarily relate directly to the core functions of the financial institutions themselves, but significantly affect the way they do business. In particular, there are fields in which these non-banks make significant investments. For example, the vast majority of non-banks in Rwanda make investments in the real estate or property development sector. Many of them note that the country lacks skilled and experienced professional project managers in the construction / real estate industry. Construction is a growing sector in the country – but the skills required to grow the sector are deficient. In some cases, financial institutions themselves – such as in the case of CSR – have project managers within their workforce that supervise the activities related to their property investments.

Just like their counterparts in the banking sector, the non-banks acknowledge that there are difficulties in recruiting for certain specialist posts: there are perceived to be a low number of qualified and skilled applicants for very crucial professional and technical positions.

5 Microfinance institutions

5.1 Overview

While there is a large number of microfinance institutions (MFIs) operating in the country, the sector is still relatively small in terms of assets, deposits and loans. Nevertheless, the MFIs are important in terms of their more widespread network and accessibility compared to banks. As was pointed out by one of the MFIs interviewed in this study, there is a role for MFIs in the rural areas, where banks and other formal financial institutions are less present. Many MFIs observe that in urban areas people save in order to access loans; while in rural areas, people tend to be generally interested in saving, especially as there are hardly any options for keeping one's savings.

There are several categories of MFIs in Rwanda and some of them are registered with the BNR and subject to central bank regulation and supervision. Category 3 MFIs constitute the largest share of microfinance activity in the country. These include such institutions as Zigama CSS and other publicly owned companies, which jointly account for more than 80% of sector assets. Thus, the sector tends to be dominated by a few large institutions that operate branches in several locations nationwide. The smaller MFIs that are larger in number account for less than 20% of sector assets and are more dispersed. The dominance of larger MFIs is also seen in terms of the profits generated by MFIs like Zigama CSS, which represent more than 80% of the net income generated by Category 3 institutions.

The microfinance sector in Rwanda has undergone a period of instability. In 2006, nine MFIs were declared to be insolvent and were eventually closed down. This resulted in a massive bank run that affected even some of the solvent MFIs. These events led to the recapitalization of a number of institutions and the imposition of prudential requirements in an effort to promote consolidation within the sector.

One of the MFIs – Inkingi Microfinance – underwent a period of restructuring and recapitalization as a result of these developments in the sector. The MFI has had to close 15 points-of-sales, and has put in place a new management team and board of directors. The recovery plan included the acquisition of a license to operate (following regulatory reform), computerization of its systems, and strengthening efforts to recover bad loans. The restructuring programme involved improvements in the salary structure and company working conditions, and staff training. This is still very much an on-going process: like Inkingi Microfinance, many MFIs are still in the throes of transitioning into a more professionally managed financial institution.

The sector's performance is showing a declining pattern, with delinquency rates rising from 5% in 2008 to more than 9% by the end of 2009. (Key performance indicators for the sector are provided in Table 5.1 below.) The level of profitability in the sector as a whole is also very poor, with an average return on assets of only 2.3% at the end of 2009. According to the supply side study analysis, if the sector were to be disaggregated by type of MFI, the performance of category 2 and category 4 MFIs will show that they are very much characterized by high delinquency rates.

The performance of the sector strongly suggests the need for targeted support to MFIs in order to boost institutional capacity. This involves improvements not only in terms of the skills of the management and workforce, but also improvements in overall management systems. As has been emphasized in the supply side study, for many MFIs that operate largely

manual procedures, the lack of resources to implement the needed information systems or to automate and computerize branches is a major constraint to their growth.

Table 5.1 Key performance indicators of the microfinance sector

	TOTAL LICENSED MFIs (as of 31/12/2009)
Total assets ('000 RWF)	77,963,204
Total number of branches, offices, or outlets	224
Total deposits (volume)('000 RWF)	48,929,837
Gross loan portfolio (volume)('000 RWF)	50,143,929
Total number of active clients	550,370
Of which, total no. of borrowers	96,491
Of which, total no. of depositors	547,131
Non-performing loans (% of total outstanding portfolio)	9.20%
Level of profitability	
Return on Equity	8.00%
Return on Assets	2.30%

Source: BNR.

5.2 Educational profile

The staff and management in many MFIs do not share the same set of educational qualifications and skills profile as their counterparts in the commercial banking sector or in other formal financial institutions. While this is true of the vast majority of smaller microfinance operators, the larger MFIs in Rwanda tend to behave similarly as and display characteristics that are similar to banks and other formal financial institutions.

At Zigama CSS, for example, employees are encouraged to pursue professional qualifications and further education with the support of the institution. The MFI estimates that they spend roughly US\$100,000 per year on staff training – which includes support for further studies (e.g. Masters degrees) and other professional qualifications (e.g. SCCA, IT certifications).

Branch managers and loan officers at Umwalimu SACCO are required to have at least a Bachelors degree – and typically in disciplines like Economics, Management or Accounting. Branch managers are also typically recruited from Kigali and not necessarily from the locality of the designated branch.

On the other hand, institutions like Inkingi Microfinance only require the completion of A2 levels for its accounting staff. In Inkingi's experience, many of its staff work and study at the same time; thus, quite a number of them are either about to or have already completed their university degrees. There are, however, key positions within the organization, where

candidates are required to have university degrees. These include the Head of Credit Risk, the Chief Accountant and the Treasury Manager.

It is important to emphasize that of all the sectors, microfinance is a sector that includes a broad range of institutions – ranging from the very small to large, bank-like financial institutions. This therefore makes it very difficult to draw observations that generally apply to the sector as a whole. For example, even among those MFIs that were interviewed in this study, there are observable differences in terms of the business model in place, the quality of management, human resources and overall institutional capacity.

5.3 Current skills stock

Industry knowledge and product knowledge are the competencies that tend to be most present among managers of MFIs; while technical and operational knowledge appear to be most present among professional and technical staff. This pattern of complementarities between managers and professional and technical staff has also been observed in other sectors.

However, even if MFIs consider that the required basic technical competencies are present among key management positions and technical staff of MFIs, there are factors that need to be considered when making this sort of assessment.

- Some MFIs tend to be isolated from the rest of the financial services industry (given limited interaction with other financial institutions or even with the regulator) and identify more with government- or donor-funded development programmes with strong social objectives. This has implications on not only the motivations driving the delivery of financial services by MFIs, but also the level of skills against which assessments are benchmarked.
- Even if the profile of the skill stock among MFIs suggests that basic competencies are in place, senior managers – especially in smaller and medium-sized MFIs – do not appear to play their intended role in stirring many of these organizations to better or improved performance.¹⁴ It may appear that certain day-to-day tasks are indeed completed, but there seems to be a poor level of management capacity in some of the MFIs: some of the managers do not demonstrate the necessary skills in strategic thinking and in making critical assessments of tasks and outcomes that affect their businesses. This has grave implications on the direction of performance in many of these institutions.¹⁵
- It is also typical in most MFIs for staff and management to be over-stretched and over-worked. In microfinance, the operational expenses tend to be relatively higher, thus, requiring higher business volumes in order to remain sustainable. This could mean having bigger case loads per staff member that could ultimately lead to an overstretched workforce. Thus, even if certain staff and managers have the kinds of skills needed to complete certain tasks, the resulting performance may still be poor given the conditions within which certain work activities are carried out. Many MFIs, for example, report that

¹⁴ For example, an acting General Manager of an MFI interviewed in this study did not appear to have a strong grip on what was happening to the MFI: the General Manager was not even aware of the total number of staff at head office level, nor of the scale of its operations. When asked what constitutes the greatest proportion of its expenses, the General Manager admitted not knowing the answer.

¹⁵ Strategic thinking and planning especially in the microfinance sector means being guided by such key questions as, “What is happening to the resources available to the institution I am managing?” in the day-to-day management of the organization. Institutions with strong management and leadership can be differentiated in terms of their ownership structure, and the maturity of the enterprise.

their branches tend to be under-staffed: e.g. one MFI reported having a branch (in Nchumbi) that is manned by a single Branch Manager and two cashiers, serving a total of 800 clients.

Larger MFIs like Zigama CSS are able to ensure better working conditions for their staff. Zigama CSS staff undergo 3 months' on-the-job training before fully assuming any position. Moreover, the MFI operates a management information system that ensures smooth flow of transactions. As the management team of Zigama CSS has pointed out, "Without an efficient MIS, we wouldn't survive."

Generally, MFIs do not have structured training programmes in place. Some of them are able to access training support from institutions like AMIR. Umwalimu SACCO has indicated the usefulness of these training programmes for the MFIs – especially the training provided in credit management, which includes loan analysis, loan administration and credit recovery. Larger MFIs like Zigama CSS, however, do not find AMIR's capacity building programmes relevant to their particular needs: these MFIs consider their requirements to be more advanced than the level at which AMIR is able to provide support.

5.4 Skills gaps

As pointed out by the supply side study, the performance of the sector strongly suggests the need for building the capacity of institutions in this sector. The most pronounced skills gaps include the following:

- The poor quality of loan portfolios indicates a need to build and improve skills in credit risk assessment and loan recovery. MFIs that have had a history of bad loans are in an especially precarious situation – as this requires the shedding of old habits and old ways of doing things, which tend to be more difficult to achieve than positively teaching new skills.¹⁶
- Moreover, employers observed that sales and customer service staff lacked important attitudes like self-drive and motivation that are needed in order to generate sales. Employees, on the other hand, note the need for better business communication skills, as depicted in Figure 5.1 below.
- There are a range of competencies in product development (Figure 5.2) that employees require further training in, which all tend to be important in the microfinance business. This includes relevant skills in new product development, including defining product terms.
- Employees surveyed also pointed out the need for training in internal audit methodology / techniques, which they consider important to their job.
- Many MFIs also desperately require support in terms of IT skills. In the case of Umwalimu SACCO, for example, the system it wishes to install is sourced from abroad and it needs support in terms of making the necessary modifications to the system to better meet the requirements of the MFI.

¹⁶ For example, Inkingi Microfinance continues to maintain a high delinquency rate of 7.8% - which does not include the proportion of bad loans incurred prior to its restructuring that it is still trying to recover at present.

Figure 5.1 General competency training needs, according to employees surveyed (for MFIs)

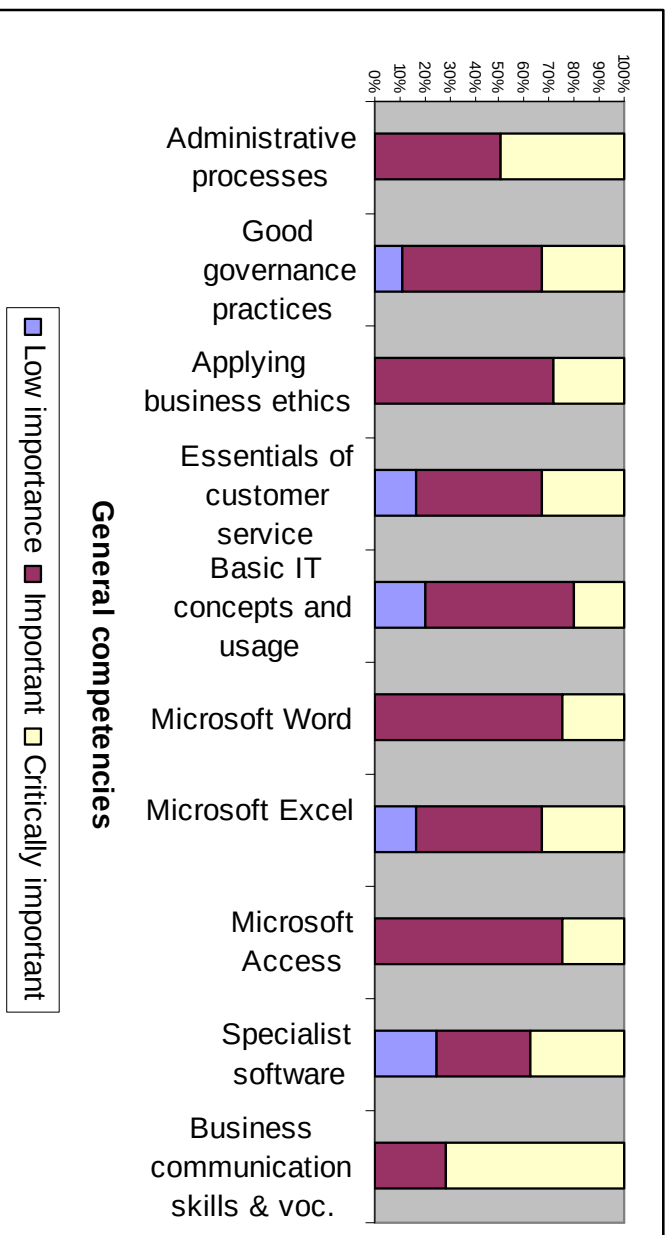


Figure 5.2 Training needs in product development, according to employees surveyed (for MFIs)

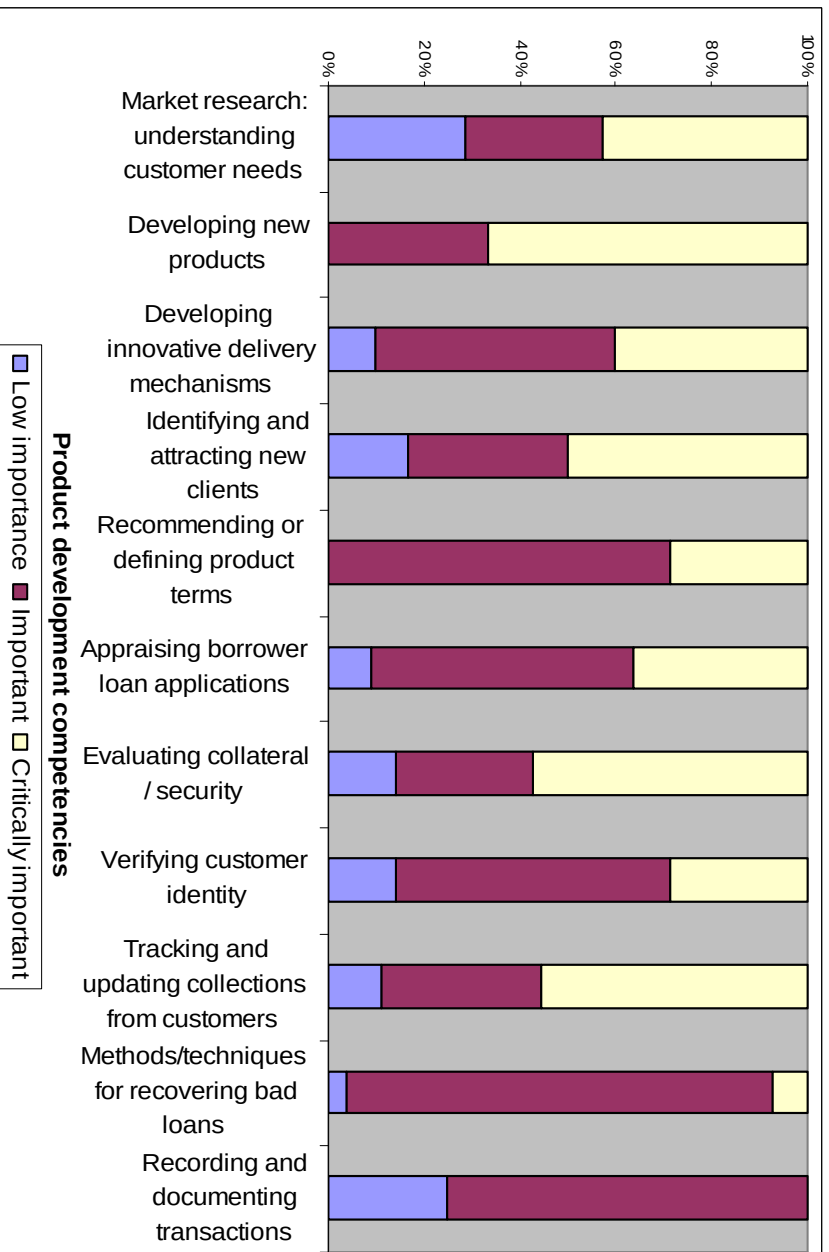
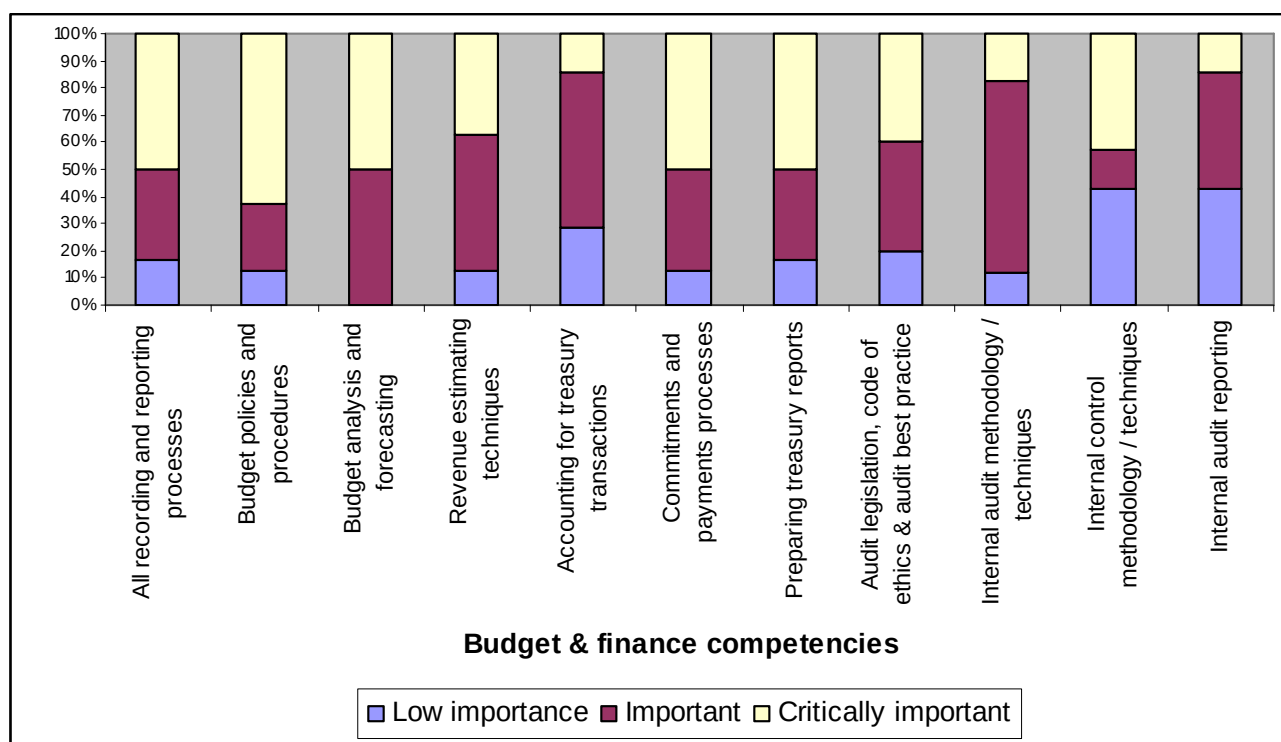


Figure 5.3 Training needs in budget & finance, according to employees surveyed (for MFIs)



The MFIs believe that the talent needed is available in the labour pool. As noted earlier, there are many factors affecting the level of skills and competencies in MFIs other than just merely having inadequately skilled or inexperienced staff and managers. The problem, however, is that most MFIs lack the resources needed to attract competent staff. And this is not only in terms of having competitive remuneration packages, but also in terms of the broader working conditions that influence the decisions made by candidates regarding their choice of work. The qualified and skilled candidates in the labour pool will tend to be generally turned off by the long working hours and poor quality of offices and general working conditions in many MFIs. Moreover, the sector is also still in the process of recuperating from a shock that may have tarnished its reputation (both of the sector and of individual institutions) – which also partly determine the willingness of competent individuals to work for MFIs.

For some MFIs that are able to attract qualified and skilled candidates, many of them have already experienced losing managers and staff to other banks. Umwalimu SACCO has even indicated that with the recent entry of KCB in the financial services market, the MFI has lost a significant number of staff in specialist roles – including a Branch Manager, Cashier and a Head of Department. At Zigama CSS, five employees have left and some of them joined FINA Bank. Inkingi Microfinance has also lost employees last year to KCB – mostly Branch Managers. Rwanda Microfinance Ltd (RML) also faces competition for qualified staff with the banks. This year they have recruited nine trainees, and upon completion of the training programme, one of the trainees already left to join a new entrant bank. The MFIs, however, note that despite the high staff turn-over, it is not difficult for them to fill vacancies.

In some cases, there is also the tendency for employees to join MFIs, undergo part-time studies while working, and then leave the institution for greener pastures as soon as they graduate. MFIs that have had such experiences, again, do not have the resources to match

what is offered by other institutions in the financial services industry. They are unable to retain staff who, by virtue of their completed degrees / further studies, tend to be better qualified. None of the MFIs appear to have the kind of incentive structure that will not only encourage employees to upgrade their skills, but also ensure that these employees stay and grow with the institution.

There has, so far, been no evidence of movement of staff and management between the different MFIs. However, in the case of RML, the MFI started offering a new product in solidarity lending, which revealed a gap in terms of having credit officers that are able to facilitate and manage group-based lending (and not individual lending, which the institution specialized in). Thus, RML admits to poaching such talent from other MFIs.

6 The Central Bank (BNR)

6.1 Overview

The Banque National du Rwanda (BNR) is the agency responsible for the regulation and supervision of the financial sector. As such, this study also included the Financial Stability Directorate (FSD) of the BNR. Additionally, all other BNR Departments were included in the extended survey. The low absolute number of respondents limited the quantitative reporting possible for BNR. However, focus group discussions were undertaken with FSD Inspectors and the Human Resource Manager to look into the range of skills and capacity issues that particularly confront the BNR as an organization.

In order to carry out their core work of inspection and supervision of regulated financial institutions, the FSD is structured into three separate units:

- Bank Supervision – with 15 staff;
- Non-Bank Financial Institutions Supervision – with 12 staff; and
- MFI Supervision – with 21 staff.

The FSD seeks to maintain a cadre of skilled inspectors who could easily transfer across the various sectors, having acquired the skills, knowledge and experience of supervising institutions in all the three sub-sectors. A great deal of work has already been undertaken in investigating various human resource development approaches for the FSD workforce, such as developing career paths, annual appraisals, and accelerated promotion, in response to the evident gaps in the skills profile of the Directorate. But these initiatives have either met with institutional constraints or reportedly failed to resolve the core BNR workforce development challenge of staff retention.

The overriding hypothesis in analysing the skills stock at the FSD is that the skills gaps that exist primarily come as a result of staff defecting to the private sector at the point where they have acquired the skills and experience and thus become valuable to regulated financial institutions (especially to commercial banks). This exit represents not merely a serious skill loss, but a pipeline gap that is almost impossible to fill from the external market and will therefore reduce the effectiveness of the FSD for the foreseeable future. It also drives the imbalance in the levels of proficiency between the regulator and the regulated institutions, especially in the area of banking supervision.¹⁷

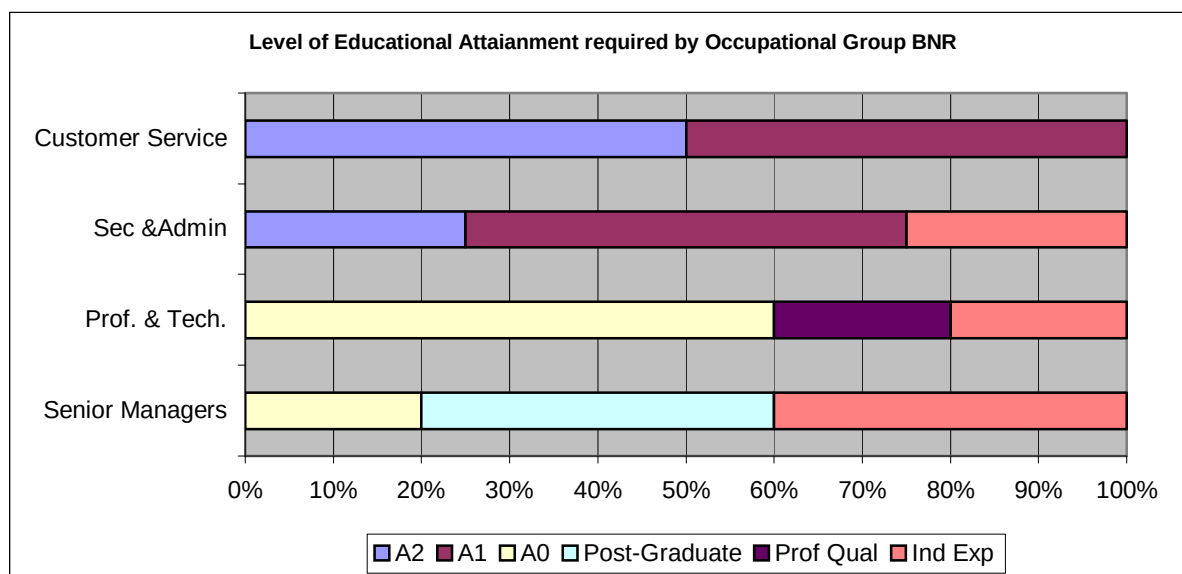
6.2 Educational profile of BNR employees

BNR reported having little difficulty in recruiting graduates and school leavers. Although salary differentials exist at this stage, they are not that significant and may be outweighed by considerations of training opportunities. There is an even more heavily pronounced leaning towards high educational attainment at BNR than at the banks, with 97% of employee respondents possessing graduate or even post-graduate qualifications, which is typical of Central Banks operating in other countries.

¹⁷ This is a trend that can also be observed in many other countries in Africa. To some extent, the trend may be viewed as a threat to the regulator, but not to the financial sector as a whole: it means that a number of people in the industry have been trained by the regulator, and therefore (presumably) understand what is behind the regulatory requirements and (hopefully) have internalised some of the regulatory culture.

Of the attributes most required of potential candidates for positions at the BNR, the attribute first cited is the level of educational qualifications. This acts as the primary filter, after which the only other significant criterion for selection is *industry and technical knowledge*. In the process of selecting candidates, very little relative value is given to *business and interpersonal skills*: the FSD sought “trainable young professionals who are bi-lingual, have a balance of knowledge – if they have technical knowledge that is even better – but they must be highly numerate”.¹⁸

Figure 6.1 Level of educational attainment required, by occupational group (for the BNR)



The bulk of recruitment took place directly from universities, where the quality of education was viewed to be satisfactory. Once employed, new entrants undergo a two-week induction course, followed by what the FSD management refers to as extensive training – largely provided through coaching and work-based training and a range of courses provided by in-house or external training providers. This process is also supported by manuals, guides and mentoring from senior staff. This constitutes a rich mix of methods for training new staff and funding for training is not a constraint. However, even while this training is valuable, it tends to be supply-driven – i.e. it tends to be driven by the sort of training facilities and programmes that are generally made available by donors to Central Banks. These facilities are indeed valuable, but employees expressed a strong preference for a formally structured graduate training scheme, which they believed would better equip them to “move to the next level as rapidly as possible”. The NBF section are meeting this need to some extent with the adoption of on-line modular programmes of training from the International Association of Insurance Inspectors and FSI-Connect.

The goal of having a cadre of skilled inspectors (at all levels of seniority) who would be able to apply their technical expertise across all sub-sectors, and to meet fluctuating workloads, did not appear to be something that can be realized very soon. New entrants joined an area of supervision, and remained there as a sub-sector specialist as they built their career at the BNR. Mid-career and senior level recruitment was extremely difficult given the unique skill-set required of FSD staff.

¹⁸ Interviews with FSD management and staff.

6.3 Skill stock

Given the recruitment, placement and training processes in place, we would expect to find teams of highly specialised, technically qualified inspectors with access to regular high value training. The following skills were reported as among those most present in the BNR, using the broad classification.

Table 6.1 Most noted skills, by occupational group (for the BNR)

Industry and Technical Skills	Business and Interpersonal Skills	Attitudes
- Industry / technical knowledge - Product knowledge - Technical and Op. knowledge - Numeracy - IT systems	- Management of staff relationships - Client Relationships Management - Project and people organisation - Ability to communicate at all levels - Resolve issues, use initiative - Empathy with customers - Using business language	- Self motivation and drive - Coping with pressure - Doing more than expected - Using criticism and setbacks - Working with others - Flexibility and adaptability

At a more detailed level, the same technical core skills were reported as present across the three inspection areas, for example:

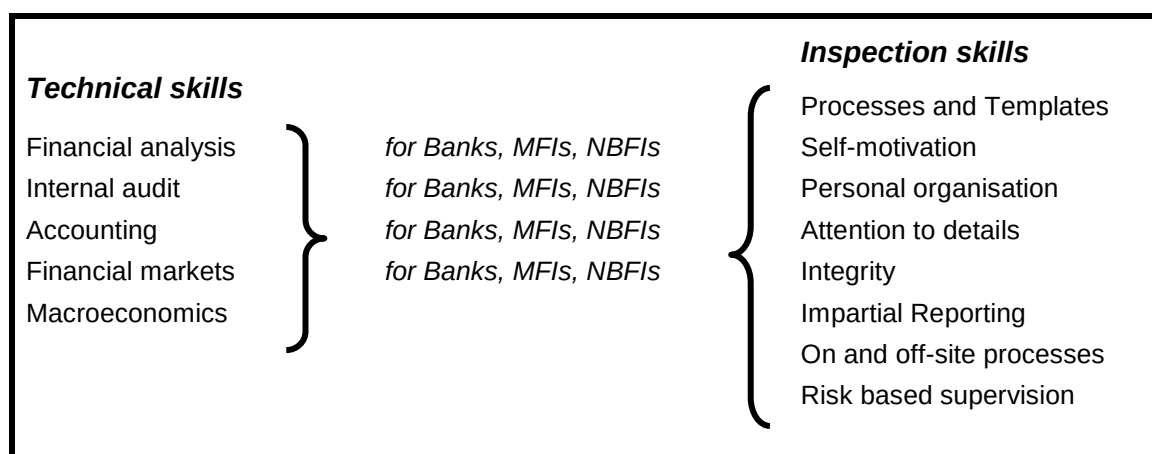
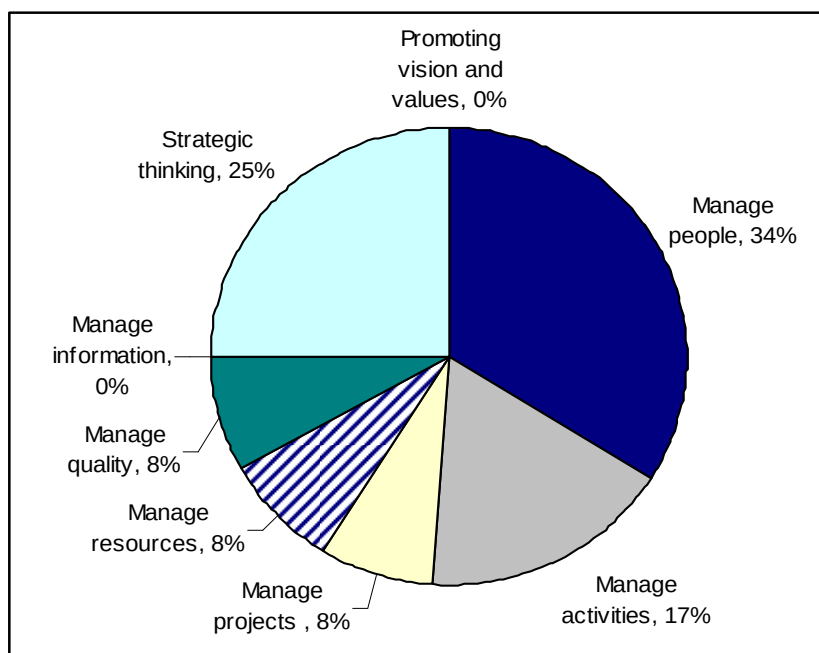


Figure 6.2 Skills most required of BNR managers



6.4 Skills gaps

Similar to their counterparts in the commercial banking sector, BNR staff generally feel that they have been adequately trained for their roles. They, however, point out that they still feel under-trained in the areas of business communication, ethics, IT skills and administrative processes. Senior managers reported the same lack of confidence to consistently communicate and apply the processes, and practice ethics, as is shown in Figure 6.3 below. Similar to what we observed with the commercial banks, basic skills in say, the most common MS Office applications were adequate; but serious gaps existed in terms of middle and senior managers having higher levels of skill in more complex software, in line with their levels of responsibility and decision-making.

The survey also included detailed questions for employees and functional managers to determine skills gaps, and provide information on where training interventions are most needed in various non-FSD areas of the BNR. Table 6.2 below lists these skills gaps based on the survey responses. These are highly specialized departments; thus, it is a cause of concern that core skills, such as, for example, Research Methods for the Research and Analysis Section is the most noted skill gap. Clearly, there are instances here where skills are present but there is a perception among staff and managers that these skills are not being developed in line with the pace of change in work requirements.

Figure 6.3 Most noted skills gaps in terms of general competencies, among Senior Manager/Managers and Professional & Technical Staff (for BNR)

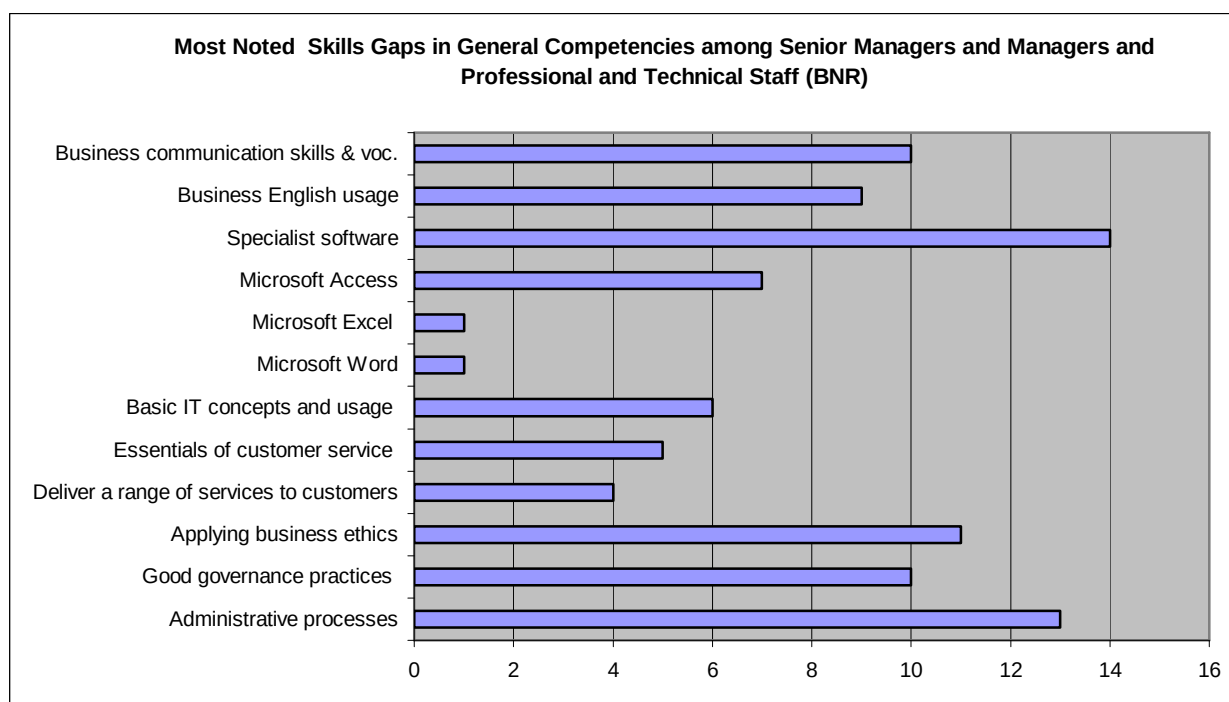


Table 6.2 Skills gaps, according to the BNR technical areas

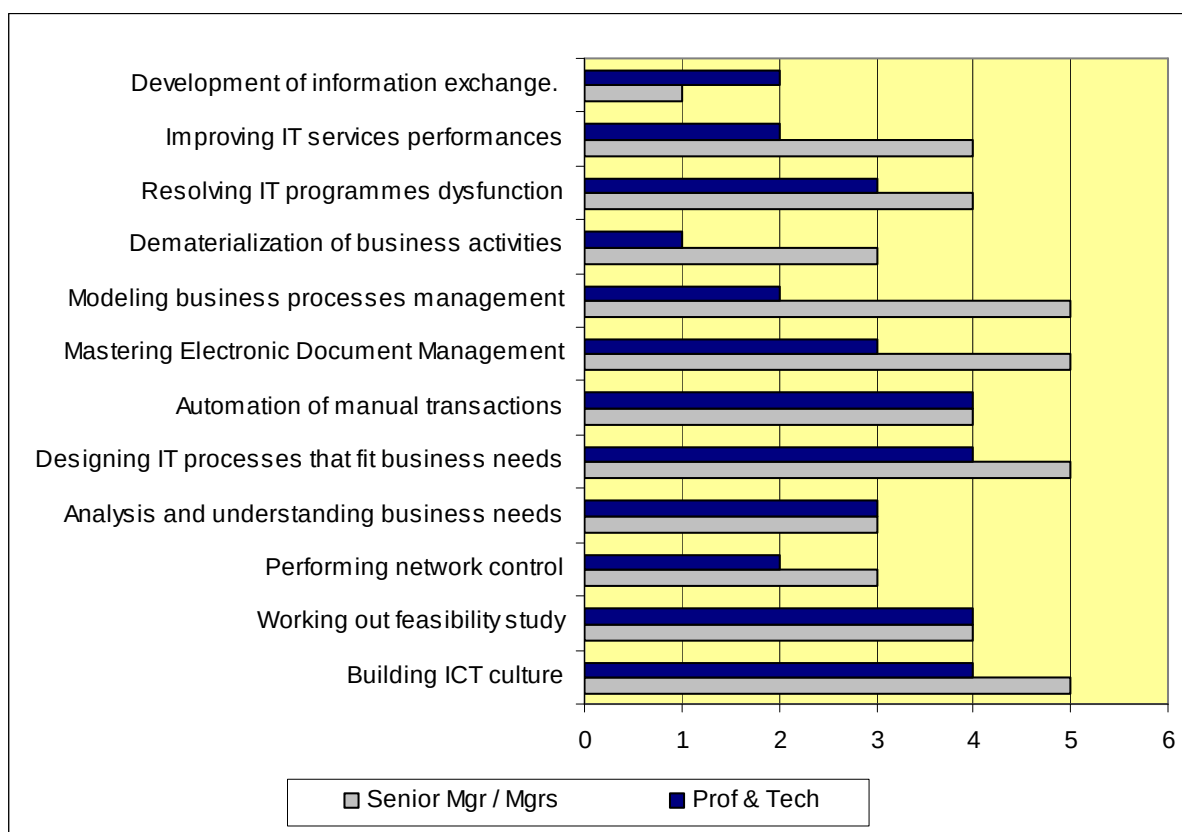
Budget and Finance	Research and analysis
Revenue estimating techniques	Research methods
Preparing Treasury Reports	Utilising field studies
Budget analysis and forecasting	Modelling and economic forecasting
Internal control methods	Econometric tools
	Data requirements for economic management
Back Office Operations	Payments Systems
Prepare and pursue statements of account for financial products and services	Full knowledge of payments systems
Assess and use financial information to reconcile accounts	Regional integration and payments systems
Process customers financial transactions	Legal and regulatory framework
Operate credit control procedures	Understanding of norms and standards in payments systems
Operate payments by instalments	Management information systems for financial sector

As for the staff at the FSD – the inspectors generally feel that they are trained for their role. But in a self-assessment exercise, they noted skills gaps in the areas of:

- Accounting for MFIs;
- Accounting for NBFIs;
- Financial analysis;
- Knowledge of computerised banking operations; and
- Back office processes.

As we have observed in other domains, the most serious skills gaps appear to be a combination of good financial sector operational knowledge and functional expertise.

Figure 6.4 Mot noted ICT skills gaps among BNR managers and professional and technical staff (for the BNR)



Moreover, the introduction and growing use of new technology and networked systems have a significant impact on the way financial institutions need to be regulated and supervised. This is viewed as an increasingly important factor to consider when building the skills of FSD staff. While the BNR has begun to pay attention to the need to develop ICT skills within BNR, the inspectors expressed that this is an area where they feel they are as yet not adequately trained.

More pertinently, in terms of attitudes, the inspectors needed a stronger sense of self-motivation and higher standards of personal organisation. However, the factors that have a significant influence on these attitudes – such as competitive remuneration or pay, adequate training, having a reasonable workload and better working conditions – were all deemed to

be currently “poor”, and therefore do not provide the needed incentives to more effectively develop these attitudes among the staff.

Building management skills within the FSD have also been explored; but any attempt to accurately assess the gaps was undermined by the chronic skill shortage affecting the Directorate. A significant number of skilled personnel within the Directorate, who are qualified to assume positions of responsibility (as well as provide coaching / training for more junior staff), have left the Directorate for more lucrative opportunities typically offered in the banking sector.

6.5 Skills shortages

Clearly, skills gaps do exist at BNR and there may be strategies that can be employed to ensure that the training that is provided more adequately addresses these gaps. However, these skills gaps are considered minor in relation to the skills shortage problems, which may be characterized as follows:

- The regulatory framework is relatively new and no legacy of skills exists in the external labour market – thus, creating the need for BNR to respond by ensuring that talent is built through the provision of training.
- Regulation and supervision has been recently introduced in sectors where financial institutions have not traditionally employed compliance staff – e.g. in the microfinance and insurance sectors – thus, creating further competition for BNR to retain its trained staff.
- Banks require regulatory and compliance skills that are most easily obtained by hiring BNR-trained staff, and they are able to do so with ease because of the wage differentials that exist between the private sector and the BNR. The level of turnover in the Banking Supervision team is in the region of 50% over the past two years. This failure to retain staff, who cannot be readily replaced from the labour market, must be seen as a major institutional disability.
- Inspection teams require a Senior or Principal Inspector to manage the on-site inspection process and the relationship with bank staff and management. This is not a gap that can be temporarily filled by more senior managers taking on more direct reports. But there are already vacancies at this level that are hard to fill, not to mention the likely prospect of further losing more staff to the financial services industry.

BNR experiences recruitment difficulties at Senior Management level and among Professional and Technical staff, which is caused by low numbers of skilled and qualified candidates, competition from other employers, and uncompetitive pay scales. The low number of qualified applicants is predictable, given BNR’s unique role and function; only those wishing to return to BNR following earlier employment will have the skill-set required of an inspector. The more accurate proxy for skill shortages in BNR would appear to be the number of vacancies that are hard to fill, as well as the significant turnover of staff at critical career stages.

According to the FSD Management, an inspector typically requires 3-5 years of development to acquire the full range of skills, knowledge and confidence to carry out inspections effectively. Because of critical shortages within the directorate, this period of learning had been cut to two years simply because more experienced staff have not been available.

In a financial sector that is characterized by growth and expansion, BNR is in the position of being the *only* sponsor of regulatory and compliance training that the entire sector has a

need for. And financial institutions are demonstrating that they are willing to pay premium salaries for trained personnel. Taken collectively at the level of the entire financial sector, this may be deemed positive for the sector as it helps build the pool of skills on a national level. But clearly, this is causing severe problems for the BNR and may undermine BNR's role as regulator and supervisor of the financial sector.

Employees reported that up until 2008, BNR was perceived as an attractive employer: after three years of employment, BNR staff became eligible for house loans, a car plan, and opportunities for training, attachments and travel. However, given the increasing demand for specialist skills in the financial services sector, the image that BNR now has is that "it (BNR) is not a competitive payer". The conventional view of training being a retention tool seems to have been completely reversed, in that the more highly trained a member of staff becomes, the higher their attractiveness in the market and the greater the choices of alternative employment they have (thus increasing the likelihood of high staff turn-over).

A number of de-motivating and constraining factors were identified during the focus group discussions, which are relevant for this retention issue:

- There is no structured training programme.
- Pay has failed to keep pace with the market and the cost of living in Rwanda.
- There was no recognition of the value of previous work experience.
- There is a lack of a clear career path.
- General working conditions are considered poor.
- The tools used for building capacity are considered unsuitable and processes are not clear.
- There is poor communication and coordination with other departments.
- There is undue pressure imposed upon current staff – considering periods when staff turnover / loss is very high, and teams are short of trained staff for inspections, and they cannot release staff to attend training.

As noted earlier, inspectors of banks and other financial institutions tend to be a rare commodity – i.e. the skills pool is limited to begin with, given that there is only one Central Bank requiring such a range of skills. This means that the loss of trained and experienced middle and senior managers will almost immediately be evident as skills shortages. The long periods of training and development required create a highly inelastic supply of specialist skills that can only be marginally eased by regional inflows of labour at higher cost. Where salaries cannot adjust with the market, skills shortages are likely to be a permanent feature of the organisation. This situation appears to be unsustainable. Unless there is a complete readjustment of compensation and benefits offered by the BNR, or a shift to market-based salaries, the BNR supervision function will struggle to meet its inspection cycle.

7 Provision of training and skills development

The amount of training taking place, as reported by all institutions, belies the fact that the market of training providers in Rwanda is non-existent or of negligible size. The staff development that is taking place is largely a collection of improvised solutions to a systemic sector need.

Training strategies can be categorised into four broad streams that appear to be determined by the types of financial institutions implementing them.

Training strategy	Type of financial institution			
	Local financial institutions	Regionally-affiliated FIs (i.e. part of a regional brand)	Institutions with international partners	BNR
Basic induction training and orientation for newcomers	✓	✓	✓	✓
Graduate entry programme		✓	✓	
On the job training and coaching	✓	✓	✓	✓
Delivery of courses by in-house subject matter expert (panel trainers)	✓	✓	✓	✓
Sponsored further education or professional qualification – e.g. ACCA and MBA courses	✓	✓	✓	
Externally sourced training on specific programmes		✓	✓	✓
E-learning modules	✓			✓
Structured programmes with often lengthy courses at regional training centre or head office		✓		
Attachments and exchange programmes with sister banks in other countries		✓		
Incoming trainers for mass courses		✓	✓	
Special TA packages: e.g. Shore bank, South African correspondent banks, KIB and IFC		✓		
Attached functional specialists with delivery and training roles		✓		

Training strategy	Type of financial institution			
	Local financial institutions	Regionally-affiliated FIs (i.e. part of a regional brand)	Institutions with international partners	BNR
Externally sourced programmes from partner organisations or with partner sponsorship (e.g. UOB working with MicroSave)		✓	✓	
Programmes sponsored by donor or IFIs (WB, AFRITAC, AfDB, IMF)				✓
Secondments e.g. with the Kenyan Revenue Authority, CBK, etc.				✓

7.1 In-house training facilities

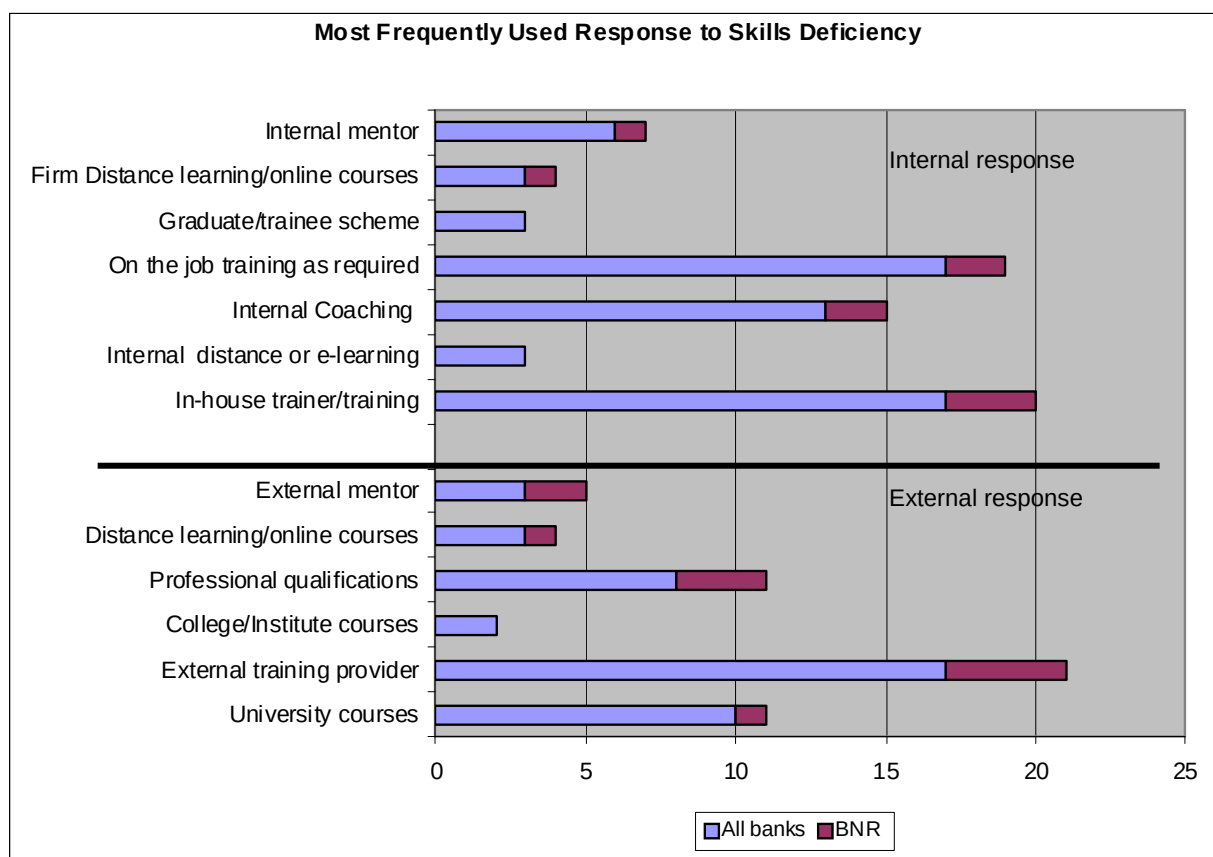
The BNR, banks and non-banks interviewed in this study all employed a dedicated Training and Development Manager; but this was generally at the level of a Training Coordinator rather than a strategic talent manager with the capability to contribute to the development of the organisation's workforce to meet current and future business needs. The Training and Development Manager often coordinated with the different heads of departments in the organization to determine training needs of the staff.

Much of the current training provision for basic front and back office roles takes place “on the job” – the traditional and effective method of being shown how to do the job by an experienced supervisor or co-worker. This is often the most preferred method for skills development within an organization, as is shown in Figure 7.1 below.

The drawback with this learning method is that it is highly reliant on the level of existing skills within the department or institution, and more specifically on the skills of the manager providing the training. While new methods can be diffused in this way, it is far harder to raise the standards to a new level. This method can very well support the demand for formal training among employers on roles that have relatively lower value added, where costly internationally sourced instructors might not be viable. As one CEO of a regional bank has pointed out, “We need training on more complex products, but we also need basic courses for tellers.”

The regional banks that have recently entered the financial services industry in Rwanda have an understandable preference for training new employees and instilling in them the “company's way of doing things” or its work culture, which includes not only an understanding of technical processes and tasks but also of the organization's cultural values. But even among these institutions, there was still a strong interest to have access to sector-wide resources that could offer courses locally at all levels at reasonable cost.

Figure 7.1 Most frequently used response to skills deficiency, by banks and the BNR



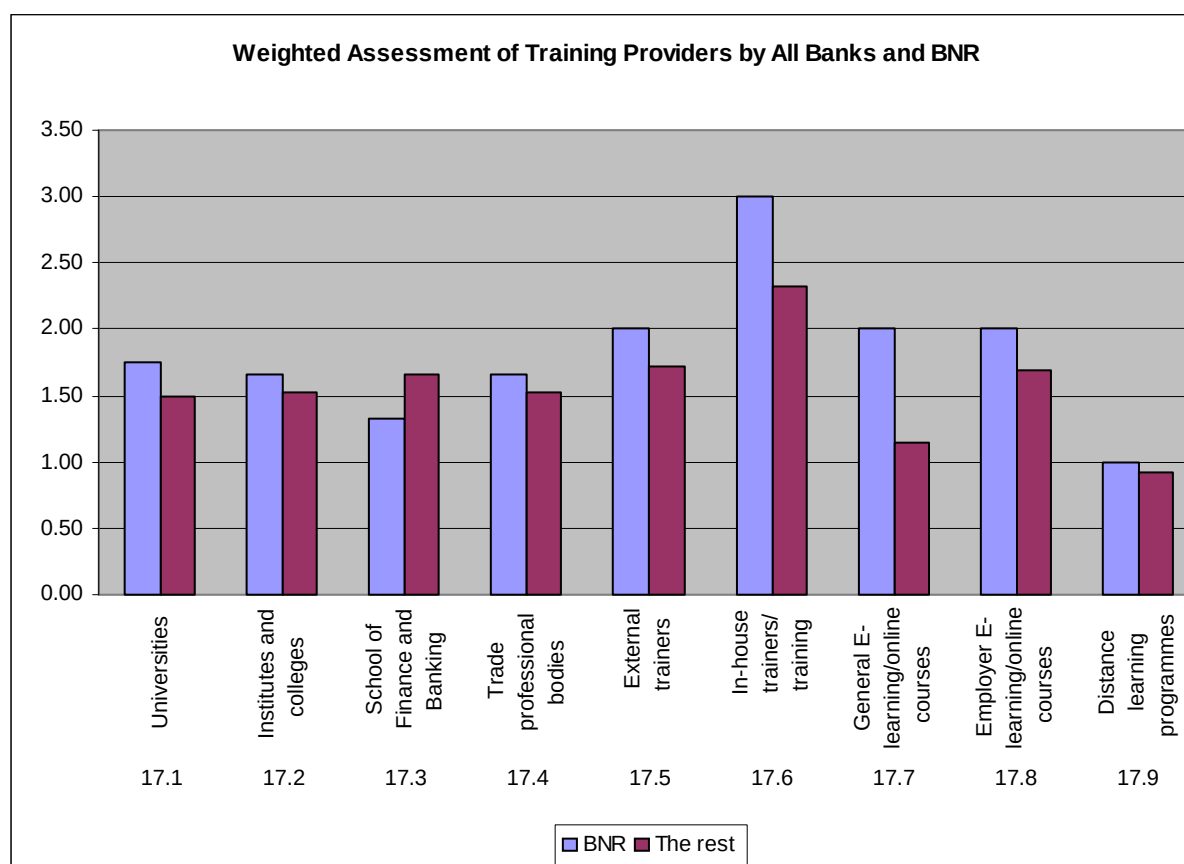
The degree of reliance on the various options for training providers is shown in Figure 7.2 below, indicating the significance of internal training. Interestingly, more and more commercial banks are making use of e-learning options to address their need for skills development and training. This method is considered a cost-effective mechanism for reaching many trainees and providing them with access to often a rich mix of training material. Even one of the non-banks, SORAS, is already making use of this method to help enhance skills within its workforce.

There are three factors that need to be considered when reviewing the value of e-learning as a method of training:

- While e-learning imparts knowledge about a topic and tests trainees' level of understanding and degree of learning, it is far less capable of transferring skills and observing changes in competency levels.
- The method is most effective when accompanied by group sessions where questions are shared, and mentoring by a skilled expert on the subject matter is also provided.
- It forms part of a blended learning solution leading to recognised stages of achievement.

The BNR NBF Supervision team are benefitting from a modular programme that is based on e-learning, which is being implemented with supporting elements in place.

Figure 7.2 Weighted assessment of training providers, by banks and the BNR



7.2 Externally-sourced and internationally-sponsored facilities

Externally-sourced training programmes are essentially those where trainers are imported or brought in from outside Rwanda, or where staff are sent to training facilities and courses offered abroad. This includes:

- Sourcing trainers or accessing training programmes offered by institutes abroad – e.g. the Kenyan Institute of Banking (KIB) for many of the commercial banks; the Insurance Institute of Kenya (IIK) and the Kenya College of Insurance for some insurance companies and brokers; and the School of Applied Microfinance in Mombasa for MFIs.
- Other providers of financial courses included the Regional and International Organisation (RIGO) and AIKAN, both based in Uganda, which send trainers to financial institutions in Rwanda.
- Financial institutions with sister organisations in the region are also able to access training facilities of their affiliates, such as the Development Finance Corporation of Uganda (DFCU) which provides some training opportunities for BCR.
- Some financial institutions manage to secure special technical assistance packages (that may be donor-sponsored), which involve longer term coaching from specialists from organizations like Shore Bank International.

These are obviously very costly options; even those facilities that are provided through donor funding tend to be few and focused on a small number of financial institutions.¹⁹ There are also other issues related to the use of these kinds of training methods. For example, in the case of KIB, “promises made are not always kept”, given that Rwanda is not a priority area for the Institute.

Exchanges, attachments and secondments were used widely. In the case of one regional bank, a team from the head office country were attached to the Rwanda operation for 12 months in a training and operational support role. More typically, those on graduate schemes rotate to other regional centres, which also provides a strong incentive for attracting competent talent within the labour pool.

Embedded senior managers were put in place at some banks to establish new departmental standards and operations, build teams and train staff (e.g. in Risk Management and IT) for 1-2 year periods. This had been found to be a cost-effective solution to persistent problem areas.

Internationally-sponsored training programmes were reportedly provided by such institutions as the European Investment Bank (EIB) and the German Development Bank (KfW) in specialist areas such as credit instruments and the new Mortgage Law for commercial banks. BNR, in particular, was the beneficiary of most donor or IFI-sponsored training programmes. Such programmes are valuable to adding to the knowledge and skills base of the workforce, but it is important to critically assess the relevance and usefulness of these training programmes with respect to the actual needs of the organizations.

In the first place, *ad hoc programmes* may not form part of a structured training programme and so the foundation pre-learning that is necessary may not have occurred. So there is a risk that while there is the perception that a great deal of training has been delivered, unless this meets the needs of the recipients, in sequence with other learning, it may not generate the expected value.

The heavy reliance on training resources from abroad and support from regional hubs was a major cause of concern for a number of reasons:

- The costs of bringing in trainers from other countries (whether from within the region or even from other continents) or sending staff to training facilities abroad are indeed very costly. In the case of RML, for example, sending staff to the School of Applied Microfinance in Mombasa costs the MFI at least US\$5,000 per person for a 2-week training programme, exclusive of all incidental expenses. Despite this heavy burden, RML has still sent two credit officers for training last year, given the absence of other training options of this calibre at the local level.

The high cost of training does not only mean that some institutions may miss out on opportunities to build their capacity and better serve their customers. That, of course, is an area of concern – especially given the interest to enable smaller, younger financial institutions to mature. Even more importantly, the high cost of training adds to the companies’ operational expenses, which ultimately leads to higher costs of doing business and of providing services to customers. This can have a significant impact on financial access – particularly, on the capacity and willingness of financial institutions to

¹⁹ The International Finance Corporation (IFC), for example, provides technical assistance packages to financial institutions (often commercial banks), with long-term placements of experts (e.g. in SME lending, leasing, etc.). But these packages are typically offered to those institutions where IFC have an equity stake. Thus, such TA packages are only available to a select number of financial institutions.

downscale and reach lower-income market segments by providing services that are more affordable to the mass market.

- The heavy reliance on training resources from abroad could also mean that training may not always be available when it is needed. Financial institutions in Rwanda may have to compete against financial institutions in other countries requiring training support from the training institutes in those countries.
- And lastly, the content of externally-sourced training may not match the particular needs of trainees in Rwanda or may be offered at a level that is incongruent to the level of the particular group trainees (e.g. whether support staff, junior, middle or senior managers). The physical distance between the training resource and the trainee also means that often there is no or very limited follow through from these programmes, which might be necessary to ensure the application of the courses that have been taught.

7.3 Programmes by support institutions

There are two institutions providing relevant courses and training support to financial institutions in Rwanda: the School of Banking and Finance (SFB) and the Association of Microfinance Institutions in Rwanda (AMIR).

The School of Banking and Finance (SFB)

The most commonly cited Rwandan source of specialist financial education was the SFB. Staff and managers in some financial institutions access finance-related courses and management training programmes offered by SFB, which lead to certain qualifications, such as the Maastricht MBA and ACCA programmes. However, many financial institutions remain ambivalent about the role of the SFB in helping to develop skills in the financial services sector. The SFB has also previously offered a two-year course for the insurance sector, but was considered too expensive (at US\$4,000 per person) by the institutions and offered at too high a level (i.e. targeting senior management) to be of any value.

The SFB operates a campus with 2,800 full-time undergraduate and 200 graduate students, paying significant course fees, with full-time faculty staff. It very much has all the characteristics of a tertiary institution, or more specifically, a business school. It is governed by a Board of Trustees appointed by the Ministry of Education and over 50% of its students are directly funded by the Government. In some cases, the SFB delivers programmes that are directly commissioned by individual financial institutions; however, this tends to be very seldom.

The major handicap of the SFB in terms of the provision of training and skills development support to the financial sector lies at the very core of its business model as a teaching institution. This is a critical consideration especially given a recurring theme in this study: there is an important leap between ‘knowledge about a process’ and ‘the technical proficiency required to practically carry out that process in certain work conditions’. Training programmes that are needed in the financial services sector allow the trainees to not only acquire the necessary technical knowledge and understanding about a given subject, but also to be given the opportunity to demonstrate the application of the new skill/s learned under risk-free conditions. The only measure applicable to the performance of a trainee or student at the SFB is success at the stage of examination, which, as we have observed, is a very poor proxy for developed cognitive skills.

The fact that the SFB is named as such (i.e. the School of Finance and Banking) very much seems to be a distraction: the name connotes an institution that specializes in the development of skills in ‘finance and banking’, but in reality it is very much more in tune with

being a Kigali Business School. There has been no single course offered on banking at the SFB.

The School is currently carrying out a review of its medium to long-term strategy with the assistance of a consultant. While the outcome of this work will be of interest, the Rector expressed his view of a vision of the SFB as a regional centre for finance and business, attracting students from neighbouring countries, especially Francophone countries, which would serve the School very well in terms of enrolment. This view, however, all the more distances the School from being the kind of institution that the financial services industry is desperately in need of and hopes to have in Rwanda. Given its current characteristics and the plans it has for the medium to long-term, SFB does not appear to be the kind of institution that will provide the professional and vocational skills-based programmes most needed by the financial sector.

The Association of Microfinance Institutions in Rwanda (AMIR)

Building the capacity of MFIs is at the core of AMIR's functions as a support institution. It provides two types of training: (a) training of trainers (TOT), and (b) basic training directly to MFIs. By undertaking these two forms of training, AMIR's goal is to build a pool of local trainers in the microfinance sector, while at the same time build the capacity of a growing number of MFIs. To date, there are about 30 microfinance trainers, with whom AMIR works. Many of the trainers are managers of MFIs themselves, as well as other local consultants.

The cost of the training is sponsored by donors (e.g. the World Bank), although AMIR still asks MFIs to pay a fee of RWF 50,000 - 100,000, which serves as a commitment fee as well as covers some of the incidental training expenses. There are essentially nine modules offered, which the German Savings Banks for International Cooperation helped to develop. These include:

- Basic accounting;
- Financial analysis;
- Loan management;
- Business planning;
- Governance;
- Operational risk management;
- Warranties (for agriculture-focused MFIs);
- Management tools and procedures; and
- Internal control.

Of these, basic accounting, loan management and business planning are the courses that attract the most number of participants among the MFIs. Each session lasts for about five days and training is delivered and organized regionally.

The larger MFIs (such as those that have been interviewed in this study) consider the training courses provided by AMIR to be of poor quality or not relevant to their needs. This may seem alarming at first glance – but as AMIR confirms, AMIR's primary target audience for its training and capacity building programme are the multitude of smaller MFIs operating in the country. There are many reasons that help explain this focus, such as the tendency for donor and government grant funding to be also more readily available for smaller microfinance operators. In fact, AMIR has even provided training for the newly established Umurenge SACCOs, with funding from MINALOC.

From AMIR's perspective, this is the market where capacity building support is most needed. In many of the smaller MFIs, and especially those which are rural-based, the quality of human resources and skills levels tend to be very poor – typically characterized by basic literacy and very low levels of numeracy. AMIR started off with training material that was based on the guidelines for international best practice in microfinance. But a considerable amount of work had to be undertaken in order to scale these down to a level that many small, locally-based MFIs will be able to understand, appreciate and apply in their respective institutions.

The problem, however, is that many of the smaller MFIs still consider it too expensive to participate in AMIR's courses. The costs that MFIs incur do not only relate to the actual fees they have to pay for participating in the training, but also in terms of the business MFIs might lose when staff are absent from their posts because they need to be at the training. Some MFI branches tend to be so lean that it becomes impossible for MFIs to allow staff to leave their day-to-day duties in order to participate in AMIR's training courses.

We consider this current focus of AMIR on smaller MFIs to be appropriate, especially considering the current capacity of AMIR as a support institution. The intention behind this is, by no means, to promote a large number of small MFIs to operate. However, it is important to consider that the microfinance sector in Rwanda is still at a nascent stage of development: there are numerous very small MFIs operating; and while there are larger MFIs, these tend to have limitations in terms of the scope of their clientele (e.g. a narrow range of groups of people are eligible for membership in some of the larger MFIs). At this stage, it is still too early to tell (a) whether some of the smaller MFIs will actually evolve in terms of overall performance and grow in scale, and (b) which of these might actually be expected to evolve. Thus, recognizing (a) this current stage of development of the microfinance sector in Rwanda and (b) the current level of capacity of AMIR, we hold the view that AMIR should continue to focus its efforts on providing capacity building support to the smaller MFIs. This will be significant in itself, given (a) that this will help to control the damage that might come as a result of massive efforts to promote a large number of start-ups with very limited institutional capacity (e.g. the Umurenge SACCOs); (b) the expectation that some of the MFIs do have the potential to develop and grow, and therefore may benefit from training support from AMIR; and (c) that building the skills base within the sector as a whole (even on a very basic level) should help build the skills pool required as the sector develops. Moreover, it will take a significant amount of resources (monetary as well as time) to build enough capacity within AMIR to position itself as a provider of training for larger MFIs. That said, it is important to note that as the microfinance sector evolves and more MFIs grow in scale, it is expected that AMIR will also need to evolve alongside the changing requirements of its member institutions.

The bigger problem, therefore, appears to be the lack of any training support for larger MFIs that dominate the microfinance market in Rwanda. These MFIs have training needs that should not be ignored, and which AMIR will currently not be in a position to fulfil. At the moment, there are no other support institutions that can provide this kind of service to these MFIs. Considering that as MFIs mature and become larger, they tend to share a lot in common with banks and other formal financial institutions, it may actually be more sensible for the capacity building needs of the few larger MFIs to be addressed by the same provider of those services for the banking sector. This may even be in the interest of larger MFIs – especially those that are keen to transform into banks in the future. There are already early indications that this sort of integration (of larger MFIs with commercial banks) might happen soon in the context of the formation and setting up of the RBA.

8 Future skill needs and forecast shortages

8.1 Summary of the issues relevant to skills development in the financial sector

The key issues emerging from the foregoing analysis of the skills stock, skills gaps and skill shortages in the financial sector – across the different types of financial institutions – are as follows:

- There is a tendency for disproportionate reliance on academic qualifications as a proxy for cognitive skills. Academic qualifications, however, do not guarantee the existence of important qualities such as the capacity to critically analyze, make decisions and exercise discretionary judgement – which in turn reveals more fundamental problems associated with the quality of education in the country and the implications for the quality of graduates being produced by the education system.
- Work activities associated with loan appraisals and evaluations have been facilitated by rigorous processes, but the deficiencies in analysis and discretionary judgement have constrained good lending and slowed down the introduction of new or more sophisticated products. There is an observed weakness in applying understanding and knowledge not merely in terms of general market awareness and strategic business focus, but in more technical skills such as product pricing, and in the assessment and modelling of risk.
- The importance of management skills in the sector cannot be over-emphasised. The overwhelming consensus was that management skills tended to be “poor”, despite heavy investment in training and attachments. Four key issues have been raised in this regard:
 - The candidates for promotion tended to be few, so appointments were made that would inevitably stretch the new jobholder. In some instances, more junior managers are thrust into positions of responsibility for lack of other options.
 - The management training most valued by employees was too theoretical and qualification-based.
 - Branch Managers and many functional managers lacked the leadership skills necessary to strategically plan, manage and drive activities to meet objectives. Heavy criticism was levelled at management for “ticking boxes” and “robotically” carrying out tasks without applying critical assessment or judgement and modifying actions as a result.
 - Middle managers and supervisors are typically those with the responsibility for work-based training of junior staff. Given skills deficiencies at this level, there appears to be a closed loop where poor levels of management and supervision will place a ceiling on the skills acquisition of new staff.
- The most obvious effect of skills shortages is on salary levels, especially among senior or specialist staff. Targeting competitor talent is not unusual, especially for senior level staff with experience and client relationships, and this has been very evident with the influx of new banks and restructuring in the sector. The excessively high salaries paid to specialists that perform very important functions within banks also has serious implications for the way institutions are able to price the services they extend to their clients, and therefore impact banks’ capacity to expand and reach into low-income markets.
- Related to this, staff retention among government-owned financial institutions and the BNR is a serious issue. Salary structures in these organizations do not reflect the market rate, which leads to the inability of these institutions to retain the skills needed and attract the kind of talent they require.

- Skills shortages in the sector lead many financial institutions to hire expatriate staff for hard-to-fill vacancies or specialist roles within organizations.

The table below summarizes these key issues and shows the degree of significance of constraints to each group of financial institutions.

Table 8.1 Summary of the key issues, according to the type of financial institution

Categories (financial institutions)	Broader constraints		Skills gaps and shortages		Problems manifested in financial institutions		
	Limited labour pool	Limited supply of training (locally available)	Technical skills	Management skills	Sector salary volatility	High rate of staff turn-over	Required to recruit foreign staff
BNR	++	+	++	+	++	++	-
Commercial banks	++	++	++	++	++	++	++
NBFIs	++	++	++	+	+	+	+
Microfinance institutions – small	+	-	+	+	-	-	-
Microfinance institutions – large	+	++	+	+	-	-	-

Note: - Not significant + Significant ++ Highly significant

In summary, where there are efficient labour markets, skill gaps and lags will tend to be short-lived. But the financial institutions are well aware that the labour market in Rwanda is not efficient and that there is a chronic lack of training provision. The result is that there are widespread skill gaps that are significant in terms of volume and in roles that are critical to the functioning of these organizations. As the external skills pool is growing slower than the demand for certain specialist skills, the sector is handicapped by skill shortages that in many cases can only be filled by regional recruitment or secondment from those with parent companies or partner organisations.

8.2 Development needs of the current workforce

The development needs of the current workforce can be defined as the volume of skills that must be added to the existing skills inventory if existing staff are to be proficient in their roles. Where skills gaps are widespread, as our research has shown is the case in Rwanda, the development needs will mirror existing skills gaps. It is never part of an organisation's strategy to have skill gaps in its workforce. These will emerge as operations and markets evolve, creating new skill requirements or the needs for skills at a higher level, or as and when employees leave certain institutions taking their skills with them. The needs identified by this study appear to be systemic in that the gaps create shortages, inflated salary packages, and distortions in pay and grading.

Future hiring requirements are the number of employees who must be introduced to the industry to ensure that the supply of skills will match the demands of the industry, and will closely follow the identified existing skill shortages as well as forecasted future new requirements. The result is a workforce pipeline gap that has serious implications on the overall development of the financial services industry.

The development needs of the current workforce can be prioritised into the following key roles. Further details of the skills gaps are provided in Table 8.2.

- Branch Managers;
- Relationship Managers;
- Customer Service and Sales Staff;
- Credit Analysts;
- Risk Managers;
- Front Office Managers;
- Tellers;
- Trade Finance Officers;
- Foreign exchange dealers;
- Back Office Operations personnel;
- Insurance Managers;
- Loans Officers;
- Accounting staff;
- Product Development officers;
- Corporate Relationship Managers;
- Business Risk Managers (general and sector specialists).

The scope of skill deficiencies may be surprising at first glance; but as we have observed, these will be accounted for by skill lags, where staff are yet to exhibit skills because of lengthy learning cycles, or more often where required skills are present but *not at the required level*. To illustrate this point, most employees in the sector would consider themselves numerate, but employers required advanced numeracy skills to deliver more complex products and services, so gaps and shortages were especially evident in terms of:

- Risk management;
- Computational finance – math skills, ability in programming, the ability to bridge the gap between theory and practice in developing models, and knowledge of specific asset classes and products;
- Modelling and pricing expertise;
- General analytical skills; as well as
- Senior management skills linked to subject matter expertise at a strategic level (e.g. Head of HR, Head of Finance, Head of Audit, Head of Risk, and Head of IT).

The skills identified are conventionally included in core banking programmes offered by group banking centres, or national banking institutes, such as the KIB. Typically, this would involve a series of courses, building skills and knowledge from foundation level all the way to full proficiency.

Table 8.2 Role profiles and skill deficiencies among financial institutions

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
Personal Banking	Branch Manager	Managing and motivating staff Techniques to improve Customer service Making profitable lending decisions and reducing NPLs Growing sales of products Business planning and budgeting Understanding bank operations and IT systems Full accurate reporting to HO and BNR Achieving Compliance IT applications and systems	Management of Staff Developing staff skills Motivating staff Communication Setting objectives Measuring performance Empathising with customers Strategic thinking	Industry experience Experience in range of Branch roles Dealing with customers	High	Low
	Relationship Manager	Knowledge of bank operations and processes Knowledge of product features Understanding Customer profiles Monitoring customer account activity Cross-selling	Proactively managing relationships Responsive to requests Empathetic	Experience in sales and managing relationships	Medium to high	Low to medium
	Customer Service Staff	Connecting Product knowledge with customer needs Technical and operational knowledge to speed service delivery IT skills	Communication Problem resolution Decision making	Experience in sales and managing relationships	High	Low
	Sales	Strong Product knowledge Understanding of market strategies and segmentation Cross-selling IT skills	Customer base building Customer relationships	Experience in sales and managing relationships	Medium to high	Low to medium

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
	Credit Analyst / Loans Officer	Knowledge of particular markets Awareness of risk Ability to price risk Due diligence on client Financial Analysis of Project Market analysis Financial Planning and forecasting Reporting and presentation of project proposals Using appropriate IT applications	Attention to detail Evaluation of data Organising information	Strong maths or quantitative skills background	Very high	Very low
	Risk Manager	Knowledge of markets Macroeconomic factors Bank lending strategies Risk analysis Numeracy	Attention to detail Evaluation of data Decision making	Experience in risk analysis and assessment	Very high	Nil
	Front Office Manager	Supervise agency activities Resolving technical and processing problems Identify training needs and manage training Identify staffing needs to meet standards Dealing with customers Dealing with complaints	Manage a large staff Continually improve performance and productivity	5-7 years in cashier roles	Medium to high	Low to medium
	Tellers	Security rules Organisation of cash Basic transactions Awareness of processes, limits and risk Numeracy	Attention to detail Observation of rules Attentive to customers Courteous and helpful Personal organisation	Some experience of customer contact preferable	Low	Medium

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
Corporate	Product development	Financial modelling Pricing risk Market research knowledge Structuring of products	Quantitative skills Marketing		Medium to high	Low to medium
	Relationship Manager	Understanding of the market Monitoring of loans Speed of analysis Questioning of data Managing problem loans	Good customer handling techniques		Medium to high	Low to medium
	Risk Manager (General and Business Sector Experts)	Market analysis Credit analysis Portfolio structures Financial modelling	Using Specialist software Business sector experience		Very high	Nil

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
Treasury	Trade Finance	Knowledge of full range of trade finance instruments Advising on most suitable instruments and risks Forex risk management instruments	Attention to detail Confident with customers Time management	Relevant experience in forex and handling business clients	Medium to high	Low to medium
	Foreign exchange trading	Understanding Forex markets and drivers of price When to execute trades Awareness of forex risk Market knowledge Processing skills	Attention to detail Confident with other traders Ability to handle pressure Time management	Relevant trading experience	Medium to high	Medium
	Back office operations	Payment systems Operational processes IT networks Understanding of documentation Knowledge of compliance requirements	Attention to detail Handling stress Time management Working with others		Medium to high	Low to medium

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
	HR	Managing Human Resources for Banking Strategic workforce planning Recruitment strategies and implementation Learning & development Organizational development Retention strategies Talent management Compensation and benefits strategy Managing employee relations Employee communications Exploiting PMS data for continuous improvement HRMIS			Low to medium	Medium

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
	Head of Risk	Identifying, measuring and managing credit risk across a range of on-balance sheet asset classes Definition and dissemination of risk policies Capital Adequacy and Liquidity Adequacy assessments Statistical modelling and its use in risk management Develop, modify and test models for risk measurement and management Quantitative and analytical skills with models for measuring VaR (including default probability, loss given default, and rating migration) Computation and allocation of economic capital and risk adjusted performance measurement.	Understanding of Basel II framework Reporting and communication to Board and Regulators Management of a team of risk managers		Very high	Nil
Insurance and pension fund management	Investment officers and managers	Actuarial skills Investment planning skills			Very high	Nil

Table 8.3 Role profiles and skill deficiencies – BNR Financial Stability Directorate

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
	Inspector	Familiarity with application of regulatory framework Techniques and standards for loan book assessment Financial analysis (general and sector specific) Assessment of banking systems (IT/MIS) and internal controls Using financial indicators Analysis and evaluation of data Interpreting financial information	Attention to detail Rigour in following lines of enquiry Quantitative skills Knowledge of sector	3-5 yrs inspection role Use of CAMELS ratings On-site and off-site inspection	High	Externally low
		Designing and using databases Required processes for compliance Supervision regimes Research methods Identifying banking problems Proposing appropriate remedial action Internal audit practices Accounting practices (by sector)	Excellent business language skills Report writing and presentation of material High level IT applications skills Relationship management Communication at all levels	Industry experience Business practices	High	Externally low

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
		Applying Licensing procedures Assessment of technical compliance Using Registration requirements Contribute to policy formulation	Coaching and mentoring of juniors Identification of training needs Developing manuals and guides Working with others Delegating and supervising juniors	Team working	High	Externally low

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
	Senior Inspector	(Technical Inspection Skills as for Inspectors)	(As for Inspector)	7 + years in inspection duties with increasing amounts of responsibility	Small volumes Business critical	V. Low
		Consolidated supervision of banking groups Leading Inspection teams Drafting of Corrective Orders Monitoring turnaround plans for troubles banks Appraisal of FIs for registration using best practice procedures (Core Principles)	Planning and organisation of sector schedules Managing the work of others Providing training and coaching to others			
		Reviewing policies and systems for efficacy Reporting of banking sector for BNR Board Reviewing ratio changes Produce policy position papers Ensure BNR alignment with current international standards	Sector-wide analyses Contributing to policy discussions Keep up to date with international regulatory reform			
	Principal Inspector	(Technical Inspection Skills as for Senior Inspectors)				
		Carrying out a portfolio of inspections Monitor adherence to BSD directions and enforcement Produce risk profiles of banks Review assessment tools and processes Evaluating policies and procedures of banks Administer sanctions on non-compliant banks Prepare press statements	Leadership of technical teams Credibility with Government, international bodies and Group Boards	12 + years in Inspection and central bank roles	Small volumes Business critical	V. Low

Census of Existing Skills in the Financial Sector of Rwanda

Segment	Roles	Skills at a premium, and evident as gaps or shortages			Demand	Supply
		Technical skills	Other skills	Experience		
		Review amended legislation and regulations Implement regional and international initiatives in prudential reg. Producing reports for international bodies Attend meetings and contribute papers to international groups	Strategic thinking International perspective			

8.3 Implications for the Financial Sector Skills Development Strategy

The findings of this study highlight the urgency and scale of the current skills deficiency in the financial sector. The key recommendations are discussed in the following chapter. We would urge that the following factors be carefully considered in the formulation of the strategy for skills development:

- A sector-wide approach will be necessary in developing the skills in the sector and this needs to be aligned with regulatory frameworks of compliance.
- The activities to address the skills deficiencies will need to be capable of volume delivery, while being responsive to specialised demands – whether those be in the form of specialized training in microfinance, derivatives or actuarial programmes.
- The training measures will need to be of a quality that commands the respect and engagement of all, in order to avoid a two-tier outcome, where well-resourced banks use their own training programmes, while the smaller weaker institutions are the only ones using local training supply.
- The strategy will need to take a comprehensive view of learning and development options that:
 - are linked with international standards of qualification;
 - uses all available media, e.g. web-based training, distance learning, peer group learning, platform courses, etc.; and
 - is based on the principle of continuing professional development for all levels of employees.

9 Recommendations: addressing skills shortages in the sector and the key constraints in building capacity

This section describes the various measures and mechanisms needed in order to successfully meet the skills needs in the financial services sector. The immediate and longer term goal is to enable all financial institutions to minimize skills gaps and avoid encountering skills gaps as they seek to expand and grow their services in line with the development of the Rwandan economy. This can be achieved through the closer cooperation between the institutions themselves, with the regulator, and with relevant stakeholders in the higher education sector, in tandem with the introduction of professional vocational training resources and better strategic management of human resources.

The table below encapsulates the key recommendations of this study. Each recommendation is discussed in greater detail in the sections that follow.

Recommendations	Responsible institutions	Timeline
1. Develop a sector-wide approach to skills development in the financial sector.	- The GoR - BNR - The support institutions	Short term
2. Facilitate / actively engage in developing reforms in the education system.	- The GoR - The Ministry of Education (with input from the BNR and the support institutions)	Medium to long term
3. Promote / encourage performance measurement in order to better identify and address skills gaps within organizations.	- The support institutions - Individual financial institutions	Short term
4. Make available relevant and demand-driven training. Sector growth should be matched with growth in the skills pool.	- The support institutions - Individual financial institutions	Short to medium term
5. Establish or strengthen the support institutions.	- The GoR (with support from the donor community) - The support institutions	Short to medium term
6. Rationalize remuneration and other relevant conditions of employment at government-owned financial institutions, including the BNR.	- The GoR - BNR - Publicly owned financial institutions	Short to medium term

9.1 The need for a sector-wide approach

No organisation chooses to have a workforce with widespread skill deficiencies. The evidence provided in this study shows that these deficiencies do not originate from complacency or inertia on the part of Rwandan financial institutions. Rather, where prevailing

labour market conditions affect all organizations – thus encouraging zero-sum skills strategies on the part of employers, high staff turn-over, and an over investment in theoretical qualifications rather than skills – low skills equilibria emerge that individual institutions can do little to solve. Only a sector-wide response that addresses labour market imbalances through new injections of skill can provide a sustainable solution.

A sector-wide strategy is therefore needed to develop skills in the financial sector. This study supports the decision made by the Ministry of Finance and Economic Planning (MINECOFIN) and the Banque National du Rwanda (BNR) to undertake a clear and complete assessment of the current situation and to develop a skills development strategy that will help address the skills gaps and shortages in the financial sector. The plan will provide strategic options to guide the Government of Rwanda and other stakeholders for developing the skills in the financial sector. This will need to have a sector-wide approach given the inter-related issues confronting different groups of financial institutions, while also paying attention to those issues that are specifically relevant to certain types of institutions (e.g. MFIs and non-banks).

Mechanism: BNR is ideally placed to sponsor a truly consultative process of developing a skills strategy for the sector – that is simple, robust and coherent. The policies and activities that will be developed will need to be valuable for all stakeholders and command their active engagement. This process requires a series of formal and informal meetings and workshops involving representatives of all sub-sectors to identify priority actions and roles and responsibilities for strategy implementation. Some external facilitation may be required to ensure rapid progress.

9.2 The need for education reform

There are social consequences of an education system that tends to be irrelevant to the social and work aspirations of many people in a given country or society. This can be in the form of large numbers of young people being frustrated because they are not fully equipped to enter the world of work and make a contribution to economic activity. It could also lead to employers having difficulty in recruiting appropriately skilled, productive and flexible workers – which appears to be the case among many employers in the financial services sector.

One of the key findings of this study is that there are more fundamental problems associated with the quality of education in Rwanda, which have serious implications for the quality of graduates being produced by the education system. Financial institutions have pointed out the need for broader reforms in the country's education system – covering the need for change or improvements in the curriculum / teaching content and in the methodology used for instruction. The reform could also involve the setting up of specialized institutions of learning or institutions that can provide vocational education and training to address specific needs in the financial services industry (or even in other sectors).

The reform in the education system will need to be driven by the need to ensure that graduates acquire the knowledge as well as the set of practical skills needed as they enter the world of work.

Mechanism: Direct liaison between employers and educators can be achieved through the establishment of a Financial Sector Employment Committee or Working Group, composed of representatives from all apex organisations, and academic leaders with a commitment to developing the employability of graduates in the financial sector. As such, an initiative might involve curricula changes or employment “stages” for students (as is, for example practiced in other countries like France). Such a committee could be best chaired by an academic dean of studies, or a representative of the RBA.

9.3 Availability of relevant and demand-driven training, and matching sector growth with growth in the skills pool

Training and capacity building programmes are often seen to be supply-driven, especially if such programmes are donor- or government-funded; or even in some instances where the trainers or resources are outside the country and therefore less accessible to the financial institutions. This approach has been criticised for various reasons, including a lack of ownership by the financial institutions (e.g. MFIs receiving free training) and a failure to address the genuine or more urgent needs of organizations.

The recent growth in the sector is not only likely to continue, it is highly desirable that it does so. But this growth will place further strain upon a skills market that is failing even under current conditions. Quite simply, the skills pool must grow in pace with:

- Overcoming current skills gaps and shortages;
- The demand for new staff to meet industry expansion and replace retiring staff;
- The need for current staff to keep up with new role requirements, particularly in specialist areas; and
- The creation of entirely new roles as a result of product innovation, technology, or regulatory changes.

Mechanism: A crucial step could be the establishment of a Rwandan Institute of Banking to provide direct skills training that can be accessed by all financial institutions on a course fee basis. Such an institute will also provide the training management function for coordinating demand and delivering *ad hoc* courses that are required by stakeholders. In the earlier stages, project funding could be obtained from a donor with interest in developing financial services in the country: this project funding could be utilized to finance the recruitment of a short-term Institute Manager to help establish the institute over a formative period (e.g. two years), after which, it is anticipated that the Institute would be capable of operating sustainably on the basis of the course fees it generates. This project would be best sponsored by the RBA.

The need to match the supply of skills with demand further underscores the need for a sector-wide response. Moreover, it highlights the need for a mechanism to transmit forecasts of skill needs into a process of supplying such requirements. Clearly, BNR and support institutions like RBA and AMIR have an important role to play in helping to develop this process, through the establishment of regular communication and information feeds in to a 'matching' process that could be best institutionalized within the new Rwandan Institute of Banking.

9.4 Performance measurement and skills gaps

In highly efficient organisation, skills gaps are a relatively fleeting phenomenon as they are identified as part of the performance measurement process and will generate a rapid response in terms of either a learning and development intervention, or a change of role or even an exit from the enterprise. Many of the regional banks operate group-wide Performance Management Systems (PMS), often feeding into a results architecture such as the Balance Business Scorecard. All of the banks and BNR operated some form of PMS, even if this was only an annual appraisal for all employees.

An effective PMS generates a pool of data that is directly relevant to organisational skill mapping, needs, and trends, if mined assiduously. This very significant link between PMS outputs and the identification of skill gaps and planning and budgeting of training was

observed to be absent. Nor was there any sign that PMS data were being used to assess the effectiveness and impact of the substantial investment that is taking place in training. Where training costs must be justified, and this will increasingly apply in Rwanda, the impact of training – in other words, the actual and measurable change in performance that has resulted – is most easily captured as part of the PMS process. It is strongly recommended that prior to launching new and costly training interventions, the *needs* and projected benefits will have to be aligned with PMS criteria.

Mechanism: PMS and Training Needs Analysis are generally managed from within the HR departments of institutions. It will be meaningful to consider the possibility of offering a series of workshops (that could be sponsored by the BNR Training Manager and BNR HR Director, together with the recently formed HR Managers' Association) on an important topic such as 'Measuring Performance and Overcoming Skill Gaps in the Financial Sector'.

9.5 Strengthening the support institutions

In terms of the RBA, the proposed solution is a Rwandan variant of the Kenyan Institute of Banking: a specialist vocational skills centre offering a core curricula of banking and finance courses on a chargeable basis – from basic tellers' courses to more specialised programmes, for example, on Trade Finance, Credit Risk, and Receivership.

In terms of AMIR, our recommendation is for it to continue its current focus on building the capacity of smaller MFIs, while at the same time it builds its own capacity as a support institution.

It may be worth exploring whether the microfinance sector can actually serve as an incubator of skills in the financial sector and therefore help to expand the skills base. This is achieved by developing basic skills in banking and finance that are considered necessary in running microfinance operations. The development of these basic banking and finance skills will be important in terms of the general interest to develop human resource capacities in the country (especially in rural areas). Moreover, this could also serve as the necessary foundation for further skills development that is relevant to the banking or the non-bank sector. This may take some time to develop, but it is worth considering the experience of other countries with more developed microfinance sectors. This will also require the microfinance sector to be integrated with the rest of the financial sector – enabling linkages and relationships between MFIs and banks/non-banks.²⁰

Larger MFIs will need to be better integrated in the financial / banking sector. Considering that many of them have already bank-like qualities, their requirements for training and skills development will therefore be better addressed by participating in programmes offered to commercial banks and other formal financial institutions.

²⁰ In many other countries, the growth and expansion in the microfinance sector resulted in enlarging the skills pool for certain positions in the financial services industry (e.g. notably among loan officers, relationship and branch managers). In countries like Ethiopia, for example, commercial banks are starting to recognize the important qualities of MFI personnel (e.g. knowledge of more tedious credit appraisal procedures, especially useful for evaluating loans to micro and small enterprises; strong sales orientation, especially given the approach by most MFIs to 'seek the client'; and a high degree of resilience). Banks in Ethiopia are therefore starting to explicitly specify in their job advertisements their search for candidates with work experience in the microfinance sector. This results from years of developing professionals and technical specialists in the sector – and grounded on solid work experience. In many other countries with more developed microfinance sectors (e.g. Bolivia and Mexico), the movements of staff between the microfinance and banking sectors tend to be more fluid.

Mechanism: As above, this need is best met by start-up assistance to the rapid establishment of a RIB. As a first stage, it was hoped to contract trainers from KIB to run a calendar of courses at a suitable venue (possibly SFB), to meet immediate demand, while a more stable, long-term institute is established. Such a resource would also provide the “finance-centric” training required to equip managers, and non-finance technical specialists with the skills to apply sound management techniques within a banking environment.

A critical element of such finance specific training would be linkage with international standards of qualification or accreditation. Many countries have linked such training in the first instance to, for example, the UK Chartered Institute of Banking framework, before developing their own standards. It is proposed that Rwanda adopt the route of linking their training to KIB standards and qualifications as a foundation.

9.6 The need to rationalize remuneration and conditions of employment at government-owned financial institutions, including the BNR

Where salaries cannot adjust with the market, skills shortages are likely to be a permanent feature of the organisation. This situation appears to be unsustainable. Thus, unless there is a complete adjustment of compensation and benefits offered by the BNR, or a shift to market-based salaries, the BNR supervision function will struggle to meet its inspection cycle. As a specific BNR intervention to address the critical retention issue, a review of the impact of current pay and grading conditions on workforce stability and motivation, as a precursor to a revision in the terms and conditions applicable for BNR staff, is deemed necessary. We anticipate some move towards market-based salaries for technical staff.

Similar interventions are also necessary for other government-owned financial institutions – such as CSR. As a state-owned financial institution, CSR is required to follow government benchmarks for its compensation structure. As the CSR management has pointed out, this makes it very difficult for them to attract the kind of talent needed to properly manage a \$250 million fund. Clearly, there is a need to re-visit the national policies that govern state-owned financial institutions in Rwanda – especially considering the strategic importance these institutions have in the financial sector and in the economy.

Annex A Terms of reference

Project Title: Development of Skills Development Strategy for Financial Sector in Rwanda

Contract Title: Census of existing skills in Financial Sector of Rwanda
Period: February – March 2010

OBJECTIVE:

To undertake a comprehensive audit of the existing skills of the entire financial sector of Rwanda in order to provide a better understanding of the current key skills gap and inform the imminent GoR's strategy in addressing this constraint.

RECIPIENT:

2. The recipient is the Government of Rwanda (GoR).

SCOPE OF WORK:

3. The scope of work is to conduct a detailed census of the existing skills in the financial sector in Rwanda. This assignment is expected to cover all key skills/key posts in banks and non-bank financial institutions: 8 commercial banks, 3 specialized banks, 1 microfinance bank, a representative sample of Banques Populaires (18 branches and 101 sub-branches) and 122 microfinance institutions (around 200), 8 insurance companies, 8 non-bank financial institutions, 1 Public Pension Fund (CSR) and the Central Bank of Rwanda (BNR).

4. The service provider will have to consider existing skills in the sector and provide a detailed analysis of skills gap with reference to international best practice and standards with specific requirements for the Rwanda context. In this regard, the service provider will be also expected to advise on the strategic skills that are still deficient in the sector.

5. The service provider is required to work on (but not limited to) the following tasks:
 - Develop a methodology (including a questionnaire for data collection) for meeting the requirements under the terms of reference, making optimal use of primary and secondary source of information
 - Make recommendations for practical options and for policy formulation / consideration

OUTPUTS:

6. The service provider will deliver but not be limited to the following outputs:
 - **Output 1:** A comprehensive final report written in plain English that documents methodology used to collect the data and listing out existing skills of key positions in all banks and non-bank financial institutions in Rwanda
 - **Output 1:** List of key skills gap in the entire financial sector of Rwanda
 - **Output 3:** An executive summary of findings that can be used as a stand alone booklet for dissemination and communication

SPECIFIC TASKS/ ACTIVITIES:

7. The service provider will carry out the following tasks

- Presentation of the methodology to be used
- Drafting a questionnaire to be used when collecting related data
- Effective consultation with relevant stakeholders
- Design and agree with BNR/DFID on sample where necessary (Banques Populaires – a representative sample should be redesigned taking into consideration recent reforms)
- Field visit and data collection
- Presentation to stakeholders of preliminary findings for comments
- Provide recommendations to address the skills gaps and suggest ways forward for implementation.

METHODOLOGY

8. The service provider will determine the most appropriate methodology to conduct this study, including the allocation of tasks. Activities will include but not limited to:

- Meeting and interviews with key stakeholders of the financial sector in Rwanda
- Desk review of documents
- Field visits and data collection
- Presentation of findings

REPORTING and DFID Co-ordination:

9. Service provider will jointly report to the respective lead contacts for this assignment at the Central Bank and DFID - Angelique Kantengwa, Senior Director Financial Stability and Cyriaque Harelimana, Programme Coordinator, Economic Growth Programmes.

BACKGROUND:

10. The GoR approved its Economic Development and Poverty Reduction Strategy (EDPRS) in 2007. Among the core components of the EDPRS is Financial Sector Development. The government clear strategy for the development of the financial sector is articulated in the Financial Sector Development Programme, which focus around 4 key pillars: Banking and Access to Finance; Payments Systems Development; Contractual Savings and Capital Markets.

11. The Rwandan Financial Sector is expected to play an important role in Rwanda becoming a middle income country with an ambition to become a regional hub for trade and financial services. In order to achieve this, the financial sector is required to be equipped with relevant human capacity to manage its business and at the same time take into consideration the regional contexts. It is in this regard that the GoR is developing a Financial Sector Skills Development Strategy with an objective to address skills gaps that constitute major constraints to financial sector development.

12. The FINSCOPE survey carried out during 2008 shows that access to financial services in Rwanda is still limited, with 52% of the population being financially excluded and the large majority of the 'included' relying on informal services. Those excluded tend to be poor, live in rural areas, be female, be engaged in agriculture and have no formal education. The FINSCOPE Survey is a comprehensive demand side study of the financial sector, which identifies financial services usage and needs across the whole of the population.

13. In order to have a comprehensive understanding of the sector, a supply side study is also underway. This study is expected to be complete by end of March 2010. The intent of this study is not to provide an appraisal of the financial market in its entirety or a detailed statistical sampling of financial services but to analyse the mechanisms that determine financial services offer, with a particular focus on the reasons why certain products and services are not being developed. The study, by supplementing and complementing the FinScope findings, will contribute to an enhanced understanding of Rwanda's financial landscape and identify the issues that need to be addressed to expanding this landscape of access and reducing levels of financial exclusion.

14. In order to make the above studies much more effective, there is still a need to conduct a comprehensive census of the existing skills and relevant skills gaps in the Rwanda financial sector in order to, not only enable the Rwanda financial sector meet the international standards, but also help Rwanda achieve EDPRS and Vision 2020 objectives.

15. Suggested documentation – details to follow (Angelique – Please suggest other relevant documentations):

- FSDP
- EDPRS
- Vision 2020
- Rwanda Microfinance Policy
- Umurenge SACCO Strategy
- 2008 Rwanda FINSCOPE survey findings
- DFID Access to Finance Rwanda Programme document
- Others

DFID Rwanda

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Annex B Jobs Requirement Approach

The following roles have been analysed with existing jobholders to determine the requirements of the role as an indicator of skill profiles required to meet current and future needs. These roles were identified as 'standard' to most operations and indicative of the scope of training interventions that may be required in the future:

- Branch Manager
- Loan Officer
- Inspector.

Using this approach to analysing the knowledge, skills and attitudes required of a competent inspector, we find a profile that relies heavily on a combination of all three (i.e. knowledge, skills and attitudes) in order to be fully proficient. It is also a role that calls for maturity: the capacity to undertake in-depth assessments rely on experience and confidence gained on the job, as well as training. This requirement means that it is indeed very detrimental to the capability of BNR when job-holders decide to leave the organization at mid-career stage.

The detailed analysis of an inspector's role that follows is included to demonstrate the breadth of skills required and to further inform the design of a structured professional development programme. It is also instructive to view the job requirements in the context of the management skills that are required of Senior and Principal Inspectors in addition to their technical tasks.

JRA (KSA) breakdown

Job Title: Branch Manager

Areas of activity:

- i. Management of Branch Staff
- ii. Customer Service
- iii. Profitable lending portfolio
- iv. Sales
- v. Business planning and budgeting
- vi. Reporting
- vii. Compliance and satisfactory audit ratings

Activity 1: Management of Branch Staff		
Performance of:	Knowledge and Attitudes	Skills
Allocation of responsibilities and performance targets	SMART objectives Branch structure and roles	Setting objectives Communicating Motivating staff,
Routine human resource management	Staff protocols: benefits, maternity leave, etc	Fairly applying protocols
Assessment of performance	Company performance management / appraisal system Company disciplinary procedures	Measuring performance Manage poor performance Provide constructive criticism
Communication with all staff	Key messages Using the right media to convey the message	Communication – oral and written Conducting meetings
Staff development	Training and coaching methods Where to access training support	Training Coaching Assessing development needs

Activity 2: Managing Customer service		
Performance of	Knowledge and Attitudes	Skills
Manage Customer Care initiatives	Company customer care values	Planning Communicating to staff Communicating to customers Dealing with customers Rewarding service excellence
Implement service standards and monitor service delivery;	Service standards Customer feedback systems	Measuring performance Communicating customer service values to all staff
Initiate customer service measures	Understanding customer needs	Implementing new processes
Customer service staff	Attributes required of customer care staff Standards for CC staff	Training staff in CC duties and standards
Activity 3: Profitable lending portfolio		
Performance of	Knowledge and Attitudes	Skills
Make decisions within limits	Requirements of audit inspection Gathering information on clients Market knowledge Sector knowledge	Implement spot check routines Training staff on processes and procedures Financial analysis Assessing credit risk Using IT applications
Prudent credit analysis and approvals	Cannons of lending Loan assessment techniques	Ability to analyse and evaluate data Using financial indicators correctly
Recovery of non-performing loans	Escalation steps for recovery Knowledge of lender Knowledge of market	Ability to appraise bank projects Coaching Giving feedback

Census of Existing Skills in the Financial Sector of Rwanda

Activity 5: Sales		
Performance of	Knowledge and Attitudes	Skills
Develop sales skills in all Branch staff	Basic selling techniques	Coaching staff
Grow the customer base	Products Understanding customer needs Asking questions Understand product rationale FAB of products	Manage sales team in Branch Cross-selling of products and services Encourage sales culture Dealing with complaints rapidly Promoting new products
Ensure retention	Regular checks on customer feedback and account base	Communicating with customers Evaluating information Resolving issues of dissatisfaction
Activity 6: Business Planning and budgeting		
Performance of	Knowledge and Attitudes	Skills
Prepare business plan	Strategy formulation	Writing Business Plans
Grow and monitor the branch's liability and asset portfolio	Implementation of plan Personal drive for success Overcoming constraints	Prudent lending Selling savings products IT skills
Activity 7: Reporting		
Performance of	Knowledge and Attitudes	Skills
All statutory and company reporting activity BNR report Internal company reports	Reporting requirements Format of reports Attention to detail Punctuality	Ability to organise data Writing reports Clear use of business English IT skills Personal organisation

Activity 8: Compliance		
Performance of	Knowledge and Attitudes	Skills
Ensure Branch is compliant with BNR standards	Policies Regulations Spot check routines	Communicating importance of regulations to staff Establishing processes to ensure compliance
Ensure Branch operations are complaint with company polices and guidelines	Policies, procedures, guidelines of company e.g. staff protocols, credit policies Understanding the rationale behind policies	Communicating to staff Creating culture of compliance

Job Title: Loan Officer/Project Analyst (Microfinance)

Areas of activity:

1. Due diligence on promoter
2. Analysis of the proposed project (financial, technical, social impact, environmental impact)
3. Financial analysis of projects
4. Market analysis
5. Financial planning and forecasting
6. Reporting and presentation of project proposals
7. Using appropriate IT applications

Activity 1: Due diligence on promoter		
Performance of	Knowledge and Attitudes	Skills
– Communication with client (face to face, telephone, writing) – Critically interpreting information received – Validating information for accuracy, consistency – Carrying out site visits – Conducting checks with promoters business contacts – Further data gathering from the promoter and others – Details of lending history	- Sources of data - Accessing data and information - BRD criteria for lenders - BRD proposal requirements - Methods for organising data collection - Attention to detail - Rigour in following lines of enquiry	- Research methods - Data gathering - Interpreting data - Communication skills - Investigative techniques

Activity 2: Analysis of Projects		
Performance of	Knowledge and Attitudes	Skills
– Detailed technical understanding across all sectors – Analysis of documentary evidence in e.g. Tea factory – Look at other similar projects history and benchmark performance – Ask others – Environmental impact analysis – Social Impact analysis – Financial Analysis	Relevance of other data to this project Accountancy Financial analysis Summarising a large amount of data for purpose of proposal Identify risk Propose mitigating actions 1 year bank internship (made permanent if performing well) Degree in Finance, and MBA from SFB	Research methods and analysis Using software for financial analysis, cost of capital, Making the right assumption Financial planning 2 training events but need more Some knowledge but not enough depth. Producing liquidity ratios Asset ratios Rate of return ratios Profitability ratios Cash flow projections
Activity 3: Market Analysis		
Performance of	Knowledge and Attitudes	Skills
Research Compare market data with promoter's information	Market for products Clients for products Market strategies	Research methods Data gathering and analysis Communication

Activity 4: Financial planning and forecasting		
Performance of	Knowledge and Attitudes	Skills
Interpreting data Calculating key ratios Making accurate projections	Understanding the relevance of key ratios How to calculate key ratios and interpreting them	Excel plus specialist software Applying forecasting techniques Calculating internal liquidity ratios, assets, profitability ratios, Internal rate of return
Activity 5: Reporting and presentation of project proposals		
Performance of	Knowledge and Attitudes	Skills
Summarising Writing good clear reports and presentations Presenting information on proposal	How to present proposal fully to give promoter's case fairly and accurately The Information requirements of decision-makers Formats to be used Typical questions	Clear business language Report writing skills Using Excel, Word and PowerPoint, Access a bit Handling questions

Activity 6: Using appropriate IT applications		
Performance of	Knowledge and Attitudes	Skills
To access data and information Processing of information Producing reports and presentations of proposals and decisions to others	Selecting most appropriate application	Using Excel, Word and PowerPoint, Access a bit Handling questions
Activity 7: Managing Customer relations		
Meeting with customers Receiving proposals Delivering loan decisions	Respect and value of customer Understanding of customer needs	Dealing with difficult customers Presenting information Communication skills Answering questions

JRA (KSA) breakdown

Job Title: Inspector (FSD) BNR

Areas of activity:

1. Bank soundness / financial stability
2. Internal systems and effectiveness
3. Prudential regulations
4. External systems and effectiveness
5. Problem resolution
6. Registration of financial institutions
7. Research and policy
8. Capacity building

Activity 1: Bank soundness and financial stability		
Performance of	Knowledge and Attitudes	Skills
Assess individual loans; decide loan classification or grading in line with standards	Relevance of issues reported Loan classification Composition of standards Attention to detail Rigour in following lines of enquiry	Grading of loan book Financial analysis
Present and discuss loan classification with bank mgmt	Grasp of concepts Loan classification	Preparation of accurate reports Presentation of evidence Business language usage Handling questions Communication
Assess adequacy and appropriateness of bank MIS; internal control systems; compliance with prudential regulations	Logic Compliance requirements CAMELS ratings Prudential regulations Information system requirements Measures of efficiency	Assessing rating Applying investigative techniques Assessing compliance

Census of Existing Skills in the Financial Sector of Rwanda

Produce reports on condition and performance of banks	Quality of reports Formats to be used Required performance criteria	Clear business language usage Concise report writing Logical presentation of evidence
Review draft reports produced by juniors	Timeliness of submissions	Ability to supervise others Giving feedback
Recommend supervisory strategy	Bank supervision regimes options	Make fair, reasoned assessments Presenting recommendations
Assist in bank investigation	Ability to work with others Relevant processes Rigour in following lines of enquiry Instilling confidence	Investigative techniques Documentary Attention to detail Building relationships with clients Communication
Activity 2: Internal systems and effectiveness		
Performance of	Knowledge and Attitudes	Skills
Validate data for consistency	Attention to detail	Ability to work with others Apply analytical skills
Edit data to ensure consistency with policy	Observe clean desk policy Knowledge of policies	Working in a professional environment
Reviews and develops an effective database	Database applications Attention to detail	Compiling databases Using IT applications
Produces/proposes changes to procedural manuals of Department	Personal initiative Thorough knowledge of manuals Need for information and guidance	Providing feedback Making proposals constructively
Activity 3: Prudential regulations		
Performance of	Knowledge and Attitudes	Skills
Reviews Junior Inspectors input and highlights key issues	Developing others	Coaching Providing feedback
Review and re assess existing prudential regulations for logic and continued applicability	Knowledge of laws and prudential regulations Rigour in following lines of enquiry	Keeping up to date with regulatory framework Applying new developments to

Census of Existing Skills in the Financial Sector of Rwanda

		own work
Document additional research and follow-up on identified areas	Attention to detail Interest in prudential regulations	Organising research and data
Propose changes to existing regulations and formulate new regulations	Relevance of regulations Experience of applying regulations Knowledge of the sector	Assessing regulatory suitability Making constructive, reasoned proposals for change
Activity 4: External systems and Effectiveness		
Performance of	Knowledge and Attitudes	Skills
Gathers information from the market and evaluates deviations which require incorporation	Intellectual curiosity Application of knowledge	Financial analysis skills Writing concise reports
Discuss changes with the market and stakeholders	Participation and working with others	Communication with stakeholders
Review and develop workable systems	Keeping abreast of market changes	Assessing systems
Propose preliminary changes to guidelines, regulations and policies	Quality of advice and output	Making constructive, reasoned proposals
Activity 5: Problem resolution		
Performance of	Knowledge and Attitudes	Skills
Evaluates proposals and plans submitted to distressed FIs to address problems	Ability to promptly identify bank problems Knowledge of the corrective action necessary for bank conditions Rigour in following lines of enquiry	Problem identification Assessment of solutions
Provide recommendations on proposals	Understand the Troubled Bank Policy	Present reasoned proposals
Activity 6: Registration of FIs		
Performance of	Knowledge and Attitudes	Skills
Check accuracy and suitability of prudential ratios and other financial indicators used in analysis	Attention to detail Rigour in following lines of enquiry	Ability to analyse and evaluate data Using financial indicators correctly
Reviews and evaluates draft reports prepared by	Knowledge of Acts and banking regulations	Ability to appraise bank projects

Census of Existing Skills in the Financial Sector of Rwanda

juniors and checks for compliance with all requirements	Reporting formats	Coaching Giving feedback
Incorporates additional considerations (quantitative and qualitative) into the initial evaluation report to improve quality of analyse	Personal standards of excellence	Writing accurate and concise reports
Review recommendations made for approval or denial of applications and adjust if necessary	Knowledge of registration requirements	Assessment of technical compliance
Activity 7: Research and Policy		
Performance of	Knowledge and Attitudes	Skills
Conducts formal surveys of financial trends in the market	Licensing policy and procedures Survey methods	Using survey applications Research skills
Analyses information provided by others	Attention to detail Rigour in following lines of enquiry	Ability to analyse and evaluate data
Review existing policies	Policy frameworks	Ability to analyse and evaluate data
Identifies problems or opportunity areas for improvement (banking Regs, Banking Acts)	Personal initiative	Analytical skills
Activity 8: Capacity building		
Performance of	Knowledge and Attitudes	Skills
Assists in on-the-job training	Knowledge and skills transfer methods Job requirements	Coaching and training Assessing training needs
Assists in the updating and administration of training materials and the database. Provide practical on-the-job training to supervisors	Instructional design methods Knowledge of databases Knowledge and skills transfer methods Job requirements	Coaching and training Assessing training needs Designing training support materials
Develop best practice manuals and operational guidance tools and instruments in key areas of developing and managing the financial sector	Instructional design methods	Assessing training needs Designing training support materials

Annex C List of persons met and institutions interviewed

Banque Nationale du Rwanda (BNR)

Mme Kantengwa Angelique, Senior Director of Financial Stability
Nyirahuku Atoinette, Director of Human Resources Department
Jeanne d'Arc Uwizeramariya, Senior Officer, Training and Talent Management
Joy Uwinema Ntare, Director Non-Bank Financial Institutions Department
Marguerite Murorunkwere, Director Bank Supervision
Pierre Canisius Kagabo, Director Microfinance Supervision Department
Javan Dusabe Sangano, Inspector Bank Supervision
Wilson Kamali, Inspector Non-Bank Financial Institutions Department
Umunoza Karuhura Honorine, Inspector of Microfinance Institutions

Kenya Commercial Bank

Jean Bosco Iyacu, Regional Business Manager
Elvis Ngarambe, Head of Human Resources
Gloria Nyambok, Head of Business
Lenah Gachanja, Regional Customer Service Manager

Banque Populaire de Rwanda (BPR)

Ben Kalkman, Chief Executive Officer
Betty Sayinzoga, Head of Human Resources
Clement Rugumiriza, Manager, Kimironko Branch
Michel Kagofero, Manager, Muhima Branch

Urwego Opportunity Bank

Faustin Zhiga, Executive Vice President, Chief Relationship Manager

Banque Rwandaise de Développement (BRD)

Emmanuel Karuranga, Acting MD and Director of Risk and Credit Management
Vedaste Avemariya, Director of Corporate Affairs
Esperance Mutuyimana, Project Analyst

Bank of Kigali

Lawson Naibo, Chief Operating Officer
Flora Nsinga, Head of Human Resources and Administration
Jean Patroick Habyarimana, Human Resources Manager

Census of Existing Skills in the Financial Sector of Rwanda

Finabank

Steve Caley, Managing Director

Odette Rwubuzizi, Head of Human Resources Development

Kenneth Agaba, Executive Director - Business Banking

Ginette Kadigiri, Accounts Relationship Manager

Ecobank

René Awabeng, Executive Director

Kevin Ninsiima, Head of Human Resources

Honoré Sessinou, Head of Operations and Technologies

Emmanuel Nkusi Batanage, Head of Legal Affairs and Corporate Secretary

Access Bank

Jean Claude Karayenzi, Managing Director

Oyelola Oyetola, Country Operations Officer

Mami Fatou Said, Head of Human Resources

Banque Commerciale du Rwanda (BCR)

Sanjeev Anand, Managing Director

Denise Umunyana, Human Resources Manager

Dianah Kwarisiima, Training and Development Officer

Caisse Sociale du Rwanda (CSR)

Afrique Ramba, Director Investments, Special Projects (Acting Director General)

Innocent Rurangwa, Director Human Resources and Administration

Oswald Munyandekwe, Director of Benefits and Contributions

Yvonne Mujawabega, Director of Legal Affairs

Fred Rwihunda, Director of Real Estate Division

Rehemah Namutebi, Director of Quality Assurance and Internal Audit

Kayitare Didas, Acting Director for Planning, Research and Statistics

Hakizimana Claude, Director of IT

Nsabimana James, Director of Contributions Education and Customer Relations Department

Kagabo George, Director of Finance

Kayisire Solange, Head of Real Estate Management Division

Société Rwandaise d'Assurances (SORAS)

Pierre-Claver Nkulikiyinka, Commercial Director

Anastase Mbabajende, Production Director

Census of Existing Skills in the Financial Sector of Rwanda

Francois Regis Kabaka, Director-Life

Nathanael Hakizayesu, Head of Administration

Arthur Ndakaza, Human Resources Manager

Société Nouvelle d'Assurances du Rwanda (SONARWA)

Vincent Murigande, Technical Director

Benjamin Mbundi, Commercial Director

Phoenix

Antoine Uwanungu, General Manager

Julius Kabera, Financial Controller

Compagnie Generale d'Assurances et de Reassurances au Rwanda (Cogear)

Ruzigande Jean Damascène, Director of Operations

Mukabayire Aline, Head of Administration and Human Resources

Ntawuyirushintege Olivier, Audit and Risk Manager

Ngombwa Gatanazi Innocent, ICT Director

Rwandaise d'Assurance Maladie (RAMA)

Dr. Innocent Gakwaya, Director General

Rwagasana Fred, Operations Manager

Mpamo Nkusi Marcel, Head of Administration

Murindabigwi Innocent, Principal Internal Auditor

Alliance Insurance Brokers Ltd (AIB)

Jean Pierre Mubiligi, Managing Director

Zigama CSS

Brig. Gen. Geoffrey Byegeka, Director General

Capt. Emmanuel Murenzi, Administration and Human Resources Manager

Corneille Emile Nkundimana, Chief Accountant

Maj. Richard Muhirwa, Manager

Augustin Kayigire, Credit Manager

Umwalimu SACCO

Joseph Mwseruka, Managing Director

Robert Asiimwe, Credit Manager

Emmanuel Mugire, Administration and Human Resources Manager

Rwanda Microfinance Ltd. (RML)

Peter Patel Ochienghs, Managing Director

Inkingi Microfinance

Mukamisha Bernadette, Acting General Manager

Rwanda Bankers' Association (RBA)

Steve Caley

Association of Microfinance Institutions in Rwanda (AMIR)

Uwimbabazi Patricia, Acting Executive Secretary

School of Finance and Banking (SFB)

Dr. Reid Whitlock, President / Rector / Vice Chancellor

Annex D Standard Occupational Classification

Standard Occupational Classification (SOC) Codes	
Senior Managers & Managers:	Chief executives, directors, managing directors, all senior managers, line managers, office managers, other managers.
Professional & Technical:	Management consultants, IFAs, brokers, estimators, assessors, underwriters, finance/investment analysts and specialists, sales representatives, IT operations and user support technicians, taxation experts, other associate professional and technical occupations, etc.
Secretarial & Admin:	Credit controllers, accounts and wage clerks, bookkeepers, pensions and insurance clerks, counter clerks, personal assistants and secretaries, receptionists and telephonists, filing and records assistants, database assistants, etc.
Sales & Customer Services:	Sales and retail assistants, retail cashiers, telephone salespersons, collector salespersons and credit agents, call centre agents, customer care occupations, other sales and customer service occupations.
School leavers & Graduates:	School leavers (16 or 18yr old), college graduates and recent graduates from higher education.
New entrants to the industry:	People changing career path or entering this sector of financial services from another, people returning to work after a period of care work from home.

Source: Financial Services Skills Council (2007): The Skills Bill: Assessment of education and training provision in UK financial services, U.K.

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PDP Australia Pty Ltd (2010): Performance Review of the Implementation of the National Microfinance Policy, Final Report.



**Supply Side Study of the Inclusiveness of
Rwanda's Financial Sector**

A report for the National Bank of Rwanda and DFID
Rwanda by Mark Napier, Genesis Analytics and
Eighty20

30 April 2010: VERSION 2.0

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ACKNOWLEDGEMENTS

Our thanks are due to the many people who have helped build our understanding of financial inclusion in Rwanda, including those representatives of financial institutions whom we interviewed and who were kind enough to complete questionnaires. We are especially grateful to staff at the National Bank of Rwanda who have given their time generously to this project and to DFID Rwanda for their financial support but also for their guidance and practical help.

Every effort has been made to ensure that the data herein are accurate. All errors are our own.

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EXECUTIVE SUMMARY

INTRODUCTION

This study combines an analysis of a supply side study with demand side insights and makes actionable policy recommendations to improve financial inclusion in Rwanda.

The research, carried out between November 2009 and February 2010, included interviews, desktop research, questionnaires, focus groups and the 2008 FinScope Rwanda survey data.

The Financial Inclusion Assessment Tool (FIAT), was applied to examine barriers to financial inclusion on four levels: macro, micro, meso and consumer. The Access Frontier Methodology was also applied to gain further insights. This analytical tool synthesizes supply and demand side data and quantifies the impact of the various factors that inhibit access

Since 2005, Rwanda's financial sector has undergone considerable commercial and regulatory change. New players have entered the market and this seems to have led to greater competition in the middle income salaried market: there is evidence that service providers are beginning to modify their product and pricing strategies in response to competitive pressure. However, the lower end of the market remains largely uncontested. The Financial Sector Development Program (FSDP), for which financial access is a core policy objective, has stimulated a plethora of policy statements, regulations and legislation, particularly affecting the microfinance and insurance industries. In short, very considerable progress has been made to ensure that the policy environment is conducive for access, despite the fact that there is no overarching policy framework on access. .

The result is a disconnection between policy intervention by the Government of Rwanda (GoR) and what is happening on the ground with the service providers which remain skeptical about the viability of the market outside the urban centers and its present middle-to-upper income clientele.

Overall, there has been considerable progress towards greater financial inclusion in what could be called Phase 1 of the FSDP era. Rather than involving significant new initiatives, Phase 2 should be a period of consolidation, coordination and monitoring, with clear agreement between GoR and the industry, through the adoption of an industry charter, on what the vision for inclusive financial markets in Rwanda should be.

THE DEMAND SIDE – MARKET CHARACTERISTICS

Over the last five years, Rwanda's population has grown steadily at around 2% a year. The FinScope sample, drawn in mid-2008, estimates Rwanda's adult population (18 years and older) to be 3.7 million. More than 70% of the population is made up of young adults and children, and about 85% of the population lives in rural areas. The population is, however,

becoming increasingly urbanised, suggesting that demand for financial services is likely to increase markedly in urban centers in the future.

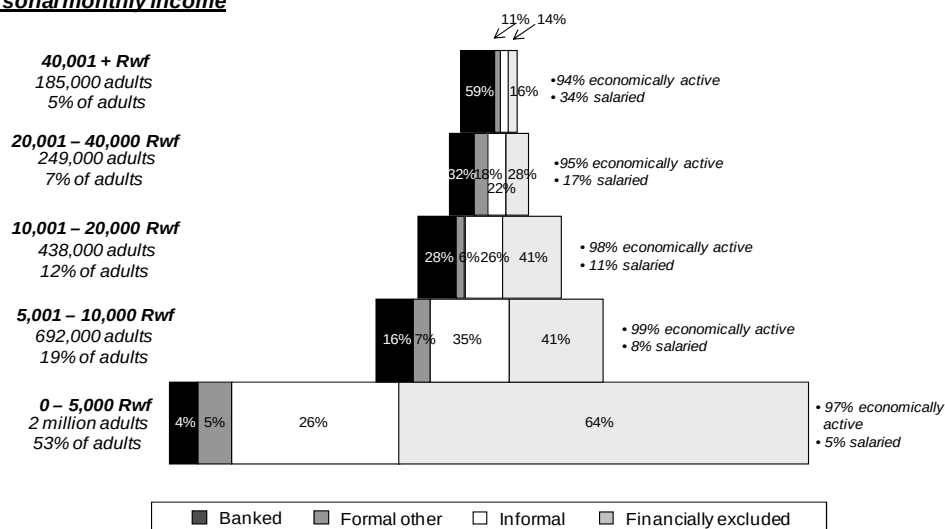
Income levels are extremely low in Rwanda. Seventy-seven percent of the population earns below the national poverty line and the majority generates their own income, which is irregular. Agriculture is the primary source of income. It is noteworthy that even in urban areas agricultural activity is high. According to FinScope, 54% of households in designated urban areas derive at least part of their income from agriculture.

1. Only 14% of Rwandans use formal banking products; 7% use one or more other formal product such as insurance but no banking products; 26% have informal products only (products not operating with legal governance); and 52% have no financial products at all. Even for all salaried individuals banking penetration is only 32% although, in truth, many of the salaries which people claim to receive are extremely low.
2. While there is a relatively small difference in the proportions of adults who are financially excluded between rural and urban dwellers, the discrepancy in product usage is striking. Lack of access to formal products is more pronounced in rural areas with only 19% of the rural population using formal products compared to 33% of the urban population.

As the following diagram shows, income levels are highly predictive of banking status: below Rwf10, 000 of monthly income, the percentage of adults who are banked falls sharply away.

Summary of financial access strand by income level

Personal monthly income



Source: FinScope Rwanda 2008

MACRO LEVEL

Rwanda had exceptional GDP growth with compound annual growth of 17% between 2001 and 2009, almost quadrupling from Rwf742 billion to Rwf2 878 billion. This provides a positive backdrop for an increase in the demand for financial services as the population grows wealthier, investment opportunities multiply and growth markets emerge.

However, despite a considerable period of stability from 2003 to 2007, the rate of inflation has also been on an overall upward trend, peaking in 2008. This directly counters the positive effects of high GDP growth by weakening incentives to save. Deposit rates are not especially low in Rwanda but the inflation rate has consistently tracked or exceeded them over the years, resulting in a small or negative real interest rate. The national savings rate is 1%.

Real lending rates in Rwanda are lower than other East African Countries and have remained around the 16% mark. This is nevertheless higher than what is thought to be optimal and may present a constraint to accessing credit for most of the population.

Lending was also constrained by the emergence of a temporary but serious liquidity crisis in 2008, caused by multiple coinciding factors. However, the sector appears now to be recovering from this.

Boosting national savings is now a priority objective for economic policy, and a National Savings Mobilization Strategy is being coordinated by Ministry of Finance and Economic Planning/ Financial Sector Development Secretariat (MINECOFIN/FSDS).

The four pillars of the National Savings Mobilization Strategy are the conversion of the state pension fund Caisse Sociale into a provident fund; the introduction of private pensions and collective investment schemes; the Umurenge SACCO programme; and the development of innovative savings products.

Developments in the international economy

In general, the global financial crisis has had only a modest direct impact on the Rwandan economy. A dip in exports occurred in 2009 as a result of depressed external demand and low commodity prices. In addition, Foreign Direct Investment (FDI) inflows decreased slightly as investor confidence weakened. However, the overall direct impact of the crisis has been very slight, with both exports and FDI fully recovering in 2010.

Financial sector and the economy

As a percentage of GDP, financial sector assets account for 19%, with credit making up only 9% of GDP. Banking sector asset growth (25%) has essentially tracked nominal GDP growth (23%) and as such there has been little financial deepening within the economy. Between 2008 and 2009, banking sector assets grew by just 7% compared to 33% between 2007 and 2008. Lack of long term-institutional deposits (as a result of small insurance and pension sectors which are typically the main providers of long term finance) and the small size of the financial sector, relative to GDP, are further constraints.

The largest beneficiaries of commercial bank loans are the services sector (such as trade, restaurants and hotels), as well as public works and housing sectors. Increased lending to the service industry has supported its growth, allowing it to become the major contributor to GDP. By contrast, agriculture and real estate have received minimal funding.

Policy and regulatory environment

Although there has been no explicit financial inclusion policy, key policies have had both a direct and indirect impact on financial inclusion. The National Microfinance Implementation Strategy, and subsequent Microfinance Law, and the National Savings Mobilisation Strategy impact directly on financial inclusion. Legislative change has also accompanied both the reform of the payments system and the introduction of the new credit bureau. Non-legislative

initiatives include a skills audit by the National Bank of Rwanda (NBR) to understand what needs to be done to upgrade skills across the financial sector.

Perhaps the greatest weakness in the policy and regulatory environment for financial inclusion is not that there is poor regulation or regulation that is missing: it is that there is no single policy framework, or mechanism, within which the effectiveness of all the policies can be monitored. Greater coordination and regular evaluations of existing programs should be undertaken to determine what is working and what is not.

MICRO LEVEL

Rwanda's financial sector has undergone significant changes in the past five years, including the entry of international and regional players into the sector as shareholders and competitors. Institutions have been focused on recapitalisation, complying with prudential requirements, market positioning and sustaining growth in a changing environment. These changes have shaped the formal financial landscape, which now comprises:

- 8 commercial banks, including Bank Populaire du Rwanda (BPR)
- 3 specialised banks (Rwanda Housing Bank (BHR), Rwandan Development Bank (BRD), Continental Discount House (CDHR)
- 1 microfinance bank, namely Urwego Opportunity Bank (UOB)
- 122 microfinance institutions (MFIs)
- 8 insurance companies
- 1 public pension fund (the Caisse Sociale) and 1 state-run medical insurer (Rama)
- 10 private pension funds (BNR, 2009)

The institutional spread has resulted in a relatively extensive supply in the middle-income salaried market, whether from banks or microfinance institutions, and quite healthy competition for this market. By contrast, the bottom of the pyramid is neglected. The exceptions are BPR and Urwego Opportunity Bank, which provide products specifically for the low-income salaried markets.

Banking sector

The commercial banking sector is small with less than Rwf600 billion in assets (\$1.1 billion). Uganda's banking sector is almost triple the size at \$3.9 billion; Kenya's banking sector assets are \$15.4 billion (EAC, 2009). Physical access is concentrated in urban areas but branch networks are expanding, as competition forces major players outside of Kigali. In the first half of 2009, 16 new branches were opened (BNR, 2009) bringing the number of branches (or sub-branches) in the country to just under 250. BPR has at least 109 sub-branches and is the most accessible institution. UOB's mobile branches, while few in number, make services available to people in more remote areas.

There has been significant change in the banking landscape, beginning with the transformation in 2007 of BPR from a union of cooperatives into a bank. Fourteen percent of the adult population are banked with 96% of these banked at BPR. Regional and international banks now operating in Rwanda include Ecobank, Access, Opportunity and Kenya Commercial Bank. MTN's Mobile Money business has also started operations in Rwanda facilitating cheap electronic transfers.

At a basic level, there are few supply-side barriers to opening a bank account – know-your-customer (KYC) requirements are not onerous. As such, a policy to require the banking industry to issue standardised basic bank accounts (as has been the case in many developing countries including South Africa, Pakistan and Mexico) would add little to financial inclusion.

But while it is possible to open a bank account quite easily, using the financial system for anything other than basic deposits and withdrawals becomes more expensive and exclusionary. Most accounts require minimum operating balances so that while it is technically possible to open an account with no minimum opening balance, the account is automatically closed within a specified period if a deposit has not been made.

Analysis suggests the formal savings environment compared with transactional banking is more exclusionary and there is a shortage of savings products that accommodate the constraints that poorer consumers operate within. Products marketed as savings products ("term deposits" or "savings accounts") tend to require minimum balances and do not pay interest until a sizeable balance is reached, which appears to be out of reach for poorer, yet economically active, people.

Although some savings products are packaged attractively (e.g. for education or marriage), they lack innovative features that are known to appeal to poorer consumers. For example, savings accounts that bundle life insurance have been popular elsewhere; these may appeal to savers in Rwanda whose primary reason for saving, according to FinScope, is to pay for medical expenses.

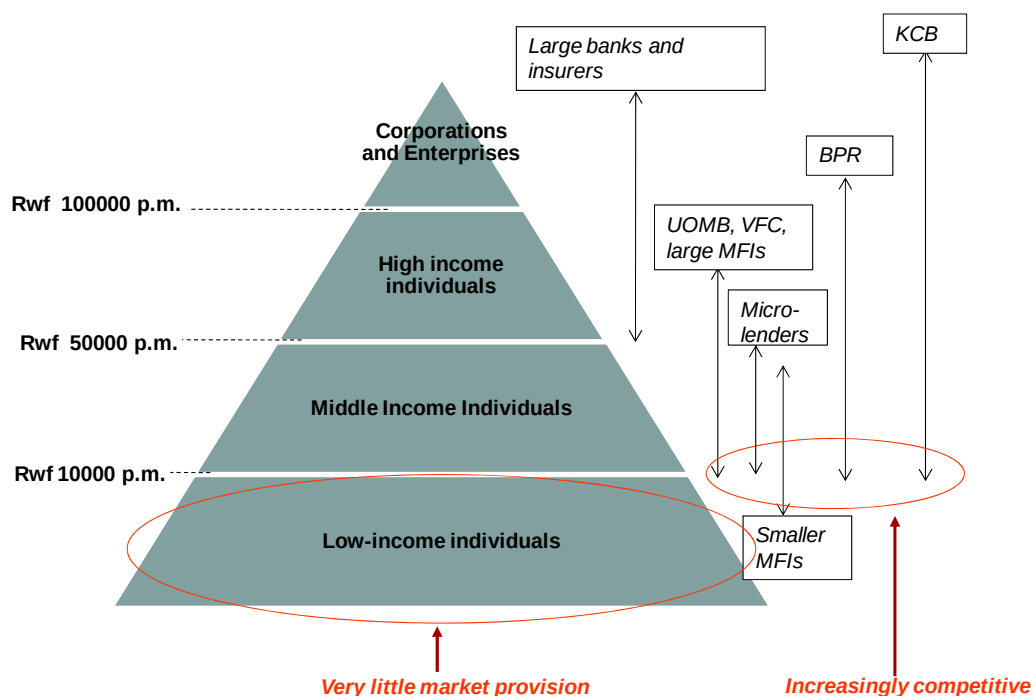
Most Rwandans are ineligible for most loan types (because they do not have a regular salary) and could not afford them anyway. While product features and eligibility criteria do constrain access, there are significant demand side constraints too (beyond simply a lack of income) that keep the numbers of people who claim they borrow low, including the fact that most people are quite fearful of the consequences of not being able to repay a loan.

Although there is a modest supply of group lending, the trend in both banks and MFIs appears to be towards individual lending. The implication is that providers have concluded that the benefit of the group guarantee is insufficient compensation for the extra administrative cost of dealing with a group, especially in the set-up phase. The availability of specialised loan products for agriculture, housing and SME finance is limited to formal businesses and is

subject to the availability of collateral. Leasing provides an alternative to conventional financing but is a very underdeveloped market in Rwanda.

Rwanda is a market which could become polarised with BPR and UOB servicing the low income market, and conventional banks remaining niche players for the middle and salaried sectors of the community, large exporters and formal small and medium enterprises. Only two out of six banks interviewed identified serving the low-income market as a competitive strategy in this rapidly evolving environment. BPR stands out as having the potential to transform the supply of financial services. The success of the strategic choices it makes, especially around rural and agricultural finance, will be highly influential in determining financial inclusion in Rwanda.

Market segmentation of the Rwandan Financial Sector



Source: Stakeholder interviews

Microfinance sector

The Microfinance Law defines four categories of MFIs. Category 1 MFIs are informal mutual societies or ibimina of no more than 25 members, with an annual turnover not exceeding RwF2.5 million. Ibiminas cannot lend more than the contributions received from members.

Category 2 MFIs are cooperative societies of no more than 100 members, which are allowed to take deposits and lend to members only. There are 26 'registered' MFIs in this category.

Category 3 MFIs include deposit-taking MFIs and cooperatives with a minimum capitalisation of RwF300 million and RwF5 million, respectively. The MFIs are registered and licensed by the NBR as limited liability companies or Public Companies. Savings and Credit Cooperatives (SACCOs) are registered by the Ministry of Commerce but supervised by the NBR. There are 11 MFIs registered as Public Companies under this category and 67 registered as SACCOs.

Category 4 MFIs are credit-only institutions. These are registered as limited liability companies, with a minimum capitalisation of RwF300 million. Only two MFIs fall into this category: Blue Financial Services, a South African micro-lender, and Rwanda Microfinance Limited.

Other emerging microfinance institutions include the government-backed Umurenge SACCO programme and the Village Savings and Loan Associations established by CARE. This operates at a village level and groups are able to obtain both savings and credit services.

The SACCO Umurenge programme will increase accessibility of financial services. The goal is to establish a cooperative at the sector level (*umurenge*) in every district of Rwanda – 416 SACCOs. The logic is based on the fact that there is a large amount of informal savings and investment in parts of the country where banks and MFIs are not represented. However, the supervision and coordination of the SACCO Umurenge needs to be settled. The NBR has limited capacity to supervise these SACCOs in addition to the 122 registered MFIs that require attention. The Rwanda Cooperative Agency should be responsible for these SACCOs and as such should receive the necessary resources required to assume a more prominent role.

There are problems with the messaging of the policy, and many MFIs complain of unfair competition as some of their clients join these SACCOs to avoid undue political pressure.

Considering the number of players, the size of this sector in terms of assets, deposits and loans is small compared to the banking sector. As of 2008, it constituted only about 7% of total financial sector assets (NBR, 2007). However, total assets have grown by almost a third since 2007, from RwF47.9 billion to RwF71.5 billion in 2009. Deposits increased to RwF45 billion from RwF28.6 billion in 2007, and loans increased to RwF49 billion from RwF27 billion in 2007 (NBR, 2010). As with banks, growth in loans and deposits slowed in 2008 due to the liquidity squeeze. MFIs have also had to comply with increased prudential requirements thereby diverting their activities towards fundraising and loan recovery.

The rate of growth in the number of clients has been much slower than that observed in the value of loans. The number of clients grew marginally by 5% from 2008 to 2009 in total, suggesting that MFIs are growing their asset base by targeting higher income individuals with larger loan sizes. This observation is supported by interviews. Respondents admitted that future growth strategies included an increase in individual loans and a decrease in group lending, as the former are considered more profitable although more risky. This does not mean that MFIs are abandoning their social or developmental mandates, as many are also planning,

for example, to serve agricultural cooperatives. However, it does mean that competition and the pressure to improve prudential ratios is driving MFIs, particularly Category 3 MFIs, slightly up-market.

MFIs are severely constrained by weak institutional capacity. This is especially the case for smaller MFIs which tend to serve remote and rural populations. However, the scope of work that is required to address weak capacity is much too broad for the Association of Microfinance Institutes in Rwanda Association (AMIR) to handle on its own. Additional and coordinated support is needed to equip MFIs with the necessary technology, information and best practices required to remain sustainable in this rapidly changing environment.

Insurance and pensions sector

There are eight insurance companies in Rwanda with assets worth Rwf94.5 billion in 2009 (NBR, 2010). In the past three years, total sector assets have grown at 24% a year. The majority of sector assets are in real estate, equity and other investments. Growth in premiums, by contrast, has been much slower. The sector is dominated by the Société Nouvelle d'Assurances du Rwanda (SONARWA) and the Société Rwandaise d'Assurances (SORAS) which, between them, represent 51% of gross premiums. The rest of the market is dominated by the two state-run entities, Caisse Sociale, essentially the state pension fund to which all formally employed people are supposed to contribute, and Rama, a medical insurance provider for salaried people.

The community-based health insurance scheme Mutuelle de Santé was established by law in 2007 to coordinate the provision of medical insurance to the general public. Currently, 80% of the population enjoys an element of cover through this scheme which operates through partnerships with public and private hospitals. Fifty-two percent of the financially excluded and 80% of rural dwellers are members of this scheme (FinScope, 2008). The Mutuelle de Santé is the biggest player in insurance, measured by number of people who use it – only 2% use other forms of medical insurance and only 1% use mainstream (short term or long term) insurance.

Although the low-income market is not a priority for the industry, SORAS and SONARWA have begun experimenting in this market through partnerships with MFIs and government bodies.

SONARWA piloted a weather index insurance product for a cooperative of tomato farmers in partnership with the Ministry of Agriculture and Animal Resources (MINAGRI) and the World Bank. SORAS has entered into partnerships with UOB and CFE Agaseke to provide credit life insurance to their clients, bundled with the microloan.

Funeral insurance, which has been an entry-point in other countries for providers looking to engage with the low-income market, does not appear to have been considered, although stakeholders conceded that the cost of funerals is high in Rwanda.

Considerable regulatory change and institutional restructuring is underway and it is still unclear what the impact will be on the provision of insurance and long-term savings products to those who are currently excluded from the formal sector. In determining the regulatory environment for insurance, regulators should begin to consider a framework for micro insurance provision and supervision, perhaps learning from neighbouring Uganda as a starting point.

Specialised banks

Specialised banks should be playing a more effective role in providing financial services than they do at present. The impending transformation of the BHR into a secondary mortgage financier will increase the supply of funding available for mortgage and housing finance loans. However, this funding should be targeted to banks and MFIs alike to ensure that a greater proportion of the population has access to these products.

In 2008, the BRD's Fund for Refinancing and Development of Microfinance (FOREDEM) mobilised Rwf5.2 billion to provide refinancing, credit lines and capacity building for MFIs providing services to small farmers. However, the fund needs to review its eligibility criteria as few MFIs are able to meet these at present.

MESO LEVEL

Two significant developments at the meso level are the awarding of a contract to establish a private credit bureau and the de facto process of liberalization of the payments system.

Credit information

A long-running initiative to bring a private credit bureau into Rwanda appears to have ended successfully with the award of a license to CRB Africa based in Kenya and the passing of new legislation. CRB is expected to become operational in Rwanda in May 2010 and should plug a hole in the support infrastructure of Rwanda's financial markets.

Although it is the intention that the credit bureau should benefit not just banks, but insurance companies and MFIs, the operational practicalities of bringing MFIs into the credit bureau net are daunting. According to AMIR, 86% of MFIs have no internet access and fewer than half even have a computer.

Payment system

Deficiencies in the payments system emerged as the second greatest constraint to business development.

The NBR in partnership with Rwanda's commercial banks adopted a co-operative model to drive the provision of services, which led to the formation of SIMTEL in 2002. SIMTEL was

meant to be a shared platform to support the deployment of cards, the provision of ATM services, and the interoperability of different payment channels. However, the partnership yielded little growth and SIMTEL was recapitalised in 2008 with a new strategic partner, ADC, a German private equity firm, acquiring 75% of the institution to improve technical expertise within the organisation.

ADC's involvement has led to a slight improvement in the performance of the payments system but the banks are still highly critical, citing especially ATM downtimes and lengthy delays in card processing. For several of the banks interviewed, an ATM or electronic product strategy could not be contemplated without a change in the arrangements involving SIMTEL.

Firstly, the BNR has mandated that only chip and pin cards can be used which cost about \$4 a card. For most of their customers, banks would prefer to issue magstripe cards which cost 75 cents each and can be manufactured locally. Currently, banks are unable to issue cards quickly because the card processor (Namitech of South Africa) prefers to process in higher batch sizes than SIMTEL can provide it with and it takes between three and six months to obtain a card.

Secondly, low volumes and high fixed contract costs payable to SIMTEL for ATM services make it difficult for banks to recover costs from customers. Technically, banks are able to charge transaction fees (both on-us and off-us) but because of the ATM network downtime clients continue to crowd banking halls. The result is that it is not feasible for banks to charge for this sub-optimal service and so they suffer significant revenue losses and the contractual cost payable to SIMTEL of about \$10 000 a month is effectively irrecoverable.

Recently, there has been a shift in the arrangements governing the payments system, partly brought about by a change of strategy by VISA in sub-Saharan Africa. Relying on the infrastructure provided by international card associations such as VISA means that although the banks will continue to collaborate with SIMTEL, they will probably make greater direct use of VISA itself or new players coming into the market, such as Egyptian card manufacturer MSCC with which Bank of Kigali has already established a partnership alongside SIMTEL.

Fina Bank has also piloted an arrangement whereby SIMTEL will make chip and pin cards locally that do not carry the VISA brand. Fina says the VISA brand is not necessary for its almost exclusively domestic customer base. Cards will be processed more quickly and card-based transaction volumes should grow. This model looks likely to be replicated by other banks.

This de facto liberalisation of the payments system is an important development that could remove a costly bottleneck and herald significant changes in banks' distributions strategies, especially towards the lower end of the market. The result is a much more optimistic outlook for electronic transacting including the likelihood that banks will start to charge for accessing an

ATM network over which they will have greater control. This in turn is positive for financial access, for example creating opportunities for branchless banking solutions in rural areas.

Industry associations

Well-functioning associations are an important component of the meso level. They can represent their industry in negotiations with government; they can take responsibility for initiatives that affect the industry as a whole; and they can provide important services such as training or research. The Bankers' Association and AMIR are increasingly promoting their respective industries.

The defunct Bankers' Association has been revived in the past year. Although there is still skepticism about its ability to cater to the needs of its small but diverse members, the relationship between GoR/NBR and the banking industry will be enhanced as the association assumes a greater role as interlocutor on behalf of the industry and as the primary conduit through which policy changes are communicated. A well-functioning Bankers' Association could open up the prospect of less direct regulation (by NBR) and more self-regulation around issues that have a bearing on financial inclusion. It also has a potentially critical and immediate role to play in developing a strategy for upgrading the skills of the banking sector and, eventually, establishing a Bankers' Institute that would accredit suitably qualified bank staff.

AMIR was established in 2007 as an output of the National Microfinance Policy with the mandate to provide developmental support to the microfinance industry. Its recently drafted strategic plan, to execute by 2013, is a highly ambitious programme for an organisation that has yet to define its relationship with the industry. The strategic plan, which outlines many roles and responsibilities, puts AMIR at risk of being perceived as a regulator, a lender or a service provider, instead of an advocate for the industry.

The strategic plan also introduces duplication. For instance, although smaller MFIs find it difficult to access funding from BRD facility, this does not justify the creation of another, purportedly more flexible fund for MFIs. Another area of overlap is in training. There are several training organisations in Rwanda, as well as in the broader East African region, that could be used to provide technical assistance and training. AMIR does not need to do the training itself.

Skills development

The greatest constraint to financial service provision in the banking industry is the lack of skills at every level, from basic teller skills to more technical risk management skills. The lack of staff and skills in credit risk and delinquency management is also affecting the ability of the industry to comply with prudential requirements. Specialised skills for agricultural finance, SME finance and housing finance are also needed.

The lack of a bankers' institute, as found in Rwanda's neighbours and in many other African countries, is surprising. Such an institute would be able to promote and maintain skills through the design of appropriate course material, the certification of students, and by maintaining a register of industry staff with appropriate certification.

Key will be the development of a sustainable, practical funding strategy. This will likely involve a mix of industry levy, membership fees, course fees (paid by students but perhaps involving an employer subsidy), coupled with (ideally, short-term) donor support.

CONSUMER LEVEL

FinScope data suggests that levels of financial literacy in Rwanda, though disappointing, are not as low as in other African countries. Still, two out of three Rwandans were unsure what the term "microfinance institution" meant and almost nobody understood the term "ATM". More tellingly, perhaps, two-thirds said they wanted to know more about how to keep money safe and how credit works. Half of Rwandans wanted to know how interest rates work.

Rwanda does not suffer from the egregious forms of lending abuse seen elsewhere in Africa (the local consumer lending market has not exploded as it has elsewhere) but payroll lending is widespread and the need for a functional system of consumer protection will increase. At present recourse for consumers who have a legitimate grievance against a service provider is limited. Since 2004, Rwanda has had an Office of the Ombudsman but the most frequent complaints handled relate to land administration and not financial sector complaints. There is no dedicated banking or financial sector ombudsman.

A dedicated ombud system is probably not appropriate because the volumes of complaints would not justify the costs. However, financial service providers should be required, through regulation, to maintain a credible internal ombud function, which is independent from line management, to deal with customers' complaints.

GoR essentially has two choices regarding regulation – either to put in place comprehensive credit market regulation or require the financial industry to adopt a voluntary code of conduct to deal with these issues, and monitor its compliance against the code. The latter may be more practical given that regulatory capacity is already quite stretched. NBR needs to decide what role, if any, it wishes to play in dealing with consumers' complaints.

FINANCIAL INCLUSION POLICY AND VISION

Although Rwanda's policymaking and regulatory bodies are considered by the industry to be quite assertive, GoR recognises that it is not government's role to deliver financial services. This means that if financial inclusion policies are to be successful, they have to be effective at the micro level – organisations will deliver the gains in access by reaching out to more people. There needs to be a good level of understanding between the government and the financial

sector about this vision for financial inclusion, and where the gains in financial inclusion are going to come from – for example, from banks, or MFIs or the semi-formal sector – and over what period.

A fundamental question is what the headline indicators should be. Some countries are focused on a reduction in the percentage of the population that uses no financial products at all (the financially excluded). Others are more driven by increasing the percentage of the population that uses a bank account. Some policy or commercial interventions may be successful in improving the quality of access for those already using the financial system to some extent (perhaps informal products) but may not be as effective at bringing excluded people into the financial system for the first time. The vision statement therefore needs to express both the numbers of people to be included and also *how* (i.e. through what types of institution) they will be included.

This could take the form of a Charter for Access and Service Quality, a voluntary initiative by the industry (bank and non-bank) which sets targets for access and service quality that are consistent with GoR policy objectives but delivered by the industry. Such a charter could also incorporate the kind of consumer protection issues that are becoming commonplace in industry voluntary codes across the world.

This dovetails with the desire by banks for greater regulatory autonomy and a relaxation of what has been described as an unnecessarily paternalistic regulatory style from NBR. Agreeing the targets requires some form of consultative process, or consensus-building. The consensus reached would need to be incorporated into a document setting out the vision and the targets and agreeing the monitoring process.

MAIN RECOMMENDATIONS

Policy and regulation

There needs to be more systematic focus on assessing the impact of recent regulation on financial inclusion, such as the Microfinance Law, with a view to relaxing some of the more restrictive regulations. The NBR should also adopt a formal policy on micro insurance.

The GoR/NBR needs to modify its relationship with industry to allow the industry to come up with solutions for expanding access. This implies a degree of self-regulation but within a framework agreed to by both GoR and industry. The framework should take the form of a cross-industry consumer charter which would include commitments on access, service quality and consumer protection and a formal monitoring mechanism.

If the momentum behind the Umurenge SACCO programme is to be maintained, training of supervisory staff needs to take place urgently. We also recommend that regulation of this programme be moved from NBR to the Rwanda Cooperative Agency.

Skills

Skills shortages emerged as a major constraint for the financial industry. The newly-energised Bankers Association should formulate a strategy for establishing a Rwanda Bankers' Institute which would be responsible for setting standards for the accreditation of financial sector staff; ensuring the supply of training services of an appropriate quality and standard, partnering in the interim with regional or international training organisations until such time as adequate capacity within Rwanda is built; and developing a sustainable revenue model.

Similar collaboration with the insurance industry is needed about whether a system dedicated to skills development in the insurance industry could be viable in the same way as for banking.

Savings

Better communication of government efforts to promote savings including the new Pensions and Collective Investment Law and the National Savings Mobilization Strategy is needed. We recommend that the Umurenge SACCO programme be properly understood as a national savings brand, even if it is a source of credit for some.

GoR should use the banking infrastructure to introduce its own savings products, such as a lottery linked savings product and a retail bond, available in units of as low as RwF1 000. Consideration should be given to supporting matched savings products targeted to lower-income groups.

Restoring low inflation is key to boosting savings. Accordingly, macroeconomic policy should continue to emphasise this.

Credit markets

The activities of the new private credit bureau should be closely monitored to ensure that its undertakings to extend credit information services to non-bank users (e.g. MFIs) are fulfilled in a reasonable timeframe and that any obstacles are identified and promptly addressed

Consumer protection and financial capability

As yet, Rwanda's has no national strategy for financial capability and it is recommended that GoR, through MINICOFIN/FSDS, initiate the development of a framework for a national strategy as an addendum to the National Savings Mobilisation Strategy.

Responsible lending provisions should also be incorporated into the proposed consumer charter or into a code of conduct to address issues such as pricing transparency and avoiding over indebtedness. In addition all banks should have appropriate independent, internal recourse mechanisms to handle legitimate complaints.

We also recommend GoR increases its focus on consumer protection surrounding the Umurenge SACCO programme. There needs to be a functional complaints procedure for as well as appropriate messaging from MINECOFIN to SACCO managers about the consequences of fraud or negligence occurring under their watch

Umurenge SACCO programme

We recommend the GoR returns to the original concept of establishing new SACCOs only in locations which are not already served by a bank, MFI or SACCO. An alternative solution would be to prioritise the licensing of new SACCOs in areas where there are no MFIs or SACCOs already operating.

There is an urgent need to train a significant number of new SACCO regulators and to decide which agency (NBR or RCA) should be responsible for the supervision of the new SACCOs. GoR should also commit to a transparent impact assessment of the programme once a sufficient number (we suggest 50) of new SACCOs have been established.

Competition

There is evidence that competition in the middle of the market, where certain banks with mass market strategies are competing for business against MFIs, is intensifying to the point where further competition, in the form of new market entrants, could be destabilising and counterproductive to financial inclusion. We recommend temporarily restricting new bank licenses in view of the competition in that part of the market. NBR should consider research to explore the impact of increased competition, e.g. on the pricing of loans, product strategy and service quality.

Industry associations

NBR needs to encourage more regular participation by all bank CEOs in the Banking Association. Various actions are also needed to bolster the capacity and credibility of AMIR, including an institutional and skills audit, backed up by investment in training for AMIR staff in certain management and technical functions

Consideration should be given to changing AMIR's role to be the representative body for Category 3 MFIs (limited companies and large SACCOs) and leave the RCA with the responsibility of looking after the smaller (Category 2) SACCOs. Our thinking is partly driven by the recognition that the Umurenge SACCO programme will establish large numbers of new, small SACCOs (with potentially significant needs) which, when added to the existing Class 2 SACCO membership of AMIR, will mean that these types of organisations will come to dominate AMIR's activities, to the disadvantage – potentially – of the larger MFIs.

We also recommend that AMIR should avoid taking on the role of an apex for the time being and only move towards this if (i) there is compelling evidence of demand and (ii) it has enough capacity to manage it.

Agriculture finance

The agricultural sector, much of which is informal is poorly served by the formal financial sector and it is left to government, sometimes with donor backing, to reach out to the sector with a patchwork of initiatives of varying success. Innovation is needed in this area. We recommend a greater focus on the provision of project-based equity finance, targeting specialised areas of agriculture, rather than on increasing the supply of bank debt to smallholder farmers. Market studies to obtain a clearer picture of the demand for agriculture finance should also be conducted.

1 PART 1: INTRODUCTION

1.1 PURPOSE OF STUDY

This study combines an analysis of a supply side study with demand side insights and makes actionable policy recommendations to improve financial inclusion in Rwanda.

While the recent FinScope study was an important step forward for Rwanda in understanding the nature of the demand for financial services, as a policy tool, a demand side survey can only ever be part of the solution. Policy also needs to be guided by an understanding of the supply environment and, in particular, of the extent to which inadequacies or gaps in the supply environment are responsible for the low levels of access.

Demand side and supply side studies can sometimes produce divergent results and so need to be tested against each other. Demand side studies are based on perceptions, are prone to human error and are not especially effective for gathering important data such as how much people borrow. Supply side studies, on the other hand, may be more empirically accurate but have nothing to say about people who are financially excluded and can also overestimate access.

Only by comparing the supply and demand side is it possible to gain a comprehensive picture of financial exclusion and its causes. It is the synthesis of the supply and demand picture that enables us to recommend credible policy interventions that are based on real understanding.

Rwanda has benefitted from extensive diagnostic work in recent years, some of which considers the entire financial sector (notably, the Financial Sector Development Program of 2007). Other work drills down on a particular part of the market (e.g. microfinance, savings).

This supply side study comes from the particular perspective of financial inclusion. A key objective has been to paint a clear picture of the part of the market that is intended to benefit from more inclusionary financial sector policies – namely, people who are poorly served by the financial system, for whom inclusionary policies would improve the quality of access they have, or people who are not served by the financial system at all, even though their income levels and financial behaviour suggest they could be a viable customer base for providers.

1.2 METHODOLOGY

This project combined a supply side study and a demand side analysis (published separately as Overview of the demand side of Rwanda's financial sector).

The study was based on interviews, desktop research, structured questionnaires and focus groups. The FinScope Rwanda database was used extensively to inform the demand side of the research, the analysis also drew on the material from the launch of the FinScope Rwanda survey (in December 2008) and subsequent workshops (held in September 2009).

The research was carried out between November 2009 and February 2010. Two field visits were made to interview financial service providers and other stakeholders, notably the Government of Rwanda (GoR). More than 40 interviews were held. The institutions interviewed are listed in Appendix 4.

The desktop research was extensive and included a review of the many diagnostic reports and strategy documents prepared over the past several years in Rwanda, for example:

- the IMF's Financial Sector Stability Assessment (2005)
- the Rwanda Financial Sector Development Program report (2007) and subsequent reviews
- the Republic of Rwanda's Economic Development and Poverty Reduction Strategy 2008-2112 (2007)
- the draft Vision 2020 Umurenge program proposal (2007)
- the National Payments System Framework and Strategy (2008)
- the FinScope report and subsequent analysis (2008)
- the National Savings Mobilization Strategy (2009)
- the National Microfinance Policy Implementation Strategy (2007) and subsequent performance review (2010)

A questionnaire (the General Financial Institutions Survey) was used to collect factual information from service providers and guide the interviews. This questionnaire also incorporated the more perceptual questions referred to by the TOR as the Investors Perception Survey. A copy of the questionnaire is in Appendix 3.

1.3 QUALITATIVE RESEARCH

The project team intended to augment the analysis of demand-side data from FinScope with richer, more nuanced findings based on qualitative research including focus group discussions and a 'mystery shopping' exercise. Unfortunately this research could not be completed within the project timeframes. However the project team believes this research is critical and recommends that it be conducted in the future. Focus group discussions would provide a richer

understanding of the perceptions and needs of various segments of the market and would enable the survey data to be contextualized and interpreted. The mystery shopping exercise would generate actual data, albeit relating to specific experiences, on service levels (including waiting times and turn-around times), product functionality and costs. This would be tremendously useful as banking representatives were unable to provide details on costs associated with some transactions and services. In addition there were often discrepancies between information provided on bank websites and information obtained from representatives.

1.4 ANALYTICAL APPROACH

The Financial Inclusion Assessment Tool (FIAT) was developed by the FinMark Trust in 2007. Simply put, the FIAT tool is based on the premise that for financial markets to work well, there need to be appropriate policies and regulations in place (the macro level), organisations with the capacity and desire to engage in market activity (the micro level) and information that allows the market system to operate (the meso level). The meso layer includes market research but also includes credit-related information (from credit bureau or ratings agencies), or information from entities that provide services such as accountants, training agencies, or data analysts. Deficiencies in any of these areas will contribute to an imperfect market system, or market failure.

The FIAT methodology was applied in this study to examine constraints, or barriers, to financial inclusion on four levels:

- 1 Macro level: This included an analysis of the impact of institutional, macroeconomic (especially monetary and fiscal) policy and financial sector legislation on access.
- 2 Micro level: This is a map of the financial landscape that takes into account current provision and demand for financial services, while evaluating the impact of costs and risks faced by financial institutions on financial access.
- 3 Meso level: This involved an assessment of the type of support needed to advance financial inclusion. This may include the efficacy and integrity of the payments system, availability of appropriate technology, information and infrastructure as well as areas where training and capacity building is needed.
- 4 Consumer level: This level is not usually included in the FIAT analysis. However, the consumer's experience provides deep insight on the availability, accessibility and suitability of financial products. While individuals and households are of utmost significance, SMEs will also be included as a target market where permissible.

The scope of the analysis is potentially very broad and tries to explore every relevant factor. However, in the interests of ensuring the analysis remains focused, we have been guided by five key questions:

- 1 Who is the target market?
- 2 What is the landscape of supply and is it meeting the needs of the target market?
- 3 How have macroeconomic trends and policy interventions shaped the landscape of supply?
- 4 What are the constraints to supply?
- 5 Are there insights from other countries that could overcome some of these constraints?

1.5 REPORT STRUCTURE

The report structure tracks the analytical framework but begins with an introduction of the target market in Part 2 because this, we believe, is the correct “stepping off” point for an analysis of financial inclusion. It provides a backdrop for the rest of the study.

The supply side analysis is contained in Part 3 which makes up the bulk of the document. Part 3 is divided into the sub-headings as per the analytical framework: the macro level, micro level, meso level and consumer level.

Part 4 summarises the constraints to financial inclusion and make some general comments.

Part 5 uses the access frontier methodology to synthesise insights from the demand and supply sides.

Part 6 charts a vision for financial inclusion

Part 7 summarises the recommendations.

2 PART 2: THE DEMAND SIDE

2.1 DATA SOURCES

This section looks at demand side data relating to usage of, and access to, financial services for individuals in Rwanda. It summarises an analysis by Eighty20, *Overview of the demand side of Rwanda's financial sector*¹. The principal data source is the 2008 FinScope Rwanda survey and National Institute of Statistics of Rwanda (NISR) reports.

As with all surveys it is critical to understand the limitations of the data. Non-sampling errors may exist. Questions may be misunderstood, or respondents may feel uncomfortable answering some questions about their financial behaviour honestly. FinScope surveys are, by design, surveys of perceptions. These may or may not reflect objectively verifiable facts. While this can limit the usefulness of the data, in some cases it can enrich it, given that the perspective of the consumer, whether or not it is grounded in fact, drives financial behaviour.

2.2 BASIC DEMOGRAPHICS AND MARKET CHARACTERISTICS

Over the last five years, Rwanda's population has grown at around 2% a year. The FinScope sample, drawn in mid-2008 and agreed with NISR, estimates the adult population (18 and above) to be 3.7 million. More than 70% of the population are young adults and children, and about 85% of the population live in rural areas, relying on agriculture as a primary source of income. It is noteworthy that even in urban areas, agricultural activity is high. According to FinScope, 54% of households in urban areas derive part of their income from agriculture².

A recent NBR report³ states that the population is increasingly urbanising, suggesting that more people may seek employment outside of agriculture in the future. If a large proportion of these comprise young adults relocating to urban centres to look for work, demand for financial services is likely to increase in urban areas.

FinScope data indicates that the majority of the adult population have low personal incomes⁴. Sixty-two percent of adults have a personal income below the extreme poverty line used by the

¹ The full report is available at [xxxxxxxxxx](#)

² For rural dwellers this proportion is 97%

³ *An overview of the financial sector and financing opportunities for property development*, NBR May 2009

⁴ Before tax and other deductions and including all sources of income (i.e. salaries, pensions, income from investments)

Vision Umurenge Project Baseline Survey of Rwf99 452 per annum⁵ and 77% of adults have a personal income of below Rwf134 872, the total poverty line used by that project⁶.

However, in countries such as Rwanda where much economic activity is subsistence-related, cash incomes are likely to understate actual income. The notion of monthly personal or household incomes may also be misplaced given the seasonal nature of agriculture. The most frequently cited source of income in Rwanda is generating own income (including farming, selling phone services and bartering/trading goods), typically generated irregularly. Other sources include having one's own business (e.g. bicycle repair, renting car as taxi) and receiving wages or salary. These salary sources appear to be more regular⁷.

Other indicators are useful to characterise living standards. FinScope data indicates a higher incidence of financial distress than physical deprivation, again highlighting the importance of non-cash income. For instance, while 10% of adults say their households have gone without sufficient food often or always, close to 60% say they have often or always gone without a cash income in the past 12 months.

Approximately 79% of adults say they, or someone else in the house, own their home, although it is unlikely that they have formal title. It is noteworthy that 58% of adults see their home as an investment that will grow in value and 35% say they would use their home as security when borrowing money. Ownership of other assets appears limited to agricultural items such as ploughs or hoes and basic furniture. Assets that might typically be used as collateral such as appliances or cars are relatively rare.

Estimates indicate exceptionally high mortality rates for infants and children under the age of five. Childhood mortality between birth and five years is 152 per 1 000 children born. For adults surveyed by FinScope, 7% had one or more child under five die in the year prior to the survey. According to the 2005 Demographic and Health Survey (DHS) 45% percent of children under five suffer from chronic malnutrition with almost 20% suffering from severe malnutrition,

⁵ According to the Vision Umurenge Project report: "In Rwanda, a person is extremely poor if he/she lives in a household that is not able to meet the cost of a reference basket of food goods chosen to provide adequate nutritional energy of 2200 kilocalories per day. The cost of the reference food basket was estimated, in 2000, as of FRw 45,000 per adult equivalent person per annum (EICV1). The cost of the same basket was re-expressed in January 2006 prices as of FRw 63,500 (EICV2). For the purpose of measuring extreme poverty in VUP Survey, the cost of the basket has been inflated so as to reflect price changes from January 2006 to December 2008. The new estimate reaches FRw 99,452. This is the value of extreme poverty line which has been utilized in measuring the prevalence of extreme poverty for the VUP Baseline Survey."

⁶ It is noted that personal income levels are not an ideal income measure to use to assess poverty levels. In most cases individuals are likely to pool incomes with other household members. However, there is no data in the survey to assess household income or per capita incomes (computed by dividing household income by the number of household members typically adjusted in some way for age)

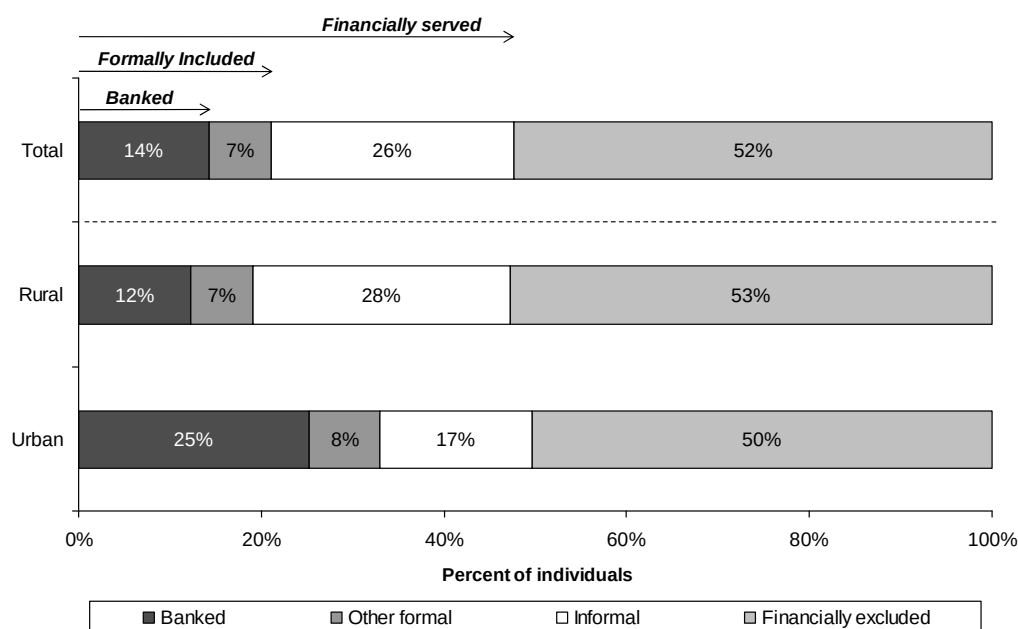
⁷ Regular frequency indicates income is received daily, weekly or monthly

According to FinScope 28% of adults have had no schooling; 60% have some or completed primary school education; and only 10% have some or completed secondary school education. Education levels for women are in general on a par with men for younger age groups although there are noticeable differences among older adults.

2.3 PRODUCT USAGE

The Financial Access Strand (see Figure 1) segments the market, for the country as a whole as well as for rural and urban dwellers, into those who use formal banking products⁸, those who have one or more other formal products but no banking products, those that have informal products only (products not operating with legal governance), and those that have no financial products at all. The access strand excludes the community health Mutuelle de Santé system.

Figure 1: Institution-based Financial Strand



Source: FinScope Rwanda 2008

While the difference in the proportions of adults who are financially excluded between rural and urban dwellers is relatively small, the discrepancy in product usage is striking. About 33% of

⁸ These are supplied by a financial institution governed by a legal precedent and includes a foreign bank account, a loan from any bank, and other banking products from the following institutions: Bank Kigali, Bank Commerciale, Ecobank, Fina Bank, Cogebanque, Bancor/Access Bank and Bank Populaire

urban dwellers are formally included – that is they are either banked or have some other formal financial product. The percentage for rural areas is 19%. Significantly, informal product usage is higher in rural areas, indicating a need for financial services despite high levels of poverty.

BANKED

Fourteen percent of the adult population are banked with 96% of these individuals banked at Bank Populaire du Rwanda (BPR). Those who earn salaries or wages have a surprisingly low banking penetration rate, at 32%. However, one third of adults whose source of income is in the form of salaries or wages have a personal monthly income of less than Rwf5 000.

Banked clients use accounts for a relatively narrow range of services. The most frequent transactions are withdrawing and depositing funds. Very few use their bank accounts to pay third parties or to send or receive money.

Those who are banked tend to have relatively positive attitudes towards banks: 96% of banked adults say they would trust banks with their money, and 95% agree that the products and services on offer meet their needs. However, other attitudes, for example towards service levels, are quite negative. Half of all banked adults think that getting things done with banks is difficult and takes a long time.

Credit usage, a primary motivating factor for having a bank account, is limited and insurance penetration (excluding membership of Mutuelle de Santé) is very low.

FORMAL OTHER

This component of the strand comprises those who do not have a bank account but who use one or more formal financial products including insurance and credit. This segment of the population is almost half as big as the banked segment. As is common elsewhere, many of those with formal products also use informal products. For instance 40% of adults who are formally served are also members of a tontine (informal savings club). Credit products are used to a more limited extent.

INFORMALLY SERVED

This component of the strand comprises those who do not have a bank account and do not use other formal financial products, but do use informal products. Savings products and mechanisms dominate. Almost half of all adults claim to use one or more savings mechanisms, including paying money guards and belonging to a tontine.

THE EXCLUDED

According to FinScope, 52% of the adult population does not make use of any financial services, formal or informal. Very few individuals in this segment do not receive any form of income⁹. A small proportion is economically active but receives income only in kind (i.e. they are not monetised). In many cases where cash incomes are received, they are very low – 65% of those who are financially excluded say they earn less than Rwf5 000 a month. Nevertheless, 53% of individuals in this segment say they keep cash at home or in a secret hiding place and 16% say they have borrowed from family or friends or someone in the community in the past 12 months.

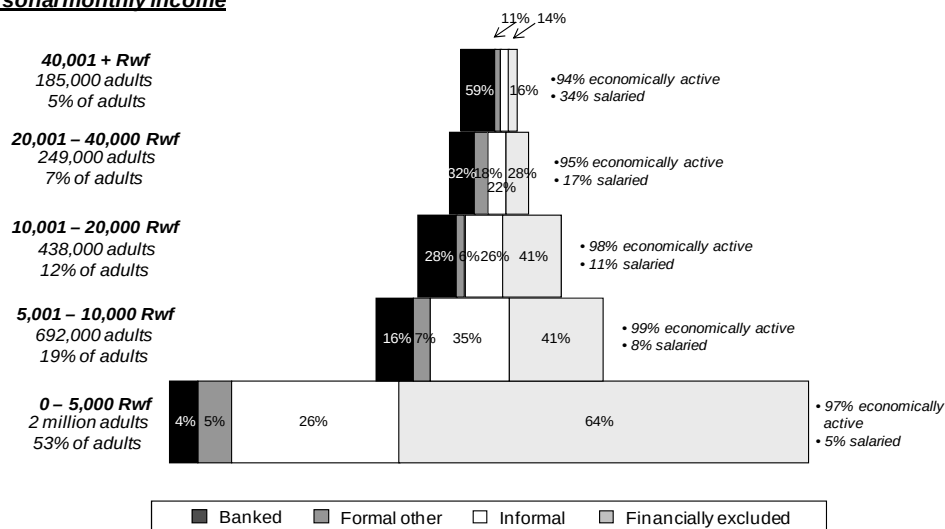
Table 1 (overleaf) summarises the key demographic characteristics of individuals who fall into each segment of the strand.

2.4 INCOME LEVELS – THE BINDING CONSTRAINT

As the following diagram shows, income levels are highly predictive of banking status: below Rwf10, 000 of monthly income, the percentage of adults who are banked falls sharply away. As can be seen, 2.7 million adults, three-quarters of the population, have monthly income of less than Rwf10, 000.

Figure 2: Summary of financial access strand by income level

Personal monthly income



Source: FinScope Rwanda 2008

⁹ 0.08% (1 529 individuals) of those who are excluded do not have an income source

While supply side constraints will inhibit access at all income levels to a certain extent, it is low incomes (i.e. a demand side constraint) that stand out as the main contributor to financial exclusion.

Table 1: Key demographic characteristics per segment strand

Demographic variable	Banked	Other formal	Informal	Excluded
Gender				
Female	51%	53%	54%	61%
Male	49%	47%	46%	39%
Location				
Rural	73%	83%	90%	85%
Urban	27%	17%	10%	15%
Education				
No formal education	4%	16%	26%	38%
Primary Education	60%	65%	64%	56%
Secondary Education	30%	14%	8%	5%
University or other higher education	3%	1%	0%	0%
Vocational training	2%	4%	2%	1%
Decision maker of financial decisions				
You and spouse/partner	61%	62%	56%	49%
You alone	30%	28%	23%	30%
You and immediate/extended family	7%	6%	13%	11%
Others	2%	4%	8%	10%
Personal income				
Rwf 0 - 1,000	2%	6%	11%	20%
Rwf 1,001 - 2,500	5%	11%	19%	19%
Rwf 2,501 - 5,000	9%	23%	23%	24%
Rwf 5,001 - 7,500	7%	9%	12%	8%
Rwf 7,501 - 10,000	15%	11%	13%	6%
Rwf 10,001 - 15,000	13%	6%	7%	6%
Rwf 15,001 - 20,000	10%	3%	5%	3%
Rwf 20,001 +	35%	25%	8%	5%
Don't know / Refused	4%	6%	3%	6%
Sources of income				
Generate own income	83%	88%	94%	92%
Have own business	24%	24%	13%	6%
Receive wages or salary	21%	8%	6%	8%
Rental income	11%	3%	1%	1%
Money from friends or family in Rwanda	7%	6%	8%	10%
Other	6%	2%	6%	2%
Money from friends or family outside Rwanda	4%	2%	0%	1%
Aid agency or other grant assistance	1%	1%	1%	0%
Government or state grant	0%	2%	2%	1%

Source: FinScope Rwanda 2008

3 PART 3: THE SUPPLY SIDE

3.1 OVERVIEW OF SUPPLY SIDE CHANGES

Since 2005, Rwanda's financial sector has undergone considerable commercial and regulatory change.

- 1 The Financial Sector Development Program, for which financial access is a core policy objective, has stimulated a plethora of policy statements, regulations and legislation, particularly affecting the microfinance and insurance industries. Although there is no overarching policy framework on access, considerable progress has been made to ensure that the policy environment is conducive for access.
- 2 The competitive landscape has changed significantly: Union des Banques Populaires was transformed into a bank and there have been new market entrants in the banking sector – Ecobank, Access, Opportunity and Kenya Commercial Bank – and in insurance. MTN's Mobile Money business has just started operations, facilitating cheap electronic transfers.
- 3 The microfinance industry has had to recapitalise and now faces increasing competition both from banks and from the government-sponsored Umurenge SACCO programme.
- 4 At the meso level, a contract has been awarded to a private credit bureau, expected to become operational in May 2010. The payments system has started to undergo de facto liberalization, removing a dead weight from the development of the financial system.

It is too early to tell what the full impact of these developments will be on financial inclusion although there are reasons to be quite optimistic.

- The supply environment in Rwanda is comprehensive and diverse. There is an adequate spread of institutions targeting the mass market¹⁰ especially taking into account BPR with its extensive branch network, and UOB with its pro-poor mandate.
- Evidence suggests that increased competition is beginning to affect the product and pricing strategies of service providers, which are also expanding their footprint.

¹⁰ By "mass market" we mean the general retail market (i.e. not corporates or High Net Worth Individuals).

- The policy and regulatory changes have, in the main, been quite orthodox.
- The very recent changes to the payments system infrastructure could transform the potential for electronic services, such as ATMs, but there is a huge way to go.

Significant challenges remain. Overall, there appears to be a disconnection between the policy interventions of the GoR and what is actually happening on the ground with the service providers. There is, in general, considerable skepticism in the banking industry about the viability of the market outside the urban centers and their middle-to-upper income clientele. As a result, the response by service providers to the government's call for greater financial inclusion has not been dramatic although there has been an encouraging increase in bank branches. Some mass market strategies started two or three years ago have not been pushed aggressively or have been shelved in favour of "high end" strategies. None of the banks or insurance companies stands out as having made a big play for the "bottom of the pyramid" although BPR and UOB are arguably already active in that market.

The agricultural sector, much of which is informal is still poorly served by the formal financial sector and it is left to government, sometimes with donor backing, to reach out to the sector with a patchwork of initiatives of varying success.

Skills shortages have also emerged as a major constraint for the financial industry which means most financial organisations lack the specific skills needed to reach out to underserved population groups, such as those who lack collateral or a regular income.

Overall, however, there has been considerable progress towards greater financial inclusion in what could be called Phase 1 of the Financial Sector Development Programme (FSDP) era. Rather than involving significant new initiatives, we believe Phase 2 should be a period of consolidation, coordination and monitoring, with clear agreement between GoR and the industry on what the vision for inclusive financial markets in Rwanda should be.

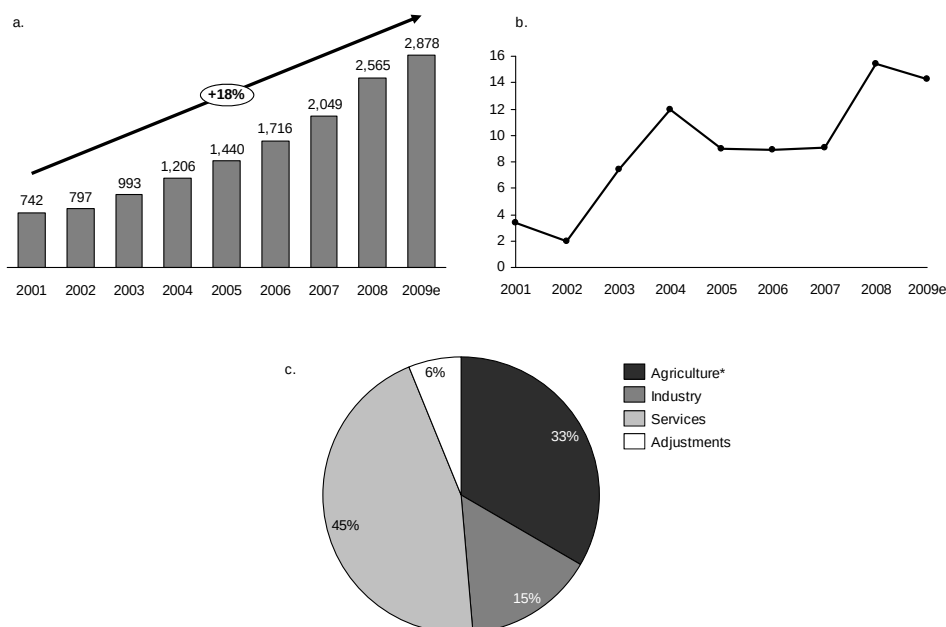
3.2 THE MACRO LEVEL

3.2.1 KEY MACROECONOMIC INDICATORS

GDP AND INFLATION

Rwanda had exceptional GDP growth with compound nominal annual growth of 18% and an average real growth rate of 7.9% between 2001 and 2009 (see Figure 3a). In this period, nominal GDP almost quadrupled from Rwf742 billion to Rwf2 878 billion. Population growth has lagged GDP growth with the result that GDP per capita has more than doubled since 2004 from Rwf 128 172 to Rwf 293,855.

Figure 3: a. Evolution and CAGR (%) of nominal GDP (Rwf billion), 2001 – 2009e b. Inflation (%), 2001 - 2009 c. Sector composition of GDP (%), 2008



Source: NBR website, World Bank online database, National Institute of Statistics Rwanda website, IMF World Economic Outlook 2009

*Includes forestry and fishing

This provides a positive backdrop for increased demand for financial services as the population grows wealthier, investment opportunities multiply and growth markets emerge. However, despite stability from 2003 to 2007, the rate of inflation has exhibited an overall upward trend, peaking in 2008.

Table 2: Real sector growth rates 2004 – 2008

	2004	2005	2006	2007	2008
Agriculture	2%	6%	3%	3%	9%
Industry	16%	9%	12%	9%	16%
Services	10%	12%	13%	7%	11%

Source: NBR website, National Institute of Statistics Rwanda website

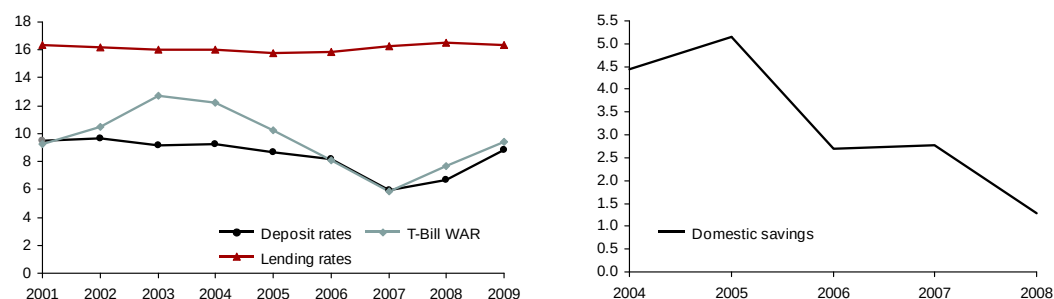
A high inflation rate signifies lower returns on investments (including savings). This directly counters the positive effects of high GDP growth by dampening demand for savings which in turn signifies less financing for lending.

Over 75% of Rwanda's GDP comes from the service and agriculture sectors (tea and coffee are the major exports). While the service sector has shown steady growth over the past five years (except in 2007), growth in both agriculture and industry has been less consistent over the same period with agriculture exhibiting an overall decline in growth rates up until 2008 (see Table 2). A growth spurt in the agriculture sector in 2008 can partially be attributed to government intervention with the Crop Intensification Program. This facilitated the provision of financing for fertilizer and seeds as well as the expansion of harvest storage facilities.

INTEREST RATE SPREADS

Since 2001, the spread between lending and deposit rates has been relatively consistent at an average of 8%. This implies that the overall perception of risks associated with borrowers have remained relatively unchanged over the last eight years. It should be noted that Rwanda's spread is not as large as other EAC countries (such as Uganda with a notional spread of about 12%) (EAC database, 2008). In the same way, real lending rates are also lower than other EAC countries and have consistently remained around the 16% mark.

Figure 4: a. Key interest rates (%), 2001 - 2009 b. Domestic savings as a % of GDP (%), 2004 - 2008



Source: NBR website, World Bank online database, National Institute of Statistics Rwanda website; *allAfrica news.2008.* "Rwanda: Current trends in Financial Sector Development"

Although lower than its neighbours, Rwanda's lending rate is still higher than what is thought to be optimal and may present a constraint to accessing credit for the majority of the population. Experience from other developing countries supports the view that mortgage lending, in

particular, tends to remain stifled until nominal lending rates drop below a critical point, believed to be in the region of 15%¹¹.

T-Bill rates have decreased over the past few years, encouraging banks to lend to the private sector rather than invest in government paper. Although this increased lending activity is positive for financial inclusion, this may have also depressed financial sector performance as the banking sector is exposed to more risky assets.

Although deposit rates are not especially low, the inflation rate has consistently tracked or exceeded it over the years, resulting in a small or negative real interest rate and weak incentives to save. According to comments by the Minister of Finance and Economic Planning, Rwanda must maintain a national savings rate of 12% of GDP (and subsequent investment of 24% of GDP) in order to sustain real economic growth of 8%¹². Currently, the national savings rate have averaged between -1% - 3% of GDP¹³.

Although boosting national savings is now a priority objective for economic policy, and a National Savings Mobilization Strategy is being coordinated by MINECOFIN/FSDS, negative real returns on savings are likely to make GoR's savings target difficult to achieve, requiring a consistent monetary policy to curb inflation.

3.2.2 DEVELOPMENTS IN THE LOCAL AND INTERNATIONAL ECONOMY

LIQUIDITY CRISIS

In 2008, a liquidity gap emerged in the financial sector that resulted in a slowdown in lending in 2009. According to the NBR (2009), the value of new loans disbursed decreased by 24% in the first six months of 2009. Prior to 2008, the banking sector had enjoyed excess liquidity 'as a result of an increase in public spending, especially owing to increases in aid inflows' (NBR, July 2009). In addition, a construction boom, spurred by increased investment from local and foreign investors as well as large bank deposits led to an increase in private sector credit in late 2007 and early 2008 (IMF, 2009).

The liquidity squeeze was caused by multiple, coinciding factors. Firstly, as lending increased in 2007/2008, so did the inflation rate, resulting in a negative real interest rate in early 2008. Consequently, growth in deposits within the banking sector slowed towards the middle of 2008, and decreased from Rwf 384.1 billion in December 2008 to Rwf 371.4 billion in June 2009 (IMF, 2009). Secondly, in 2008, following a precautionary recommendation by the IMF related

¹¹ More research is required to determine the exact interest rate below which mortgage lending tends to take off.

¹² Minister of Finance and Economic Planning in an interview on financial sector development trends with the New Times newspaper

¹³ According to newspaper article published in Dec 2009 (<http://allafrica.com/stories/200912180032.html>)

to the global crisis, the government transferred deposits from commercial banks to the central bank¹⁴. In addition, institutional investors such as the Caisse Sociale du Rwanda (CSR) and SONARWA withdrew funds to pay for building costs. This resulted in a funding mismatch, forcing banks to restrict lending activity in the market.

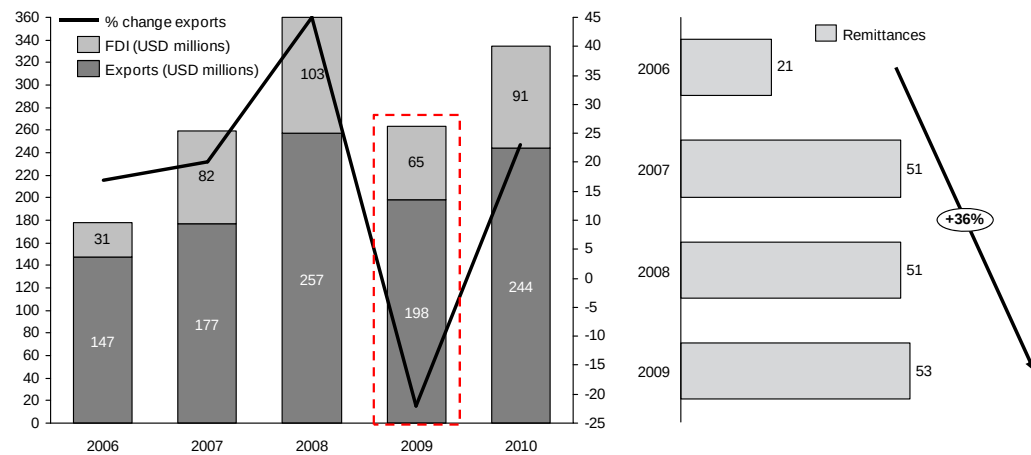
Despite government intervention, liquidity facilities were largely under-utilised as banks opted to address on-balance maturity mismatches by restricting lending activities and raising their nominal deposit rates to attract longer term deposits.

GLOBAL FINANCIAL CRISIS

The global financial crisis has had only a modest direct impact on the Rwandan economy. A dip in exports occurred in 2009 as a result of depressed external demand and low commodity prices. In addition, FDI inflows decreased slightly as investor confidence weakened. However, the overall direct impact of the crisis has been slight, with both exports and FDI fully recovering in 2010.

Contrary to World Bank predictions that remittances inflows would drop for most developing countries, Rwanda's remittances look set to either increase or remain at previous levels.

Figure 5: Evolution of FDI, exports and remittances



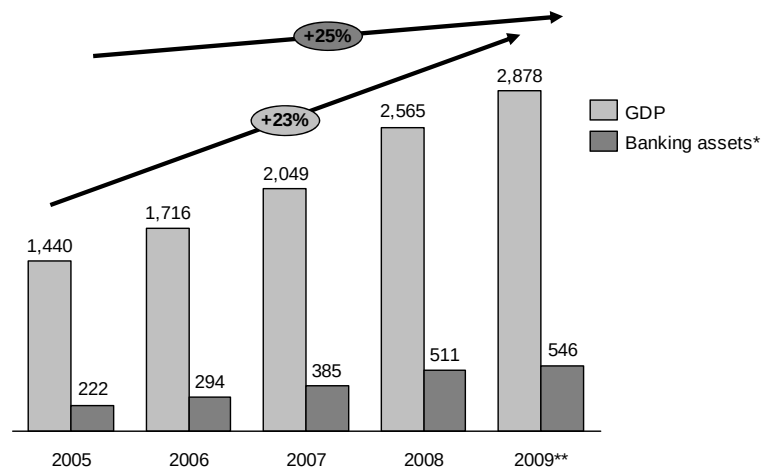
Source: IMF Country report, 2009; World Bank remittances database, 2009

¹⁴ Interview with NBR in December 2009

3.2.3 FINANCIAL SECTOR AND THE ECONOMY

Figure 6 compares GDP with banking sector assets in Rwanda. As banking sector asset growth (25%) has essentially tracked nominal GDP growth (23%), there has been little financial deepening within the economy. Indeed, as a percentage of GDP, financial sector assets account for 19%, with credit making up only 9% of GDP. Between 2008 and 2009, banking sector assets grew by just 7% compared to the 33% growth between 2007 and 2008. Slow growth can be partly attributed to the liquidity constraints in the market. In addition, lack of long term-institutional deposits (as a result of small insurance and pension sectors which are typically the main providers of long term finance) and the small size of the Rwandan financial sector (relative to GDP) further constrains the activities of the sector.

Figure 6: Evolution (Rwf billion) and CAGR (%) of GDP and banking sector assets, 2005 - 2009

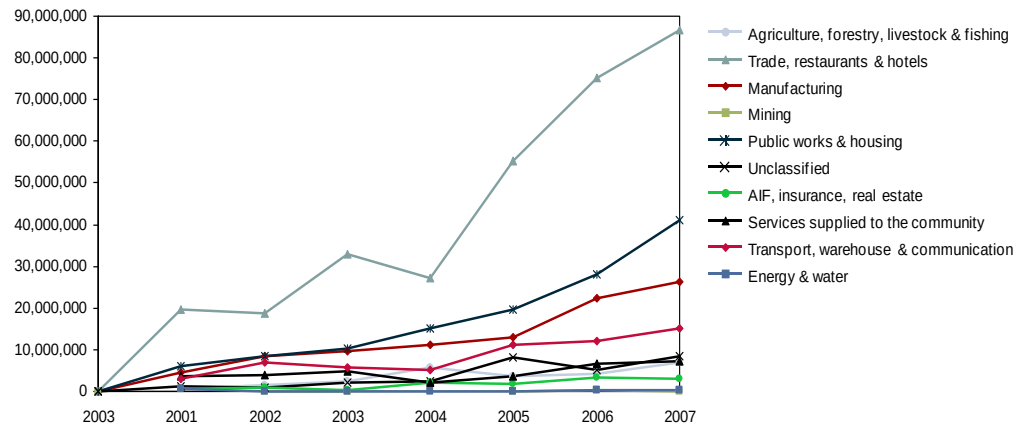


Source: NBR website, World Bank online database, National Institute of Statistics Rwanda website, IMF World Economic Outlook 2009

*Includes commercial banks only **Estimated GDP & Financial sector assets as of September 2009.

In terms of sector allocation, the largest beneficiaries of commercial bank loans are the services (such as trade, restaurants and hotels), public works and housing sectors. Increased lending to the service industry has supported its growth, allowing it to become the major contributor to GDP. Agriculture and real estate have received minimal funding.

Figure 7: New loans* allocation by sectors (Rwf billion), 2001 - 2007



Source: NBR website

*Data based on six commercial banks

3.2.4 POLICY AND REGULATORY ENVIRONMENT

OVERVIEW OF SIGNIFICANT REGULATORY CHANGES

During the past five years, the GoR has introduced a range of policy and regulatory initiatives to strengthen the country's financial services sector. Specific regulatory changes are described in the relevant sections of this document. This section provides a brief introduction to the changes that have taken place, as illustrated in Figure 8 (on page 44). It shows the FSDP as a core component of the Economic Development and Poverty Reduction Strategy (EDPRS) with financial inclusion a core objective of the FSDP.

Many of the policy and regulatory changes directly impact on financial inclusion. These include the National Microfinance Policy Implementation Strategy (and subsequent Microfinance Law), and aspects of the National Savings Mobilization Strategy. Legislative change has also accompanied both the reform of the payments system and the introduction of the new credit bureau.

The National Microfinance Policy Implementation Strategy was introduced by MINECOFIN in 2007 to operationalise the Microfinance Policy approved the previous year. The strategy's aims are specifically inclusionary: to bring inclusive, diverse and sustainable financial services to the majority of poor households by 2011.

The National Savings Mobilization Strategy was approved in 2009 and essentially wraps in a number of the savings-related themes referred to in the FSDP and includes some new ones. It is a coordinating framework for existing policy initiatives relating to savings as well as a catalyst for new initiatives. It aims to boost national savings in line with EDPRS and Vision 2020 goals¹⁵. The strategy is administered by the Financial Sector Development Secretariat in MINECOFIN. The four pillars of the National Savings Mobilization Strategy are:

- the conversion of the Caisse Sociale into a provident fund
- the introduction of private pensions and collective investment schemes
- the Umurenge SACCO programme; and
- the development and promotion of innovative new savings products

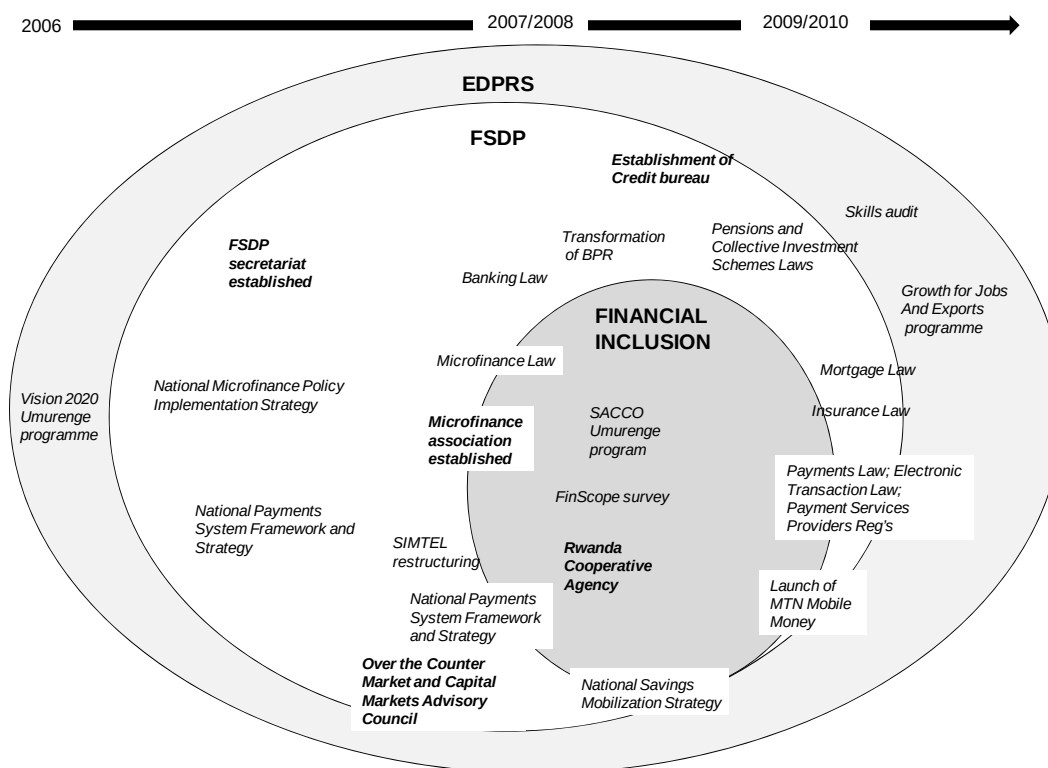
A number of non-legislative initiatives have also had an impact on financial access. For example, the central bank has reorganized its Bank Supervision Department to include three directorates under a Senior Director of Financial Stability: a Microfinance Supervision Department with 13 supervisors, a Non-Bank Financial Institutions Supervision Department with 12 supervisors and a Banking Supervision Department with 11 supervisors. This has improved the supervisory focus of the NBR although, with staff turnover still uncomfortably high, capacity remains strained.

Another non-legislative initiative is the skills audit process promoted by the NBR as a first step towards understanding what needs to be done to upgrade skills across the financial sector.

Most of the regulatory reform that has taken place is orthodox in nature and should be beneficial. The Umurenge SACCO programme is probably the most unorthodox of the policy changes of recent years, but it has logic; and, because the programme is new, the GoR has an opportunity to address legitimate concerns raised by observers.

Perhaps the greatest weakness in the policy and regulatory environment for financial inclusion is not that there is poor regulation or regulation that is missing: it is that, as Figure 8 shows, there is no single policy framework, or mechanism, within which the effectiveness of all the policies that have an impact on financial inclusion can be monitored.

¹⁵ Gross domestic savings as a percentage of GDP to increase from -1.1% (2007/8) to 4% by 2012 (EDPRS) and to 10% by 2020 (Vision 2020) – revised targets. Source: National Savings Mobilization Strategy

Figure 8: Regulatory and policy environment

Source: Various policy and strategy documents

3.3 THE MICRO LEVEL

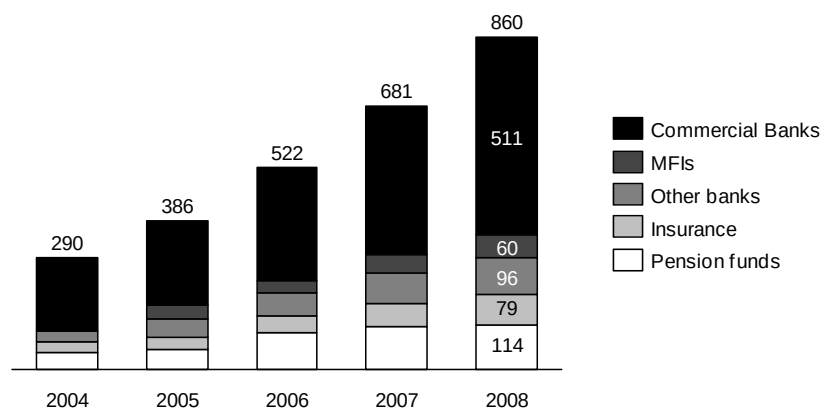
3.3.1 MARKET STRUCTURE

Rwanda's financial sector has undergone significant changes in the past five years, including the entry of international and regional players into the sector as shareholders and competitors. In addition, the transformation of the Banque Populaire du Rwanda (BPR) from a union of cooperatives to a commercial bank has the potential to transform the supply of financial services. Institutions have been focused on recapitalisation, complying with prudential requirements, market positioning and sustaining growth in a changing environment. These changes have shaped the formal financial landscape, which now comprises:

- 8 commercial banks, including BPR

- 3 specialized banks (Rwanda Housing Bank (BHR), Rwandan Development Bank (BRD), Continental Discount House (CDHR))
- 1 microfinance bank, namely Urwego Opportunity Bank (UOB)
- 122 microfinance institutions
- 8 insurance companies
- 1 public pension fund (the Caisse Sociale) and 1 state-run medical insurer (Rama)
- 10 private pension funds (NBR, 2009)

Figure 9: Composition of financial sector assets (Rwf billion), 2004 - 2008



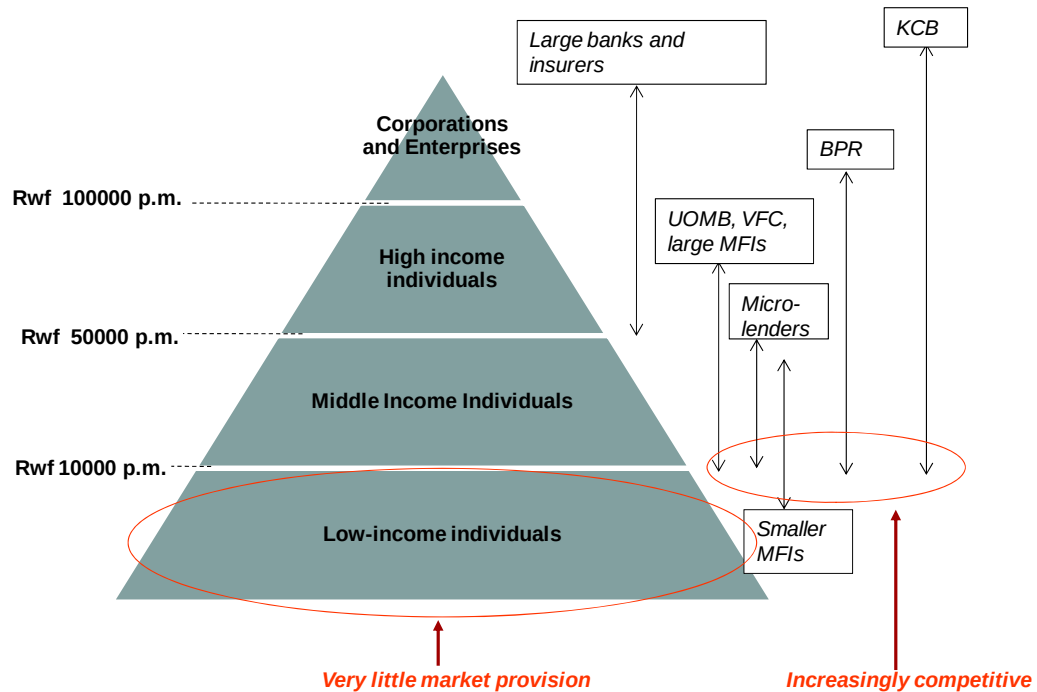
Source: NBR website

Composition of the above players' total assets is illustrated in Figure 9. Commercial banks are by far the largest players in terms of total assets, making up about 60% of the sector.

However, only 21% of the adult population or roughly 750,000 adults use the formal financial system. Formal provision is segmented according to employment status and income (see Figure 10). There is reasonable institutional coverage across the market but there is a palpable "cut off" at around the Rwf10,000 income level. The banks are segmentally focused, with most targeting corporates, larger (i.e. formally registered) SMEs and individuals with salaries or at least regular incomes. This applies, too, to the recently arrived Ecobank and Access Bank whose strategies are slightly different in that they adopt a supply chain model by first targeting large businesses, then their employees and their suppliers. Finabank

differentiates itself through its positioning as a lender to SMEs and could be considered to be more mid-market oriented than other banks.

Figure 10: Market segmentation of the Rwandan Financial Sector



Source: Stakeholder interviews

Two banks are in a category of their own – BPR which covers the entire market down to the cut-off level, and UOB, which has a particular pro-poor mandate.

There are two commercial microlenders in the market, RML and Blue, which service high end salaried individuals with cash loans.

Finally, insurance and pensions companies are squarely positioned in the salaried market, although their coverage is extremely narrow.

The institutional spread seems to have resulted in relatively extensive supply in the middle-income salaried market, whether from banks or microfinance institutions, and quite healthy competition for this market. By contrast, the bottom of the pyramid is almost entirely neglected except for a few small MFIs. The purpose of this section is to unpack the reasons behind the lack of products and services in the low-income market.

This chapter is structured as follows:

- Section 3.3.2 details the size of banking sector and recent developments that influence the positioning of key players and identifies key constraints to growth. The analysis drills into access-related interventions and developments by the Rwandan Development Bank (RDB) and Housing Bank of Rwanda (BHR) and discusses the supply of specialized products by commercial banks
- Section 3.3.3 focuses on the growth of the microfinance sector and discusses contextual challenges that are forcing microfinance institutions (MFIs) to reposition themselves and their services to a more affluent target market
- Section 3.3.4 discusses the current and future focus of the insurance and pensions industry in light of changes in the regulatory and policy environment
- Section 3.3.5 looks at the more specialized product areas of housing finance, agriculture finance, small business finance and money transfers.

3.3.2 THE BANKING SECTOR

SIZE AND PERFORMANCE

The Rwandan commercial banking sector is small, comprising eight banks with less than Rwf 600 billion in assets (\$1.1 billion). Comparatively, Uganda's banking sector is almost triple the size of Rwanda's at \$3.9 billion, and Kenya's banking sector assets stand at \$15.4 billion (EAC, 2009). Despite its small size, sector assets are growing at around 25% per annum. Physical access is concentrated in urban areas but branch networks are expanding, as competition forces major players outside of Kigali. In the first half of 2009, 16 new branches were opened (NBR, 2009) bringing the number of branches (or sub-branches) in the country to just under 250. New products have been developed or are planned and the electronic payments system is being revamped to make it more cost-effective for banks to deploy ATMs and debit cards.

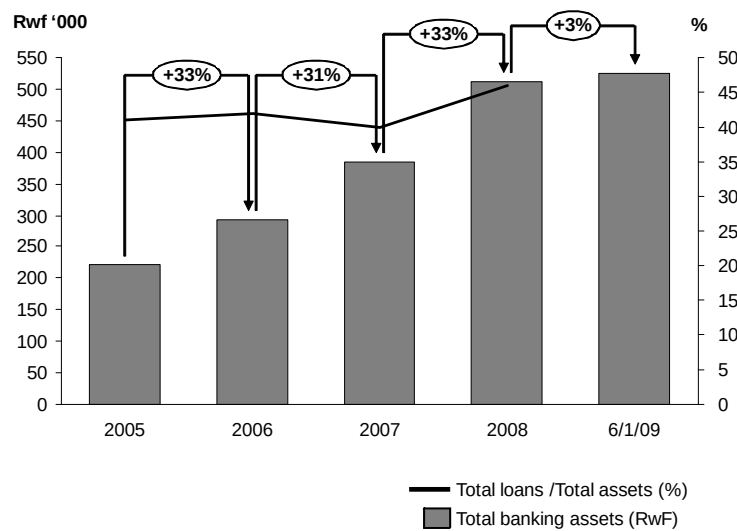
Table 3 outlines the ownership structure and branch network of Rwandan banks. In addition, there are three specialised banks, BRD, and BHR as well as a discount house, Continental Discount House, which we do not discuss in this document. Figure 11 shows the growth in banking sector assets between 2005 and 2009, as well as the proportion of assets that is covered by private sector loans between 2005 and 2008.

Table 3: Banks' ownership and branch structure

Bank Name	Private Shareholding	Branches
Access Bank	Access Bank Group (75%)	7
Banque Commerciale du Rwanda	Actis (80%)	11
Banque de Kigali	Government of Rwanda* (66%)	18
Banque Populaire	Rabobank (35%)	18 (109 sub branches)
Cogebanque	International investors (40%)	16
Ecobank	Ecobank Transnational (90%)	15
Finabank	Fina Group (55.7%)	7
Kenya Commercial Bank	KCB Group ()	9
Urwego Opportunity Bank	Opportunity International (100%)	7 (24 sub branches)

* Formerly the Fortis group, shares are currently warehoused by Government of Rwanda

Source: NBR (2008), GFIS (2009), Stakeholder interviews (2009)

Figure 11: Size and growth of the Rwandan banking sector

Source: Kanimba, 2008; Monetary Policy Statement June 2009

Growth in assets until 2008 was high and stable at about 33% per year. Accordingly, private sector loans accounted for between 40 and 45% of total assets. However, there was a noticeable slowdown in growth between 2008 and 2009, as the domestic economy faced a liquidity shortage and banks tightened credit, especially for mortgage lending. To meet short-term liquidity constraints, banks have focused on attracting depositors through term deposit products. As a result, the number of bank depositors grew by almost 7% from 1.10 million in 2008 to 1.17 million in 2009 (NBR, 2009).

Table 4 is a snapshot of key financial performance indicators for the Rwandan banking sector and as compared to other EAC countries. Compared to its neighbours, Rwanda significantly underperforms.

Table 4: Financial performance indicators for Rwanda and EAC (%)

Indicator	2006	2007	2008	2009 (March)
Return on Assets	2.4	1.5	2.3	1.7
Return on Equity	27	15.5	18	11.8
Net interest margin	8.0	5.2	9.8	10.2
Cost-to-income	76.7	80.2	77.8	83.7

EAC Country	ROA (2009)	ROE (2009)	NPLs (2009)
Kenya	3.3	29.5	9
Uganda	4.3	27.3	2
Tanzania	3.9	22.6	7
Rwanda	2.4	11.8	13

Source: Monetary Policy Statement (2009), EAC database (2008)

The Return on Equity (ROE) of the banking sector has been declining steadily from 27% in 2006 to 11.8% in 2009 and, as at 2009, was substantially less than in Rwanda's larger EAC neighbours. To determine the efficiency of the banking sector, the cost-to-income ratio shows how well banks are covering their costs. The table shows that costs have increased since 2006, again as banks expand their branch networks and increase recruitment to remain competitive. In addition, banks continue to struggle with high delinquency ratios, a perennial problem in Rwanda. Gross non-performing loan ratios (NPLs) deteriorated between December 2008 and March 2009, from 11.4% to 13% of gross loans (NBR, 2009).

The figures paint a picture of a sector that has the lowest profitability in the region, is not generating sufficient return on assets, and is faced with unsustainably high cost to income ratios and an unacceptable level of bad debts. It is difficult to disaggregate the short term dynamics of the weaker growth and liquidity issues from medium term factors (such as the very

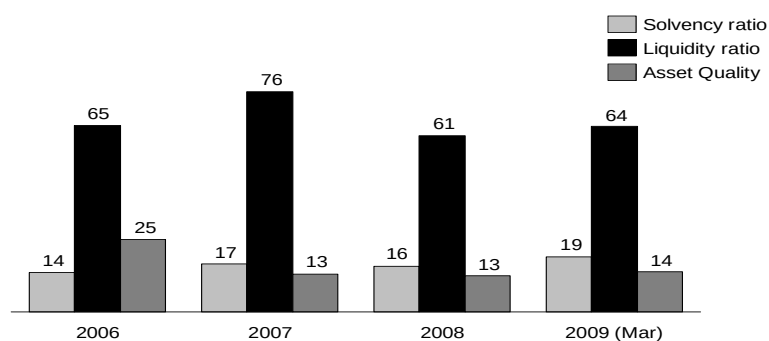
rapid expansion of the sector as new competitors become established), from the longer term issue of high operating costs in a small market. Industry stakeholders rated salary expenses and provisioning for bad debts as their highest costs. Infrastructure is also a major cost. To set up a branch in a rural area, a bank needs to invest in its own electricity and water as well as recruit staff and organise training. Mobile branches and limited service branches are available but according to stakeholders are just as expensive to run as a full branch as these involve buildings, staff and information systems that are integrated with the centre. Cost-effective solutions and infrastructure development is needed if banks are to consider rural areas as viable markets. Given the failure of the retail payments infrastructure to deliver low cost extension of services, banks seem to have rolled out considerable and costly branch infrastructure to service a currently small banked market. The key challenge is now to rapidly grow the volume of business in a sustainable manner, to absorb these costs, and improve the overall performance of the industry.

RECENT DEVELOPMENTS

Regulation and policy

In 2007, minimum capital requirements were raised for banks from Rwf1.5 billion to Rwf5 billion. Prudential ratios were tightened and a new banking law was passed in 2008, which reflected an alignment with BIS Core Principles on Banking Supervision and the Basel II Accords on risk management. These have strengthened the sector and aligned it with international best practice. Most banks have been able to meet the liquidity and solvency requirements (see Figure 12).

Figure 12: Banking sector prudential ratios¹⁶



Source: IMF Country Report 2009

¹⁶ Ratio definitions: Liquidity (Liquid assets/Total deposits); Asset Quality (NPLs/Gross Loans); Solvency (Capital/Risk-weighted assets)

Nevertheless, asset quality remains a problem. Recoveries and provisioning are therefore key priorities for banks, but this implies that capital that could otherwise be used for on-lending is being earmarked to cover bad debts.

Payments system

In 2007, SIMTEL, the national switch, was restructured and recapitalised with the acquisition of a 75% stake by German private equity firm ADC¹⁷. Banks hold the remaining 25%. ADC's involvement has led to a slight improvement in the performance of the payments system but the banks are still highly critical, citing especially ATM downtimes of 75% and lengthy delays in card processing. The dysfunctional nature of the payments infrastructure has effectively meant that banks have not been able to contemplate the kind of electronic or card-based strategies that could have brought more significantly more people into the banking system.

Recently, there has been a de facto liberalization of the arrangements governing the payments system, partly brought about by a change of strategy on the part of VISA in sub-Saharan Africa (see section 3.3.5). This important development could remove a costly bottleneck and herald significant changes in banks' distributions strategies, especially towards the lower end of the market. The result is a much more optimistic outlook for electronic transacting including the likelihood that banks will start to charge for accessing an ATM network over which they will have greater control. This in turn is positive for financial access, for example creating opportunities for branchless banking solutions in rural areas.

BPR transformation

The Dutch bank Rabobank acquired a 35% shareholding in BPR in 2007. This deal began the transformation of a nationwide cooperative union into a commercial bank, with potentially important implications for access to financial services for a greater proportion of the population. As of 2009, BPR accounted for 20% of total banking sector assets, 63% of bank branches and had a little over 1 million clients¹⁸. By contrast, Banque de Kigali, the leading commercial bank by assets has 45 000 clients (GFIS, 2009). In addition, BPR's reach extends to both ends of the market, from small farmers earning less than Rwf 27000¹⁹ per month to business owners earning Rwf 90 million per year²⁰. Sixty percent of its business has traditionally been in microlending to small farmers which it will continue with an expanded range of products, while also increasing its business in the higher end parts of the market, including salaried people and

¹⁷ Interview with Jean Sebabi Bosco, NBR Payments System Department in December 2009

¹⁸ Percentages based on GFIS data and NBR data from July 2009 Monetary Policy Report

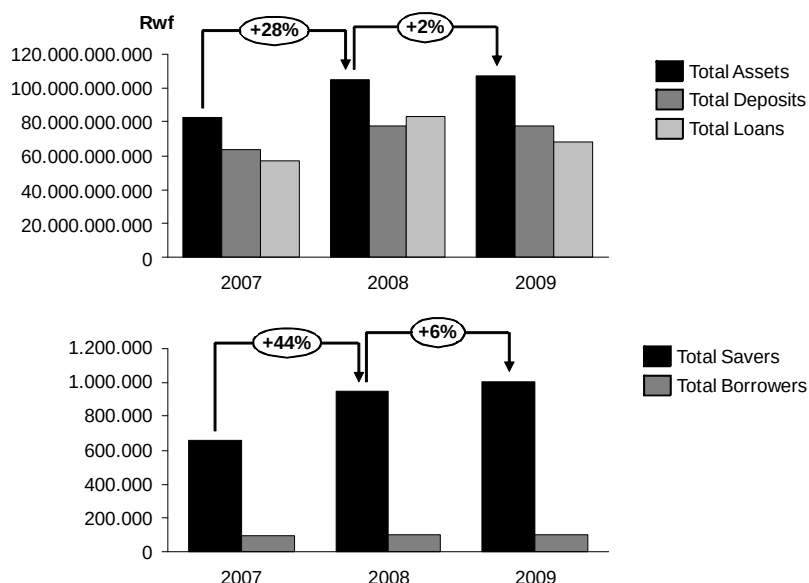
¹⁹ Based on an average annual exchange rate (ask price) of Rwf 906 to 1 GBP for the year 2009, sourced from: www.Oanda.com

²⁰ Interview with Konde Bugin, COO of BPR in February 2010

corporates, BPR could become a powerful monopoly although there is evidence that BPR will have to compete to keep its differentiation.

Figure 13 illustrates the growth in assets, deposits and loans as well as clients for BPR. Strong growth prior to the transformation between 2007 and 2008 tailed off between 2008 and 2009. It is hard to form a view on whether the more recent, weaker performance is down to the economic downturn or increased competition from other banks.

Figure 13: Banque Populaire Growth



Source: General Financial Institutions Survey Data

Certainly, the new management is internally focused at present – on automating the branch network, cleaning up the balance sheet and recruiting qualified staff – and is far from operating at full strength. The success or otherwise of the BPR transformation and the strategic choices in makes in the coming years, perhaps especially around rural and agricultural finance, will be highly influential in determining financial inclusion in Rwanda.

Regional banks²¹

The entry of Ecobank, Access Bank and Kenya Commercial Bank (KCB) has intensified competition. Ecobank was the first entrant in 2007, with the acquisition of Rwanda's

²¹ Data sourced from company websites and press releases

Commercial Bank for Development and Industry (BCDI) in 2007 (Banque Nationale du Rwanda, 2007). Ecobank now has 15 branches nationwide. Access Bank of Nigeria acquired BANCOR in 2008, with a 75% shareholding. It has 7 branches. KCB is the newest and reportedly the most aggressive entrant, having applied for a banking license in 2008. It currently has 9 branches.

Target markets for these new entrants tend towards the higher end, although KCB positions itself as a bank for the individual and low-income salaried market as well. These are regional banks with well-capitalised parent companies. As a result they are able to:

- 1 Mobilise significant capital from parent companies to support physical expansion. For instance, KCB's expansion reportedly cost between \$10 and \$15 million (Hitimana, 2008).
- 2 Attract quality staff from the local and regional markets with higher pay and superior training programs. For instance, Access Bank sends local recruits to the parent company's training school based in Lagos at a cost of Rwf 9 to 10 million (almost GBP 11,000) per employee. Many domestic banks face the same skills constraints but are often not able to take advantage of the economies of scale enjoyed by regional banks. Although there are reports of aggressive poaching by KCB, it appears that there is as much a focus on selecting and training recent graduates, as there is in "buying in" highly qualified local bankers (allAfrica News, 2009).
- 3 Provide a wider range of payments solutions through the use of a correspondent bank or the banking group. For instance, Ecobank offers interoperable debit and credit cards which are processed at group level thereby bypassing the costly local switch. Access Bank processes EMV cards through its correspondent bank, La Belgolaise, in Belgium²².

This level of competition is good for the consumer and as one bank CEO put it, "customers have a choice, and now we're running after customers". However, much of this competition is for High Net Worth Individuals (HNWI), large exporters, formal small and medium enterprises and institutional investors like MTN. Competition has not yet had a material impact on lending rates, with products priced similar across banks and interest rates between 18% and 20%. Domestic banks are responding by expanding their branch networks, improving customer service and streamlining systems to deliver faster service. However, only two out of six banks interviewed identified the low-income market as a competitive strategy in this rapidly evolving environment.

²² Stakeholder interview, February 2009

PRODUCTS AND MARKETS

Transactional and savings products

Most banks offer basic transactional and savings accounts with no minimum opening balances based on an agreement between the banks and the NBR. But while it is possible to open a bank account quite easily – know-your-customer (KYC) requirements are not onerous – using the financial system for anything other than very basic deposits and withdrawals becomes more expensive and exclusionary.

Table 5: Transactional accounts at select banks

	Minimum opening balance	Minimum operating balance	Interest rate	Monthly fee
Access Bank	0	RwF 100 000	5%	RwF 2 000
BCR	0	RwF 100 000	5%	NA
Bank of Kigali	0	RwF 10 000	NA	RwF 550
BPR	0	RwF 10 000	7%	RwF 0
Finabank	0	RwF 50 000	9%	RwF 1 500
UOB	0	RwF 1 000	5%	RwF 200

Source: Bank sources

Most accounts require minimum operating balances so that while it is technically possible to open an account with no minimum opening balance, the account is automatically closed within a specified period if a deposit has not been made. Interestingly, one major bank still included the requirement to have a minimum opening balance on its product literature, perhaps reflecting the real features of the product and, when asked, bank representatives give a different description of the product's features compared to what is on the website.

Table 5 describes the features of basic savings accounts at selected banks. Based on the minimum operating balance, there is a clear segmentation in the market. Banks such as Access and BCR are targeting the top end of the market while the microfinance bank UOB and BPR are targeting the lower end, with Finabank and Bank of Kigali in between.

Part 5 of this report, on Access Frontiers, explores these issues in more detail, concluding that the physical presence of BPR in every district, with its “free” current account²³, means that transactional banking is physically accessible throughout the country and affordable.

Finabank also offers transactional banking that is essentially free but it lacks BPR’s physical infrastructure. From this we can conclude that a policy to require the banking industry to issue standardized basic bank accounts (as has been the case in many developing countries including South Africa, Pakistan and Mexico) would add very little to financial inclusion.

Our analysis suggests the formal savings environment compared with transactional banking is more exclusionary – that is, there is a shortage of savings products whose product features accommodate the constraints that poorer consumers operate within. Products marketed as savings products (“term deposits” or “savings accounts”) tend to require minimum balances and do not pay interest until a sizeable savings balance is reached which appears to be out of reach for poorer, yet economically active, people. For example, BPR’s low-end Hirwa Savings Account only pays interest when a balance of Rwf 20 000 is reached while its high-end Gwiza Savings Account (a very similar product to BCR’s savings account) requires a minimum deposit of Rwf100 000.

Although savings products in Rwanda are sometimes packaged attractively (e.g. for education or marriage), they lack innovative design features seen in other markets that are known to appeal to poorer consumers. For example, savings accounts that bundle life insurance²⁴ have been popular elsewhere; these may appeal to savers in Rwanda whose primary reason for saving, according to FinScope, is to pay for medical expenses.

As noted above, an objective of the National Savings Mobilization Strategy is to promote the development of innovative new products. Although we understand why the idea of developing product “concepts” and sharing these with banks seems logical, we doubt whether the banks will be persuaded to change their strategies towards the mass market without a change in their incentives. Large numbers of low value accounts carry a cost for the banks (for example, in terms of increased instances of fraud as well the administrative account set-up costs) and the banks do not seem to believe that the benefits of such low-value deposits outweigh their cost. We do think however that there is potential for GoR to use the formal financial infrastructure as a way to drive formal savings, especially if the banks are able to benefit from administrative fees or a subsidy.

²³ Although it does charge for an “account book”.

²⁴ Bank Windhoek in Namibia designed a basic savings product specifically for the low end of the market (EasySave) that entitled savers to automatic life insurance. The product proved highly attractive to the target market bringing in US\$1m in new deposits for the bank in just 6 months from a very sparse population. The cost of the life insurance to Bank Windhoek was quite modest.

Box 1: Savings products that could be promoted with the collaboration of government

Lottery-linked savings: Prize pay-outs have been shown to appeal to poorer consumers. Examples include a state-driven initiative such as the UK's Premium Bonds or a purely private initiative such as the Million-a-Month product from South African bank, First National. The attraction is that the principal is protected and there is the possibility (however remote) of a large payout. As one research paper puts it, it is a case of "heads you win, tails you don't lose". GoR could offer the product itself via the banks or MFIs, perhaps in return for an administration fee.

Retail bonds: Examples include the UK's National Savings Certificates (which can be purchased through the Post Office) or South Africa's Retail Savings Bonds. These can be purchased through the SA Post Office or a leading supermarket in denominations as low as R1 000 (US\$130) up to a maximum of R5 million (US\$650,000) for 2, 3 or 5 year terms. Savers can elect to receive interest on the bonds on a regular basis or allow the interest to accumulate until the bond matures. It's easy to buy the bonds, requiring little more than an ID and a nominated bank account into which the interest and the principal can be paid on maturity. Since they were introduced in 2004, Savings Bonds have brought in R6.4billion (US\$850 million) for the SA government. They were introduced explicitly to make savings more accessible and, because the rate they offered was much better than what was available through the banks, boosted deposit rates generally across the market. The fact that savers are required to have a bank account that will receive interest payment and, on maturity, the principal is in itself positive for inclusion. Savings bonds are particularly popular with older savers, presumably because they offer a regular income and government backing.

Again, banks or MFIs could offer these bonds through their outlets in return for a fee. Their active involvement would be required to the extent that an account is also required to be opened.

Matched savings products: It may be possible to incentivise saving by particular population sub-groups or for a particular purpose (for example, higher education) by offering a matched contribution. The Fundisa Fund is one such product. This is a joint venture between the South African government and the unit trust industry whereby savers who save for their children's tertiary education get an annual bonus of up to 25% of their savings as a matched (ie free) contribution, subject to an annual limit of R600 (US\$80) per account.

Another well-documented example is the UK's Child Trust Fund under which parents receive a voucher for £250 upon the birth of a child and are required to open a savings account into which they can accumulate savings for the benefit of the child when he/she reaches the age of 18.

The three areas we believe it would be worthwhile for GoR to focus on would be lottery-linked savings, retail bonds and matched savings products (see Box 1). All such schemes would need to be assessed for their appropriateness to the Rwandan context. However they offer the basis of a partnership between GoR and the formal financial sector which could result in both enhanced savings and increased access to banking.

Loan Products

The landscape for personal or business (i.e. non-corporate) bank loans in Rwanda is characterised by a reasonable spread of products for the affluent middle class, almost all of which require proof of salary (or regular income) and collateral of some kind, and much less choice for non-salaried people, microenterprises and farmers. According to FinScope, only 25% of the population claims to borrow and only 10% of these claim to borrow from banks.

The key barriers to access are the need (in most cases) for a payslip, the minimum size of the loans on offer and income levels. As only 9% of the adult population claims to receive a regular salary, the need to produce a payslip clearly means that most of the population will be excluded from most forms of bank lending.

Some smaller loans on offer are salary loans, mainly for consumption, which by definition require a payslip. Even within this category, banks' segmental preferences are clear – BCR's minimum loan size for a salary loan is around Rwf 500,000 with UOB offering salary loans as low as Rwf 55,000. Variants on the salary loan are available in the market – BPR offers a "salary advance" loan up to eight times net monthly salary, requiring collateral only if the loan exceeds Rwf4m, but they also offer a "mid-month salary loan" up to half the monthly net salary for a fee of 3% of the advance. In its administrative simplicity, this kind of loan is clearly intended to compete with the informal moneylenders known as the "banque lambert".

Other personal loan products available to salaried people include vehicle, housing and home improvement loans and loans for education or marriage. Typical interest rates are 15-20% – Banque de Kigali, for example, applies a rate of 17.25% on all its loans, regardless of type.

As an example of a mid-market oriented bank, Finabank offers individual loans starting at Rwf200,000 although typical loan sizes may be closer to Rwf800,000. Interest rates are 20% and the loan term can be between three months and 15 years. The applicant must have a bank account and insurance and must be employed. Repayment amounts must not exceed a third of monthly income. Our analysis of loan affordability in Part 5 (Access Frontiers) suggests that only 15% of people who are not already borrowing could afford the Fina loan even at the bottom of the range.

Two banks are attempting to overcome the problem of no collateral by offering group loans. Here the worlds of mainstream banks and MFIs coincide and we suggest there is in fact a reasonable degree of competition between these banks and MFIs for this kind of business. These microcredit loans are to be distinguished from SME loans which are typically much larger (see 3.3.5).

UOB provides group, as well as individual, loans mainly to small businesses. Average loan sizes are around Rwf100,000 (US\$200), but can go as low as US\$50, and attract interest at 2%-3% per month. The group is required to undergo training for at least four weeks before the loan is disbursed.

BPR also has a microcredit loan for groups which lack collateral but do have some income generating project that will repay the loan. The loan size is capped for an individual in a group at Rwf250, 000 (US\$500).

Although there is a modest supply of group lending, the trend appears to be towards individual lending. This was noticeable in banks and MFIs. The implication is that providers have concluded that the benefit of the group guarantee is insufficient compensation for the extra administrative cost of dealing with a group, especially in the set-up phase.

In conclusion, the vast majority of Rwandans are ineligible for most loan types (because they do not have a regular salary) and could not afford them anyway. While product features and eligibility criteria do constrain access, there are significant demand side constraints too (beyond simply a lack of income) that keep the numbers of people who claim they borrow low, including the fact that most people are quite fearful of the consequences of not being able to repay a loan²⁵. This needs to be taken into account when considering the extent to which supply appears to fail to meet demand.

MAJOR CONSTRAINTS

The Rwandan banking sector is growing and remains somewhat profitable despite high costs. However, given the high demand for credit and savings products by low-income, informal and rural markets, only BPR and UOB explicitly target and provide services to this population. The authors asked banks' stakeholders about the major constraints to financial sector growth, as well as that affecting financial sector provision to the low-income population. A comprehensive list is in the Appendix but the following were identified as major constraints: skills, payments infrastructure and the policy and regulatory process.

²⁵ According to FinScope, 58% say they are scared banks will seize their property if they borrowed from them

Skills

The lack of skilled staff emerged as the dominant constraint to business development for all respondents interviewed. Skills gaps exist not just in specialised roles in the industry (which could be expected from a small market like Rwanda) but also at the basic teller or claims officer level. There also appears to be a significant need for training that is not specifically financial sector specific – for example, in basic customer service.

Although some training courses are available through the School of Finance and Banking (SFB), these are viewed as high-level, expensive and too theoretical. With its popular MBA course, the SFB appears to be more of a business school than a bank training academy.

Payments infrastructure

Deficiencies in the payments system emerged as the second greatest constraint to business development. For several of the banks interviewed, an ATM or electronic product strategy could not be contemplated without a change in the arrangements involving SIMTEL. SIMTEL's past monopoly in the payments space has resulted in an inefficient and costly system with significant downtimes.

Firstly, the NBR has mandated that only chip and pin cards can be used which cost about \$4 per card. For most of their customers, banks would prefer to issue magstripe cards which cost 75 cents each and can be manufactured locally. Currently, banks are unable to issue cards quickly because the card processor (Namitech of South Africa) prefers to process in higher batch sizes than SIMTEL can provide it with. It therefore takes between three and six months to obtain a card.

Secondly, low volumes and high fixed contract costs payable to SIMTEL for ATM services make it difficult for banks to recover costs from customers. Technically, banks are able to charge transaction fees (both on-us and off-us) but the ATM network is only available about 75% of the time so clients are discouraged from using ATMs and continue to crowd banking halls. The result is that it is not feasible for banks to charge for this sub-optimal service and so they suffer significant revenue losses and the contractual cost payable to SIMTEL of about \$10,000 a month is effectively irrecoverable.

As ATM services are currently free for the customer (to the extent ATMs are used at all) but expensive for the bank, banks are not incentivized to roll out ATMs to underserved areas.

However, the recent developments with VISA means that although the banks will continue to collaborate with SIMTEL one way or another, they will probably make greater direct use of Visa itself or new players coming into the market, such as Egyptian card manufacturer MSCC with which Bank of Kigali has already established a partnership alongside SIMTEL.

Fina Bank has also piloted an arrangement whereby SIMTEL will make chip and pin cards locally that do not carry the Visa brand. Fina says the Visa brand is not necessary for its almost exclusively domestic customer base. This will mean that cards will be processed more quickly and so card-based transaction volumes will also grow more quickly. This model looks likely to be replicated by other banks.

Policy and regulatory process

The respondents were generally satisfied with the policy environment and the content of regulation governing the banking industry. The recent Mortgage Law was, however, sharply criticized and is now being revised.

Banks did complain about poor communication and a lack of genuine consultation. The regulatory style of the NBR was described as unnecessarily paternalistic, in view of the collective experience that exists at the top of the industry. This was particularly true where NBR had involved itself in commercial negotiations on behalf of the industry without prior consultation. For example, the NBR had recently required the banks to use a Reuters foreign exchange information feed which a number of the banks felt they did not need.

Although NBR is not considered a coercive regulator and has pursued a vision for financial sector development that is largely market-based, it seems that the banks would prefer a slightly lighter form of regulatory oversight. A self-regulatory model, involving a code or a charter, could be used to drive policy objectives such as access, service quality and consumer protection. This is explored in Part 6.

SPECIALISED BANKS

Rwanda Development Bank

The Rwanda Development Bank (BRD) was established in 1967 as the nation's development finance institution. Its mandate is broad, covering export financing, agriculture, tourism, health, education and microfinance as well as energy and information technology industries. From an access perspective we focus on the microfinance aspects of its activities. As of 2008, the GoR and other state institutions such as CSR owned about 45% of shares. The IFC held a 49.49% share while the private sector held the remaining 5.84%. Forty-five percent of project financing goes toward export promotion (BRD, 2008). Less than 7% of funding goes to financial institutions including microfinance institutions.

The bank's Fund for Refinancing and Development of Microfinance (FOREDEM), was established in 2002 as a financing mechanism for the microfinance industry (see Table 6). In 2008, the fund mobilised Rwf5.2 billion to provide refinancing, credit lines and capacity building for MFIs providing services to small farmers. The funding is divided into three sectors: the primary sector which covers agricultural production projects, the secondary sector which

includes value-adding agribusiness ventures such as coffee washing stations, and the tertiary sector, which refers to the refinancing of MFIs.

Table 6: Evolution of FOREDEM approvals per sector of activity (in Rwf millions)

Sector	2006	Amount disbursed	2007	Amount disbursed	2008	Amount disbursed
Primary	6	137	8	392	4	93
Secondary	13	967	19	1471	15	916
Tertiary	10	1283	1	50	5	460
Total	29	2387	28	1913	24	1469

Source: BRD Annual report, 2008

The conditions of the loans are as follows:

- The requested amount cannot exceed 20% of deposits. This arguably impacts negatively on smaller MFIs, which need the facility the most;
- 6% interest which sometimes can be adjusted to reflect institutional risk;
- An NPL rate of 10% or less;
- A business plan focused on agriculture related activities; and
- Audited financial statements (BRD, 2008).

The BRD facility could prove extremely useful to smaller MFIs struggling to mobilise external funding. At present, larger MFIs, including Zigama CSS, have been more successful in accessing the facility. Many small MFIs are unable to access FOREDEM funds because they cannot meet eligibility criteria, leadership capabilities are weak or business plans are not properly drafted. Of 71 applications received by BRD in 2008, only 24 were approved and only five were for refinancing (BRD, 2008). AMIR is trying to negotiate more flexible terms for smaller MFIs, including a repeat facility for MFIs that successfully disburse smaller tranches.

However, even MFIs that do qualify for FOREDEM funding have not necessarily benefitted. One MFI received a FOREDEM loan of Rwf100 million at a monthly interest rate of 3.5% and a 50% guarantee for delinquent loans. The loans were to be disbursed to retrenched civil servants, many of whom were aware that this was a government program and subsequently failed to repay their loans. In addition, to access the guarantee, the MFI had to go through the courts, a lengthy and expensive process for any MFI. Other MFIs complained that the loans came with prescribed interest rates for clients. This suggests that the facility is being politicised

to suit government aims, which will ultimately defeat the aims of the facility. If participating institutions are not allowed to charge market-related rates then they will seek more flexible funding elsewhere. Three senior MFI officials have either obtained or plan to obtain commercial loans for their institutions from banks such as BPR, BCR and Ecobank.

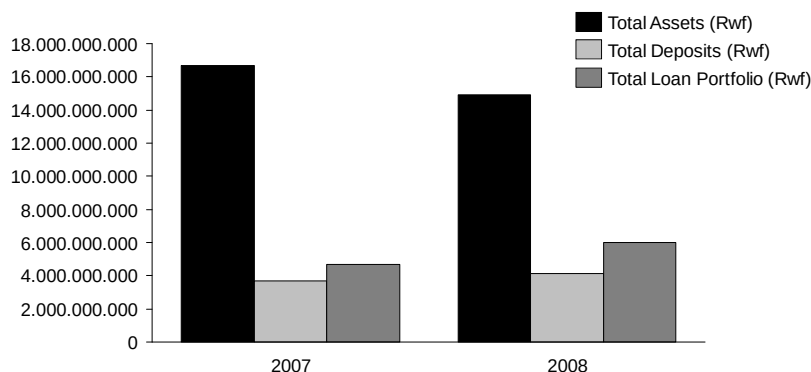
Rwanda Housing Bank

The Rwanda Housing Bank (BHR) was established as a Housing Fund in 1975 by Presidential Decree. In 2004, the fund was converted to a housing bank with the specific purpose of granting mortgages to the retail market. Majority ownership of the Rwf6.4 billion share capital is held by the GoR (53%) and the Caisse Sociale (BHR, 2008).

As a state-owned institution, the bank offers housing loans primarily to civil servants at preferential rates of 14% and for longer terms of 15 years. In comparison, the commercial banking sector provides housing loans for 5 years at interest rates of 18 to 20%. The maximum loan for individuals is set at Rwf30 million, with an initial down-payment of 30% of the value of the house. In addition, the bank provides loans to cooperatives.

The BHR is a very small bank with less than Rwf15 billion in assets in 2008. Because of its size, BHR has had limited impact in the retail market. In 2008, the bank disbursed 126 loans amounting to Rwf5.7 billion (BHR, 2008). In comparison, BPR disbursed mortgage loans of Rwf20.5 billion (GFIS, 2009). Furthermore, outreach is limited to one branch in Kigali.

Figure 14: BHR Total assets, deposits and loans (in Rwf thousands)



Source: General Financial Institutions Survey, 2009

More promising perhaps is its potential role as financier to property developers and banks wishing to provide longer-term mortgages. In 2007, it completed a successful project in Gaculiro, Gasabo district with a favourable response from the public (BHR, 2008). In July 2008, the IFC announced its intention to provide a mortgage lending facility through the BHR to

provide long-term financing for property developers and banks through the Rwanda Housing Bank (allAfrica News, 2008).

The BHR is in the process of privatisation with the IFC acquiring 20% of the government's shares. Currently the BHR is not a driver for financial inclusion, but if its mandate were to change under new ownership, this could change

3.3.3 THE MICROFINANCE SECTOR

The Microfinance Law No 40/2008 defines four categories of microfinance institutions:

- 1 Category 1 MFIs are informal mutual societies or ibimina constituting no more than 25 members, with an annual turnover not exceeding Rwf2.5 million. Ibiminas cannot lend more than the contributions received from members. Unlike other categories, they are not required to submit reports to the NBR. They are, however, required to submit official documents confirming membership and organisational rules to the Ministry of Commerce (MINICOM). There is some protection for members in the event of theft under the general criminal code.
- 2 Category 2 MFIs are mainly cooperative societies of no more than 100 members, which are allowed to take deposits and lend to members only. There is no minimum capital, but cooperatives cannot lend more than Rwf3 million to one member in a given year and annual turnover cannot exceed Rwf20 million. Registration is not required but the MINICOM must be informed of their existence and activities through quarterly reports similar to those for Category 3 MFIs. There are 26 'registered' MFIs in this category.
- 3 Category 3 MFIs include a broad range of deposit-taking MFIs and cooperatives with a minimum capitalisation of Rwf300 million and Rwf5 million, respectively. The MFIs are registered and licensed by the NBR as limited liability companies or Public Companies. Savings and Credit Cooperatives (SACCOs) are registered by the Ministry of Commerce but supervised by the NBR. Reserve requirements are applied as a percentage of deposits and they must maintain a capital adequacy ratio of 12%. There are 11 MFIs registered as Public Companies under this category and 67 registered as SACCOs.
- 4 Category 4 MFIs are credit-only institutions. These are registered under the microfinance law as limited liability companies, with a minimum capitalisation of Rwf300 million. They must be licensed by the NBR and submit quarterly reports on funding sources, disbursements, quality of loans and client numbers. Reserve requirements which apply to deposit-taking MFIs do not apply to Category 4 MFIs. There are only two MFIs in this category: Blue

Financial Services, a South African micro-lender, and Rwanda Microfinance Limited (RML).

Other emerging microfinance institutions include the government-backed Umurenge SACCO programme²⁶ and the Village Savings and Loan Associations established by CARE.

SECTOR SIZE AND PERFORMANCE

Considering the number of players, the size of the microfinance sector in terms of assets, deposits and loans is small compared to the banking sector. As of 2008, it constituted only about 7% of total financial sector assets (NBR, 2007). However, total assets have grown by almost a third since 2007, from Rwf47.9 billion to Rwf71.5 billion in 2009. Deposits increased to Rwf45 billion from Rwf28.6 billion in 2007, while loans increased to Rwf49 billion from Rwf27 billion in 2007 (NBR, 2010). As with banks, growth in loans and deposits slowed in 2008 due to the liquidity squeeze. MFIs have also had to comply with increased prudential requirements thereby diverting their activities towards fundraising and loan recovery.

The rate of growth in the number of clients has been much slower than that observed in the value of loans. The number of clients grew marginally by 5% from 2008 to 2009 in total, suggesting that MFIs are growing their asset base by targeting higher income individuals with larger loan sizes. This observation is supported by interviews. Respondents admitted that future growth strategies included an increase in individual loans and a decrease in group lending, as the former are considered more profitable although more risky. This does not mean that MFIs are abandoning their social or developmental mandates, as many are also planning, for example, to serve agricultural cooperatives. However, it does mean that competition and the pressure to improve prudential ratios is driving MFIs, particularly Category 3 MFIs, slightly up-market.

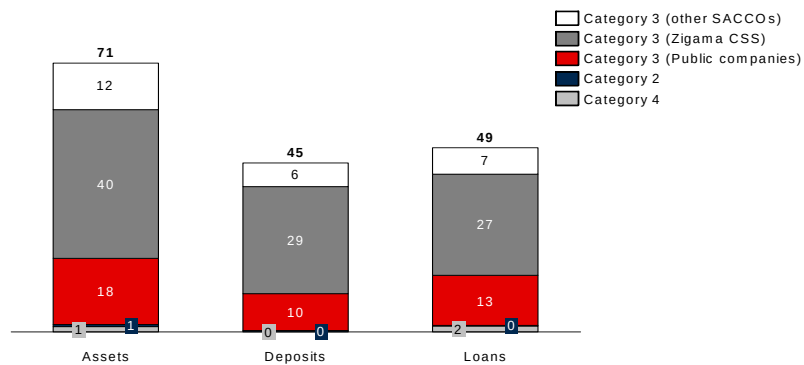
MFIs are more widespread and accessible than banks. There are almost 360 microfinance branches serving 722,474 clients. The state-sponsored cooperative Zigama CSS, which draws its membership from the military and the police, is a dominant player with 68,391 clients (NBR, 2009). In this respect, physical proximity in Rwanda is not as much of a problem as it is in other African countries. According to a 2008 CGAP report, there are 4.17 MFI branches per 100 000 people, with rural outreach at 3.2 branches per 100,000 people whereas urban outreach is at 0.8 branches per 100,000 people. Uganda, in contrast, has about 1 MFI branch per 100 000 people (CGAP, 2008). However, many large MFIs are still located in urban centres and towns, and rural access is limited to smaller MFIs.

²⁶ It should be stressed the Umurenge SACCOs are not a separate category of MFI. They will be regulated in the normal way under the Microfinance Law. We highlight them simply because it is a recent and very significant new development.

Table 7: Growth of the microfinance sector in Rwf billions

	2007	% change	2008	% change	2009 (Sept)
Total Assets	47.9	25%	60.1	19%	71.5
Total Deposits	28.6	34%	38.3	17%	45.0
Gross Loans	27.3	55%	42.4	16%	49.0
Clients	631 689	8.5%	685 651	5.3%	722 474

Source: NBR Supervision Department; Kantengwa (2008)

Figure 15: Size of the microfinance sector by category

Source: NBR Microfinance Supervision Department, 2009

When broken down by category (see Figure 15), Category 3 MFIs constitute the largest share of microfinance activity. Of these, Zigama CSS and public companies such as CFE Agaseke, Duterimbere and Vision Finance account for 86% of assets. The smaller MFIs account for 14% of assets and are more dispersed. As MFIs struggle to meet higher capitalisation and prudential requirements, consolidation within the sector is expected.

The sector's performance declined in 2008, with delinquency rates rising from 5% to 8% in 2009. Profitability on a consolidated basis is very poor at a consolidated ROA of 1.6%. Disaggregated by type of MFI, it is clear that Category 2 and Category 4 MFIs' performance is tied to their high delinquency rates. The consolidated net income of over Rwf2 billion is heavily skewed by Zigama CSS, which made profits of Rwf1.58 billion, representing 83% of the net income of Category 3 SACCOs. These figures demonstrate that targeted support is required by MFIs to boost institutional capacity, access wholesale funding and to boost credit risk

assessment and loan recovery skills. The delinquency rate of Category 2 is particularly alarming, as these are smaller MFIs with greater capacity and resource constraints.

Table 8: MFI Performance Indicators 2009

Indicator	Category 2	Category 3	Category 4	Consolidated
Delinquency	14.9%	6.9%	22.9%	8.2%
Net profit (Rwf)	942,391	1,896,999,195	(7,510,905)	2,098,921,742
ROA	0.17%	3.6%	0.5%	1.6%

Source: NBR Microfinance Supervision Department, 2009

KEY DEVELOPMENTS

Regulation and policy

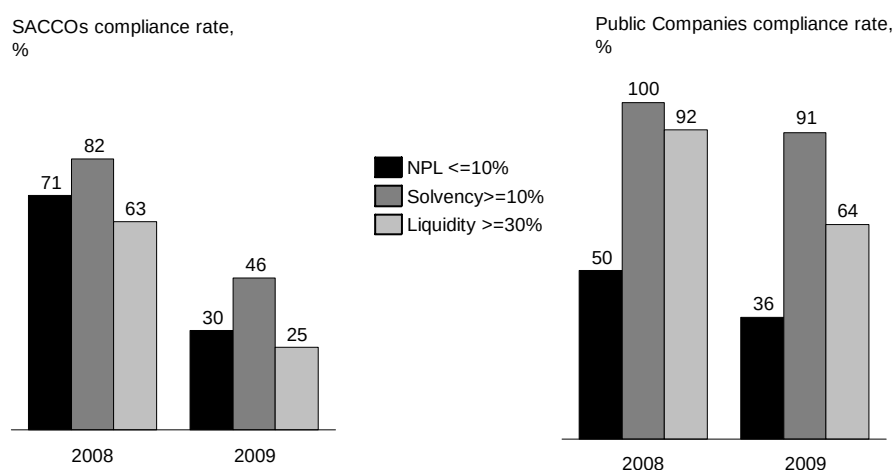
The regulatory environment for microfinance has been proactive and participatory, initiated by the central bank through consultative meetings and tours prior to 2006. In 2006, the sector faced a reputational crisis as six major cooperatives were liquidated when it was discovered that they were unable to meet client obligations due to mismanagement and poor governance (Kantengwa, 2008). To restore confidence in the sector, the NBR repaid 80% of depositors' funds between 2006 and 2008. This action communicated a commitment to the microfinance sector from the highest levels of authority and helped to restore consumer confidence in the sector. Subsequent policy and regulatory changes included:

- A National Microfinance Policy (2006), including the subsequent National Microfinance Policy Implementation Strategy (2007)
- Establishing an Association of Microfinance Institutions in Rwanda (AMIR) in 2007
- A revised Cooperative Law (2007)
- A Microfinance Law (2008) and subsequent new regulations

Most recently, to strengthen the sector, prudential ratios for non-performing loans, solvency and liquidity ratios have been raised. In 2008, solvency ratios were raised from 10% to 15%, whereas liquidity requirements were increased to 30%. NPL ratios can no longer be below 10% of the loan book. Even though NBR figures suggest the sector is comfortably solvent and becoming more so, many MFIs are struggling to meet these stricter requirements, especially following an intense period of capitalisation. As a result, compliance rates have fallen dramatically especially for SACCOs.

As figure 16 shows, only 30% of SACCOs met the NPL requirement for 2008 whereas 71% had previously been compliant in 2007. Similarly, only 36% of public companies met the NPL requirement, as compared to 50% in 2007. It is clear that SACCOs are having a harder time attracting funds and recovering loans. Institutions must now spend resources recovering bad debts, and mobilising funds, but few currently have the necessary resources (human and financial) to do so effectively. It suggests that these new regulations were implemented before MFIs were adequately equipped to handle the changes. Larger, urban MFIs with greater exposure to international donors and who have the financial resources to attract technical and ground staff will be more likely to meet the new requirements. The more numerous small MFIs that tend to serve rural and peri-urban populations are in a much weaker position with obvious implications for financial access particularly in rural areas.

Figure 16: Prudential ratios and MFIs compliance rates



Source: NBR Microfinance Supervision Department, 2009

Umurenge SACCOs

One policy initiative that is already having a significant impact on the microfinance sector is the Umurenge SACCO programme. The project is administered by the FSIDS within the MINECOFIN, and forms part of the National Savings Mobilization Strategy.

The goal is to establish a cooperative at the sector level (umurenge) in every district of Rwanda – 416 SACCOs. The logic for the initiative is based on the fact that there is a large amount of informal savings and investment activity in parts of the country where banks and MFIs are not represented.

Currently, only 18 Umurenge SACCOS have been registered by the NBR's Microfinance Supervision Department. These can provide only savings services while they build capacity²⁷. Strategic plans for the Umurenge SACCOS include the diversification of product offering beyond savings and credit to transactional facilities at local banks and MFIs.

We used FinScope data to analyse one population group whose characteristics are as follows:

- Only use informal products (i.e. not banked, do not use SACCOS or MFIs)
- 87% have monthly income between Rwf2,500 – 20,000
- 94% generate their own income

Three-quarters of these say they save, and most save at home or in a secret hiding place. Although these people are unlikely to save in the volumes that would appeal to banks, they do need financial services, which the Umurenge SACCOS could provide. However, the risks are in the implementation of the program. The estimated budget is Rwf4.39 billion, a subsidy that will gradually be phased out over three years (FSDP, 2008). To meet this goal, the FSDP has undertaken a three-phased implementation plan beginning in 2009:

Phase I: Sensitisation of the public through mass campaigns by the district.

Phase II: Creation of cooperatives, recruitment and training of administrative staff and establishment of administrative offices.

Phase III: Long-term view to create linkages between cooperatives and financial institutions.

Training for recruited administrative staff was scheduled over a two month period (March-April 2009). However, no structured training program is in place for cooperatives at umurenge level, despite there being a need to educate members on appropriate governance practices, and to ensure that cooperatives adhere to international cooperative principles.

To determine the potential impact of the programme on the microfinance sector, a SWOT analysis was conducted based on stakeholder interviews. The results are as follows:

Strengths

- By recruiting and training professional staff, the program aims to address the weak capacity that characterises many cooperative initiatives.

²⁷ Interview with Pierre Kagabo Canisius, Head of the Microfinance Supervision Unit at the National Bank of Rwanda in February 2010.

- The program could directly increase the number of people having access to financial services.
- Government participation is limited to 3 years to promote autonomy and independence.

Weaknesses

- The training program is too short and does not include a structured training program for the SACCO members to ensure that proper cooperative principles are adopted and exercised.
- The program may be viewed and run as a government program, thereby undermining the cooperative principles of voluntary membership and equitable ownership.
- The program does not focus on building the demand for the financial services by providing comprehensive financial education for prospective members, especially at the most vulnerable levels of village society.

Opportunities

- There are opportunities to further drive access and to provide a greater range of services through linkages with larger financial institutions. This will however depend on scale and performance
- There are cheap and proven training resources that can be leveraged to improve capacity at the umurenge level

Threats

- The program could create market distortions through unfair competitive practices. Already there are reports of coercion to join umurenge SACCOs by district officers
- The perception of the programme as a 'forced savings' programme, with set contribution levels that some may struggle to meet thereby placing undue financial stress on poor households
- Elite capture at the sector level can undermine efforts to reach the poorest if people of different means are forced into the same group. There are reports that this is already happening.

Despite the promise of extending the frontier of financial access in Rwanda, the SACCO Umurenge program also introduces additional challenges, not only to the microfinance sector but for regulatory and supervisory authorities as well. For instance, the NBR's Microfinance Supervision department is too small to handle the additional caseload and there is a possibility that the supervision of these SACCOs will be handled by the Rwanda Cooperative Agency (RCA)²⁸. Boosting the capacity of this young agency to deal with this added administrative burden will involve significant investment in recruitment, training and reporting systems.

Rwanda Cooperative Agency (RCA)

The RCA was established in 2008 under the Ministry of Commerce for the promotion, training, registration and supervision of cooperative agencies, which include the Umurenge SACCOs (allAfrica News, 2009). However, the organisation seems to have a very low profile. It does not feature on the MINICOM website and none of the cooperatives interviewed identified it as a key regulatory authority. Instead, the registration and supervision of SACCOs is being handled by the NBR's Microfinance Supervision Department. Although we were unable to meet with relevant stakeholders in the institution, other knowledgeable sources confirm that the organisation has very limited capacity and will need to recruit at least 60 full time supervisors if it is to fulfill its mandate²⁹. Improving the capacity of the RCA is crucial to the successful implementation of the SACCO Umurenge strategy. Neither AMIR nor the NBR currently have the capacity or the focus to provide training, support as well as supervision for the 416 SACCOs that are envisaged.

PRODUCTS AND MARKETS

MFIs mainly provide basic loan and savings products, although these may be for various purposes and for different target markets. Minimum operating balances for current accounts vary, from Rwf150 (Zigama CSS) to Rwf3 000 (Public Companies)³⁰. Minimum opening balances apply in most cases and are typically between Rwf 2 000 and Rwf4 000. Minimum loans for individuals are between Rwf 20 000 (small cooperatives and MFIs) and Rwf100 000 (larger MFIs). This is in line with a low-income target market earning less than Rwf10 000 a month. However, Zigama is a niche institution focusing on soldiers, the police and other salaried individuals in the security sector. This means that many informally employed, non-salaried individuals may not have access to its extremely cheap services.

²⁸ Interview with Pierre Kagabo Canisius, Head of the Microfinance Supervision Unit at the National Bank of Rwanda in February 2010

²⁹ Comments from Robert Hickson, co-author of a forthcoming performance review of the National Microfinance Policy Implementation Strategy and from Pierre Kagabo, Head of the NBR Microfinance Supervision Department

³⁰ Stakeholder interviews

Interest rates were uniform across the board, varying from 2.5% per month for short-term loans and 18% annually on a declining basis. They do not differ significantly from the rates charged by banks and may reflect the high cost of lending in small amounts. Most Category 2 and 3 MFIs offer solidarity group products. However, all institutions surveyed maintained that these products were not profitable.

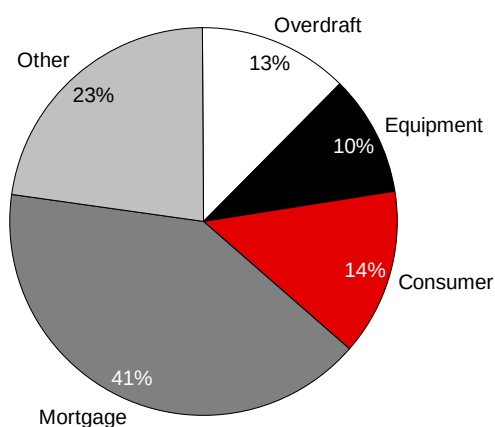
Table 9: Details of loan products for selected MFIs

MFI	Amount	Interest rate	Types of loans
Blue	Rwf 20,000 – 1m	60%* flat	Salaried
Amasezerano	Rwf 50,000		Individual, Group
Duterimbere	Rwf100,000 - 500,000	2% pm	Individual, Group
RML	Rwf 3,000 – 3m	2.5% pm	Individual, Group, Salaried
Zigama CSS	Rwf20000	13 – 15% pa	Individual
Vision Finance	> Rwf 5 m	2.5% pm	Individual, Group
Kozibi	Rwf 5000 - 2m	16% pa	Individual, Group
CAF Isonga	~ Rwf 10,000 - 30,000		Individual, Group, Salaried Agri loans
CFE Agaseke	> Rwf 100,000	15% pa	Individual, Group

*Between 80-120% per annum when you include fees

Source: In-country interviews, November 2009

Figure 17: Gross credit allocation by sector



Source: NBR Microfinance Supervision Department, 2009

Housing loans account for 41% of the consolidated loan book of MFIs (almost all from Zigama) amounting to a little over Rwf18.1 billion. “Other loans”, which include agricultural and microenterprise loans, come second at 23% (Rwf10.1 billion). Individual consumer loans make up 14% (Rwf6.19 million). Loans for equipment and overdraft loans are least in value, accounting for 10% and 13% respectively. Figure 17 demonstrates that the microfinance sector is critical in the provision of housing finance and agricultural finance, two major areas of need for the low-income population.

Care Village Savings and Loans Associations (VSLAs)

International non-profit CARE International's VSLA program has been in operation since 2000. They are exemplary in that groups are self-selected, operate at the village level and are able to obtain both savings and credit services from banks and MFIs through the association. The VSLA formation is very structured and focuses on:

- Capacity building: Training takes 18 weeks to a year and occurs at all levels. It also includes Business Development Services and Financial Literacy training
- Autonomy: Members form and govern their own VSLAs, without external assistance
- Linkages: VSLAs link up to form federations (“intergroupments”) that have in turn been able to obtain financial services from BPR. At least 30% of the first 75,000 VSLA members have been able to access formal financial services through BPR in this way.

The average weekly savings from VSLA members is Rwf50, but the amounts can be as low as Rwf 20. The programme has reached over 83,000 members, 77% of whom are women, with an average savings balance of \$9 each³¹.

The only drawback is that, at \$38 per member, the programme is costly when measured in purely monetary terms. With increased scale the investment will seem less expensive but until then the programme's charitable backers presumably believe that the developmental returns are worth the cost. Unquestionably, VSLA is an interesting “bottom of the pyramid” model and it is worth noting that the total VSLA membership in Rwanda is equivalent to the combined customer base of at least two or three of the country's commercial banks.

³¹ According to CARE's publication *Microfinance in Africa – Bringing Financial Services to Africa's Poor* (2009).

MAJOR CONSTRAINTS

The following constraints and concerns are based on in-country consultations with senior management at 13 MFIs in Kigali, Rwamagana and Butare: policy and regulation, institutional and funding capacity, and lack of skills. Additional constraints are identified in Appendix x.

Policy and regulation

Most MFIs concur that the government is highly supportive of microfinance and that the regulatory environment, although demanding, is likely to strengthen the industry.

The main concern was the potential impact of Umurenge SACCOs. MFIs argue this introduces unfair competition as customers will feel compelled to join an Umurenge SACCOs in preference to using an MFI because of political pressure. In addition, there is great reputational risk for the entire microfinance industry, coming so soon after the débâcle of 2006, if the programme fails and especially if there is widespread fraud or mismanagement.

A number of specific regulatory concerns came up in interviews.

- Microfinance regulations stipulate that a single loan cannot constitute more than 2.5% of deposits. This is a problem when MFIs begin to lose trusted clients who need bigger loans and it may be a problem for clients if they cannot then access a bank loan. The regulations may also negatively affect MFIs with small volumes of deposits.
- A number of MFIs complained about that NBR keeps the benefit of interest on the capital that MFIs are required to lodge with the central bank prior to registration for the duration of the period in which the MFI's application is being considered.

Institutional and funding capacity

For MFIs, which operate largely manual procedures, the lack of resources to implement suitable information systems or to automate and computerise branches constrains growth. The Association of Microfinance Institutions in Rwanda (AMIR) and CGAP are currently working to resolve this issue, with CGAP having recently conducted an audit of the needs of MFIs in the country.

Reasons suggested by AMIR as to why many MFIs are unable to access funding from FOREDEM, the credit facility set up by the BRD to refinance the sector, are that small MFIs lack the capacity to draft a business plan and fail to demonstrate adequate managerial competency. Coaching is required in these areas. AMIR could, for instance, subsidise training or technical assistance by external providers although it too has had trouble accessing funding,

even for capacity building. In addition, the BRD could improve the way it engages with weaker MFIs to assist them in preparing their applications. The current situation perpetuates a vicious cycle whereby a weak MFI is unable to obtain the funding required to improve its operating capacity because of insufficient institutional capacity.

Branch network is also a constraint. Without the resources to set up branches or at least guichets in key locations, MFIs will be restricted to current markets.

Lack of skills

The lack of skilled staff was less of a concern for microfinance institutions, although most conceded that there are some shortages in general microfinance skills, as well as the managerial skills referred to above. MFIs also lack the resources to attract competent staff and, when they do, these are often poached by banks.

The training courses provided by AMIR were thought to be of poor quality by the larger MFIs while smaller MFIs thought that the courses were high quality and possibly too high level as well. Smaller MFIs did not participate as frequently as they would like because the courses are seen to be expensive in terms of a day's lost business. There was a view that courses should be tailored more appropriately to the varying needs of the different types of institution.

AMIR itself also lacks capacity and this has contributed to the fact that it has not yet established its credibility across the industry (see section 3.3.1).

3.3.4 INSURANCE COMPANIES AND PENSION FUNDS

SECTOR COMPOSITION AND SIZE

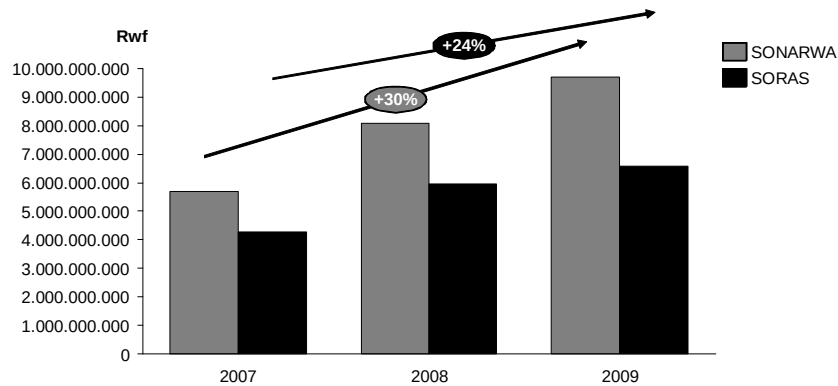
There are eight insurance companies in Rwanda with assets worth Rwf94.5 billion in 2009 (NBR, 2010). In the past three years, total sector assets have grown at 24% per annum. The majority of sector assets are in real estate, equity and other investments. Growth in premiums, by contrast, has been much slower. The sector is dominated by the Société Nouvelle d'Assurances du Rwanda (SONARWA) and the Société Rwandaise d'Assurances (SORAS) which, between them, represent 51% of gross premiums. The rest of the market is dominated by the two state-run entities, Caisse Sociale, essentially the state pension fund to which all formally employed people are supposed to contribute, and Rama, a medical insurance provider for salaried people.

Private sector

SONARWA is the largest insurance company, with total assets exceeding Rwf20 billion (about 25% of the market). Previously government-owned, majority shares were acquired by Industrial and General Insurance Plc, a Nigerian insurance group in 2007. It operates through 23

branches across the country and serves 110 000 policyholders (GFIS, 2009). SORAS was the first private insurance company in Rwanda, established in 1984, and is the second largest insurer in the country with Rwf11.3 billion in total assets (SORAS, 2008). It has 17 branches nationwide (GFIS, 2009) and 177 000 policyholders (The New Times, 2010). As with banks, branches are usually located in urban centers.

Figure 18: SORAS and SONARWA growth in premiums



Source: General Financial Institutions Survey, 2009

Both organisations have grown substantially, showing compound annual growth rate in total premiums of 30% and 24% respectively between 2007 and 2009. Profit increased sharply in 2008 after insurance companies reviewed their pricing for third party liability insurance, which is mandatory for all new vehicles. Prior to 2008, fierce competition pushed prices for this product down to 1% of the value of the vehicle resulting in massive losses for industry players. In comparison, Nigerian premium prices for the same product are between 4% and 5% of the value of the vehicle³². Prices were subsequently raised to a more competitive 2.5% of the value of the vehicle, to the dismay of policyholders. However, even at this level, the insurance industry claims to be incurring losses on this product line although this cannot be verified. Both SORAS and SONARWA aim to increase volumes, rather than the prices, to benefit from economies of scale and avoid alienating policyholders.

Public sector

Public sector institutions such as CSR and RAMA cover 5.6% (roughly 206 853 people) of the working age population (MINECOFIN, 2009).

³² Interview with SONARWA stakeholders

CSR is a pension scheme offering retirement benefits and disability insurance for public and private sector employees. The average benefit is only Rwf3 477 which is extremely low, considering that a salaried employee typically earns above Rwf10 000 a month. Contributions to the fund in 2009 were Rwf11.7 billion, an increase of 25% compared to the previous year as the CSR continues to enrol new employers and employees. Payouts increased more significantly than contributions indicating that the average payout amount may actually be decreasing.

Table 10: CSR growth in contributions and benefit payouts

Activities	2008	2009	%age change
Contributions	9.4 billion	11.7 billion	24.5
Payment of benefits	1.8 billion	3.1 billion	72

Source: Social Security Fund of Rwanda, 2009

Rama provides medical insurance to formally employed people. It is compulsory for all salaried employees, public and private, to pay contributions to Rama and Caisse Sociale.

Most recently, Rama and CSR were merged to form a new body called the Rwanda Social Security Board (RSSB). The integration process is under way. There is no suggestion that the merged entity will be more responsive to the financially excluded. The target market will remain salaried workers, although more benefits such as maternity leave and unemployment benefits may become more readily available (SSFR, 2009).

The accumulated Rama and Caisse Sociale funds dominate the landscape for sources of long term funds and it is arguably through the possible disposition of these funds in activities such as low-cost housing, that these institutions could have the most impact on the financially excluded.

Finally, there is the community-based health insurance scheme Mutuelle de Santé, which was established by law in 2007 to coordinate the provision of provide medical insurance to the general public. Currently, 80% of the population enjoys an element of cover through this scheme which operates through partnerships with public and private hospitals. Fifty-two percent of the financially excluded and 80% of rural dwellers are members of this scheme (FinScope, 2008). It is worth emphasizing that the Mutuelle de Santé is far and away the biggest player in insurance, measured by number of people who use it – only 2% use other forms of medical insurance and only 1% use mainstream (short term or long term) insurance.

The non-traditional nature of this organisation means that we have not analysed it in detail although FinScope data would suggest that it has been remarkably successful at extending the

quality of community health. It is clear from the data that those people who use the Mutuelle de Santé are more likely to go to hospitals whereas those who do not will tend to self-heal or use traditional healers.

As there are about 332 000 salaried employees in Rwanda and that SONARWA covers a third of these, while the CSR covers almost two thirds or over 206 000 workers, this leaves very little room for growth. Despite this, these institutions are unlikely to venture beyond their traditional markets for one significant reason: there are few reliable and cost-effective distribution or collection mechanisms that are capable of assuming the risk that clients may not pay their premiums regularly or on time. Currently, premiums are paid directly through payroll deductions before the employee even receives his or her salary.

One way of addressing this risk is through partnerships with MFIs with large networks. In Uganda, AIG has successfully transferred this risk to FINCA, its partner MFI and arranges to receive one large monthly premium instead of several thousand small premiums. FINCA takes on the responsibility of following up with the client in the event of non-payment.

The medical health insurance specialist Microcare Uganda (now part of International Medical Group) worked with burial societies to collect annual premiums that were then augmented by pay-as-you-go fees when people actually came for treatment.

KEY DEVELOPMENTS

Policy and regulation

The recent past has been a busy period for policy and regulation in the insurance industry. A new insurance law (No 52/2008) was passed in 2008, which calls for the separation of long-term and short-term businesses and increased minimum capital requirements for both types of businesses to Rwf1billion. As a result, insurance companies have been focused on separating their business along these categories and recapitalising accordingly. Separating the two types of insurance should bring greater focus to the long-term insurance market and ultimately support its development with benefits in the long run for developmental sectors such as housing which depend on long-term sources of funding.

A draft Pensions Law provides for three tiers of pension saving: (i) the compulsory element, under which all salaried employees pay into the Caisse Sociale; (ii) voluntary additional contributions, paid into an employer-administered scheme, and: (iii) so-called personal retirement savings accounts (PRSAs), a new form of long-term savings product designed to be accessible to retail investors, including non-salaried people. Tax incentives have been proposed for all three levels of contribution but these are not yet in force. The law has been submitted to Cabinet for approval and will go to Parliament thereafter. There is ongoing discussion about a reduction in the retirement age – from 65 to 55.

The third major piece of legislation is a draft law on collective investment schemes (awaiting Parliamentary approval) which will provide for unit trust-type products. While these could be used for long-term investment, it is thought they may in fact be used as a way for providers to repackage conventional savings products, marketing them for shorter-term purposes (e.g. school fees). They are thought likely to appeal to a more sophisticated clientele.

Finally, the administration of the CSR as a defined benefit fund is being reviewed. The fund currently pays out 80% of the last salary earned by an employee. However, recipients complain that this is still too low. Turning CSR into a defined contribution scheme would bring greater transparency.

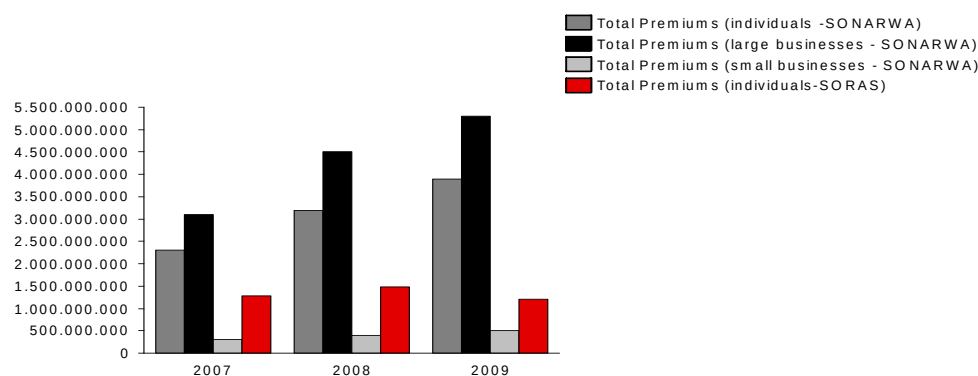
Although these are important developments for long term savings in Rwanda, they are unlikely to have a material effect on underserved or financially excluded people who are generally neither formally employed nor wealthy enough to be able to take advantage of long-term financial instruments such as pensions.

It is worth mentioning that a draft National Rural Insurance Strategy paper was prepared in 2008 jointly by the FSIDS/MINECOFIN and MINAGRI. This was intended to initiate a strategy that would have promoted the role of insurance as a way to eliminate the uncertainties that surround agricultural activities and so support the rural economy. The paper proposed subsidising insurance premiums and highlighted the role of weather-based insurance. While this paper does not seem to have translated into an active strategy, the focus on microinsurance is interesting and progressive and could be revisited at a later date.

PRODUCTS AND TARGET MARKET

The insurance industry has an exceptionally narrow reach. The primary target market is wealthier, salaried individuals who can maintain regular premium payments. Underdeveloped capital markets in Rwanda constrain the development of the industry, limiting the scope for reinvesting client premiums and savings to a narrow range of domestic securities and property. Third party liability insurance for motor vehicles, group life and education endowment policies are the most widespread products. More and more individuals are seeking endowment savings products such as an education policy but this is still too expensive for most of the population. A policy at SORAS costs Rwf3 000 per month.

Figure 19 shows the total premiums per target market. It is clear that the target market for SONARWA is primarily individuals and large businesses. SORAS targets mainly individuals. Strategic plans involve new branches and increasing market share. SONARWA, for instance wants to double the number of branches and increase its customer base by 25%.

Figure 19: SORAS and SONARWA target market by premiums

Source: SORAS and SONARWA target market by premiums

Although the low-income market is not a priority for the industry, SORAS and SONARWA have begun experimenting in this market through partnerships with MFIs and government bodies.

- SONARWA piloted a weather index insurance product for a cooperative of tomato farmers in partnership with MINAGRI and the World Bank. Unfortunately, the crop succumbed to disease, a risk which was not covered and the project has been put on hold until the farmers can resume planting. In addition, there were too few weather stations and not enough usable historical data. The World Bank, in partnership with the Food and Agriculture Organisation (FAO) will set up more weather stations and conduct correlation studies on weather data to determine accurate premiums. Anecdotal reports suggest the Ministry of Infrastructure is working to address these problems and SONARWA is still interested in going forward with the product once the required infrastructure has been upgraded.
- SORAS has entered into partnerships with UOB and CFE Agaseke to provide credit life insurance to their clients, bundled with the microloan. The Agaseke venture has made slow progress, having started two years ago, while the UOB joint venture has only just begun. Credit life is an important part of a microinsurance market but requires considerable effort (and therefore cost) in educating loan salesmen on what the product features are.

Funeral insurance, which has been an entry-point in other countries for providers looking to engage with the low-income market does not appear to have been considered, although stakeholders conceded that the cost of funerals is high in Rwanda.

MAJOR CONSTRAINTS

Regulation and policy environment

Insurers did not feel that regulation posed a serious constraint. The only ‘irritation’ was that the supervision had moved from the MINECOFIN to the NBR and therefore the regulation of insurance has a banking slant which is not suitable for insurance. Regulations include governance requirements to set up ALCO committees, solvency requirements (15%) and asset valuation (insurance companies in Rwanda invest mainly in housing developments).

As with the banks, insurers feel there was insufficient consultation with the result that the regulatory framework is not as good as it could have been.

Payments system and general infrastructure

The payments system poses no particular constraints on insurance companies. Insurers have traditionally used payroll deductions to collect premiums but this is declining. Insurers are trying to find more secure means of collection such as direct debit and standing orders: while customers seem to have accepted this, there have been significant problems with the banks’ administration of the payment process. These include late or missed payments and wrong amounts being deducted from customer’s accounts. While the infrastructure is there to support direct debits, many banks appear reluctant to support this method of collection.

Lack of skills

The lack of skilled staff is also acute for insurance companies, particularly as there are no schools that focus on this area. The School of Finance and Banking previously offered a two-year course which was considered too expensive (US\$4 000 per person) and too high level (targeting senior management) to be of any value. Subsequently, a lot of training has occurred “on-the-job”. The two insurers interviewed either have or plan to have a structured internal training program but even the pool of qualified trainers in insurance is limited. There is an insurance association (although this is not a very prominent organization) and the insurers spoke of plans to introduce training programs through this platform.

3.3.5 SPECIALISED PRODUCTS

Research in the financial inclusion field shows that people’s most basic financial needs are both simple and generic: at low income levels, people’s financial needs may be met through a simple savings product, and then, as incomes rise and people’s financial needs become more complex, they graduate first to a transaction product, then credit and finally insurance.

The specialised product areas described in this section are credit products and, on the basis of the logic outlined above, are likely to appeal to (and be taken up by) a much smaller population

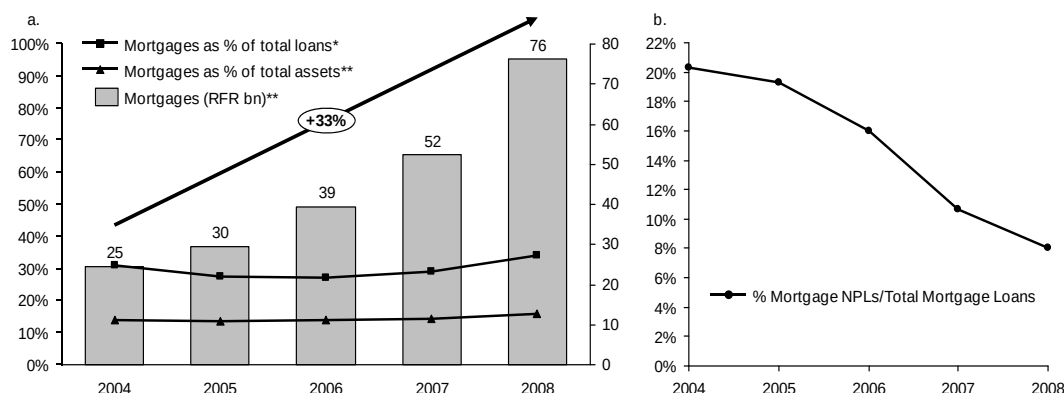
grouping than, say, savings or transaction products. But they are important as developmental priorities for the countries even if they are unlikely to yield the numbers that would demonstrate the success of a financial inclusion policy.

HOUSING FINANCE

Housing finance includes both mortgages and other types of housing finance products. Alternative and less formal housing finance products, such as home improvement loans, are better suited to expanding access to housing finance in low income and informal markets. As with many developing African markets, the formal mortgage market in Rwanda is small and restricted to the middle to high income market, despite an increasing demand for housing (and consequently housing finance) in urban areas.

As illustrated in Figure 20, the commercial bank mortgage loan book exhibited robust growth from 2004 to 2008 (an annual rate of approximately 33%). Despite significant growth, mortgages have remained consistent (around 12%) as a proportion of the total assets. Similarly, commercial bank mortgages have remained a relatively constant proportion of total loans at 24%. Given the increase in lending, the performance of the mortgage book is encouraging. The proportion of NPLs has steadily decreased since 2004 to 8% in 2008.

Figure 20: : a. Evolution of mortgage book b. Performance of mortgages



Source: An overview of the financial sector and financing opportunities for property development, NBR May 2009

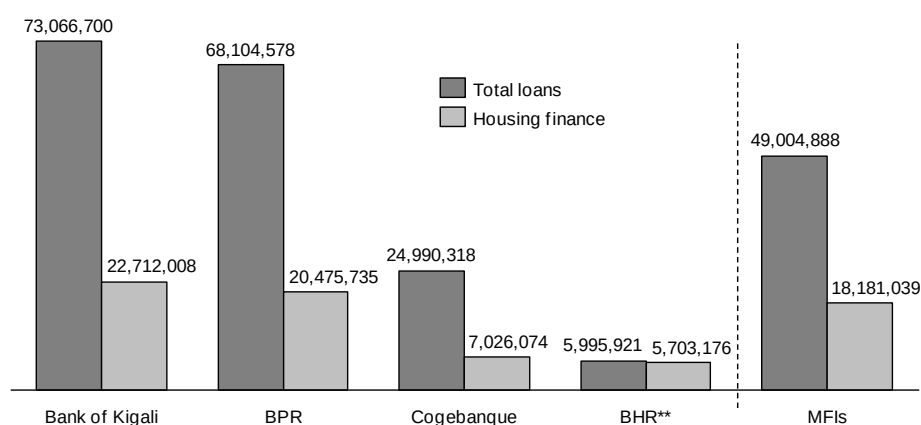
*Commercial banks only **Commercial banks and specialised banks (including BHR, CDH and BRD)

Housing finance is available from some banks, provided the client can produce an official title deed or similar document proving ownership. These are reportedly not difficult to obtain in Rwanda. Loans start from Rwf30 million at interest rates between 17% and 19%. Anecdotal evidence suggests that a basic house for a civil servant costs Rwf27 million and employment or proof of regular income is a prerequisite. The target market is the middle market and above.

On a bank-by-bank basis, data for this product is generally disjointed or incomplete due to outdated or insufficient reporting within the banking sector. In-country interviews with NBR and commercial banks suggest that the supply of housing finance is widespread, albeit fairly short term in nature. However, most commercial bank websites do not advertise these products. Of the eight banks, only two (Bank of Kigali and BPR) explicitly list housing finance as a part of their service offering. The remaining banks either do not list it as a product on their website, or do not have a website in which to advertise (such as Ecobank and KCB).

Despite limited available data³³, it is possible to identify the major players in the housing finance market, which include the commercial banks, Bank of Kigali, BPR and Cogebanque, as well as BHR. In 2008, these banks accounted for nearly 80% of the market, with housing finance making up, on average, 30% of the loan book³⁴. BHR has the smallest mortgage finance portfolio, despite specialising in this product. This reflects its limited outreach. Interestingly, MFIs, dominated by Zigama, are relatively large suppliers of housing finance, and represent nearly 20% of the supply.

Figure 21: Total loans and mortgage book for selected banks* and the MFI sector 2009, Rwf '000



Source: Annual reports, GFIS survey

*Where data is available **2008

Although the supply of mortgage finance is growing, it has a long way to go before it can meet market appetite. A recent report by NBR (2009) estimated that current and future housing demands translate into approximately 25 000 houses being built annually. In terms of credit,

³³ Although a General Financial Institutions Survey was conducted for this report, there were cases where respondents did not complete the survey. As a result, detailed financial data are not available for all banks.

³⁴ Not including BHR, which almost exclusively offers housing finance.

this means at least Rwf500 billion in housing finance is needed per year – over seven times more than is currently available.

However, despite positive growth prospects, banks are not increasing their mortgage books due to a number of constraints:

- Lack of long-term finance
- Regulatory uncertainty, pending revision of the Microfinance Law
- The perception that housing finance is unaffordable for people who have low or irregular incomes

Box 2: BPR's approach to housing finance

A closer analysis of BPR's approach to housing finance reveals some of the challenges of providing housing finance given the cost of property and building materials in Rwanda. BPR lends for home improvement purposes as well as to buy an already-built house. To qualify for a loan, borrowers must first open a housing savings account which requires:

- A minimum deposit of Rwf5 000
- Regular savings of at least Rwf500 for 24 months

At the end of the saving period, the borrower can expect to be able to borrow an amount equivalent to his/her accumulated savings plus 4x the accumulated savings (including interest), approximately Rwf90 000 at the minimum levels. The loan is then required to be repaid within 5 years.

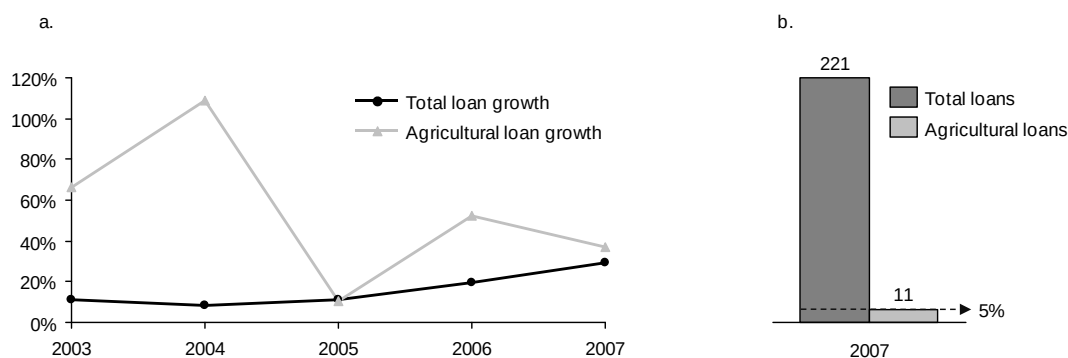
We are advised that a fully built house can be expected to cost Rwf30 million while a small plot of land on the outskirts of Kigali might cost Rwf5 million, including a basic top structure. Using BPR's product would require the borrower to save about Rwf40 000 a month for 24 months to qualify for a Rwf5 million loan. The loan repayments would be approximately Rwf120 000 a month, to allow for repayment within 5 years, assuming interest on the loan of 15%.

From this it can be concluded that while the product may have some utility to lower income consumers as an incremental housing product (eg to add a room to an existing structure), it is unaffordable to lower income consumers looking to acquire a home from scratch. They would have to fund the purchase from accumulated savings or informal sources (eg family).

AGRICULTURAL FINANCE

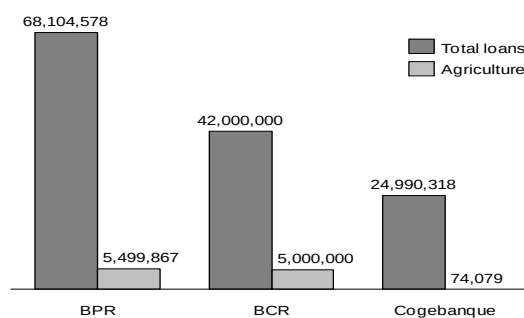
There is a mismatch between the important role agriculture plays in the economy and the amount of formal finance allocated to it. Sector data on the supply of agricultural finance is limited to the latest NBR bank supervision report (published in 2007) for commercial and development banks only. According to the report, total loans disbursed to the agricultural sector accounted for approximately 5% of the banking sector's total loan book in 2007. Despite the proportion of agricultural finance growing since 2003 (from 2% to 5%), growth has been volatile indicating the seasonal and risky nature of the market.

Figure 22: a. Growth of total loans and agricultural loans b. Proportion of loans disbursed to agricultural and other sectors 2007, Rwf billion



Source: NBR bank supervision report, 1995 - 2007

Figure 23: Total loans and agricultural finance book per bank* 2009, Rwf '000



Source: Annual reports, GFIS survey *Where available

Since 2007, growth in new loans to the agriculture sector has remained volatile with the value of new loans decreasing by 31.79% in the first half of 2009, as credit tightened. As with housing finance, data on agricultural finance at a bank level is incomplete. Observed data, however, suggest that notable players include BPR, BCR and Cogebanque, with agricultural finance making up about 8% of their cumulative loan book – 3% higher than the sector average in 2007 (see Figure 22b).

Based on data from six³⁵ MFIs, agricultural finance only represents a small proportion of the total microfinance loan book at approximately 7%. Zigama CSS is the biggest player amongst these MFIs, representing over 60% of loans disbursed to this sector³⁶. Finscope data suggests that a large number of salaried individuals are also engaged in agriculture – at least 55% of salaried individuals are also involved agriculture. This would explain the Zigama portfolio.

Agricultural finance is most commonly offered in the form of agricultural/livestock loans. Loans are available for any business activity in the agriculture value chain and have a flexible term (but not more than 36 months) relating to the seasonal nature of the crops. Depending on the term, the interest rate varies, with MFIs charging as much as 36% per annum. Requirements for these loans, however, can be quite onerous and may limit demand for this product among lower-income rural farmers. Requirements can include³⁷: an existing savings/ current account with the bank and sufficient collateral (such as land titles, moveable assets and household property), the latter restricting many farmers from applying for a loan.

UOB's agricultural loan is more flexible, requiring only documents detailing the aspects of the project and demonstrating that the income can cover the loan repayment. The product also allows for group guarantee and is offered at a preferential rate of 14% for government or donor-backed credit. This type of product is therefore probably more readily accessible to the rural population, although UOB does not have a branch network as extensive as BPR's.

To increase agriculture finance provision, banks should consider other, more niche products:

- Agricultural-focused micro-leasing: This allows a client to acquire a loan for agricultural equipment without collateral. In effect, the financial institution purchases the equipment and 'rents' it to the client. At the end of the repayment schedule, ownership is transferred to the client. In 2009, the IFC, with the World Bank, partnered with AMIR to introduce micro-leasing for SMEs through its member MFIs. Although this product is available to farmers, it has not yet been tailored to this market.

³⁵ Including AMASEZERANO, KOZIBI, Zigama CSS, Vision Finance Company, Goshen Finance, UCAPEC

³⁶ GFIS, 2009

³⁷ This is based on the requirements outlined by BPR on their website.

- Warehouse receipt loans: This allows warehouse receipts to be recognised collateral (i.e. document of title). However, for this product to be successful, dissemination of information around this system in both the agriculture and financial sectors is crucial.
- Micro-equity: Although this product does not yet exist, interviews with stakeholders have suggested that there is a need for innovation in this area. This product would allow for 'micro' investments to be made into small and larger scale agriculture projects such as silk farms, stimulating opportunities in value-adding areas, rather than simply increasing volumes of "generic" bank debt.

Banks and other players in this space noted lack of long-term finance and the risk profile of these clients as some of the major deterrents to lending³⁸. A lack of capacity also limits lending. Banks need a dedicated desk for agriculture that understands the seasonal cycles to successfully provide agriculture finance to the market.

Table 11: Government and Donor intervention

	Source of Funds	Total Funds	Implementation	Terms	Projects funded
Agricultural Credit Guarantee for Agriculture investments	Government budget (38%); Netherlands Cooperation (62%)	RwF 8,027 million	Commercial bank loans	Covers 30% short-term loans; 50% long-term loans	252
Rural Investment Facility	World Bank (managed by BNR)	USD 10 million	Commercial bank loans	Subsidy of 40% of the principal and interest depending on good repayment.	4367
Preferential Refinancing Facility for Agricultural Exports and Agro-business Activities	Repayment of government consolidated debt	RWF 2,656 million	Commercial bank loans	Refinance 100% of loans. Maximum loan of Rwf200 million per project	27

Source: NBR.2009. Annual Report 2008, In-country consultations with Rhoda Rubaiza, MINAGRI, 2009

Noting the importance of the sector to the economy, government has actively intervened and together with donors, made several attempts to encourage banks to extend their agricultural finance services by offering credit guarantees and other facilities (see Table 11 above).

³⁸ In country interviews November 2009

However, even the most successful schemes do not sufficiently target the unbanked or increase the provision of finance to agricultural-related activities. This is illustrated by a survey sampling 237 RIF beneficiaries by an international team of evaluators. The survey found:

- 68% of the sample had access to credit prior to being on the RIF programme, indicating that this programme did not significantly increase access to finance amongst the unbanked.
- Only 43% of the sample noted agriculture as their main activity, despite the programme being focused on rural finance.

Despite the noted initiatives, agricultural finance is far from sufficient, illustrating that not only are constraints deep-rooted but that the guarantee mechanism and other facilities may, for a variety of reasons, be ineffective, and that more carefully structured support is required.

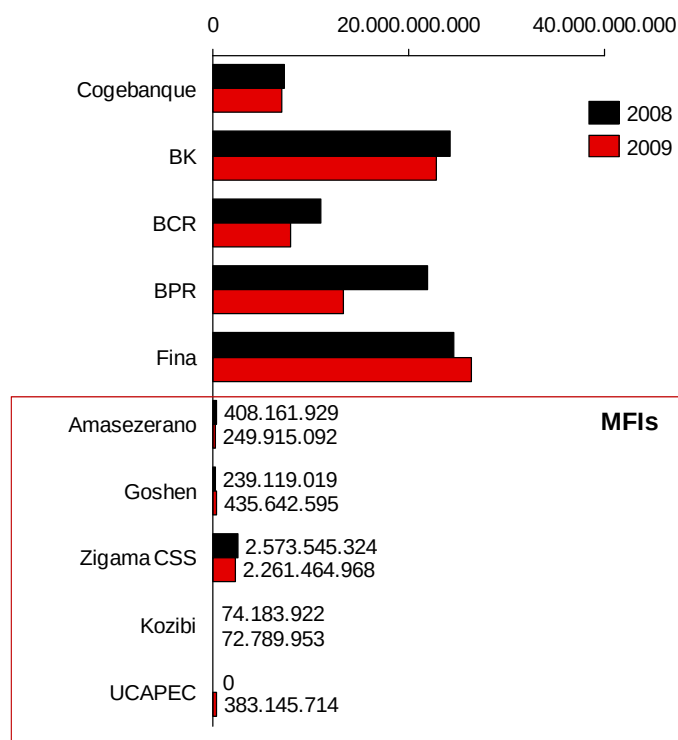
SME FINANCE

A 2007 Rwanda Private Sector Federation (PSF) survey identified 25,450 businesses:

- 20,937 were microenterprises. These tend to be family-run and semi-formal businesses with less than 10 employees
- 224 were small businesses with between 10 and 100 employees, which are formally registered
- 228 medium to large businesses with over a 100 employees, which are formally registered

This survey was far from exhaustive. A 2004 World Bank survey estimated that there are about 70,000 informal microenterprises in Rwanda (OTF Group, 2009), and FinScope estimates that the number of individuals who own their own businesses is over 330,000 or 12% of the population. However, the PSF database demonstrates that the majority of businesses are informal microenterprises. This is important to note because although all banks offer small business loans, these tend to be for formally registered businesses which can provide collateral in the form of land or property. The major suppliers of financing include Finabank, a specialist SME bank, BK and the regional banks Access, Ecobank and KCB. Finabank offers business loans for equipment and working capital starting at Rwf5 million for up to two years. Similar business loans at Access Bank start at Rwf3 million.

MFIs do cater to microenterprises, but on a much smaller scale than the banking sector. Figure 24 compares some of the business loan portfolios of commercial banks with some large MFIs. As shown, MFI microenterprise loans account for a tiny proportion of bank financing and, even on a consolidated basis, this is most likely insufficient to meet the estimated demand.

Figure 24: Small business loan portfolio of select banks and MFIs

Source: Annual reports, GFIS survey

*Where available

Other sources of finance include donor funds and SME equity investments. These funds are often channeled through local participating institutions and are designed for investment in start-up ventures. The most notable are as follows:

- USAID has partnered with Cogebanque to provide a 50% guarantee for loans to start-up SMEs in the Information and Communications (ICT) sector. The average loan size will be \$200,000 for a maximum term of 2 years (USAID, 2009).
- KfW has partnered with Finabank to develop a microfinance downscaling program that will extend credit to SMEs based on cash flow rather than collateral. The facility size is Rwf1.6 billion and loan sizes range from \$9,000 to \$120,000 (KfW, 2009).

- BCR has partnered with GroFin, a small business lending specialist backed by the Shell Foundation (among others) which has successfully pioneered an SME lending model that bundles business advice along with finance. BCR's GroFin product is called Aspire and targets SMEs with loans in the range US\$50,000 to US\$1 million that do not have a track record or collateral.

Leasing is an alternative form of financing that precludes small business owners from having to provide another form of collateral as the leased asset can be used as security for the loan. In Rwanda, the maximum term is 5 years much longer than a conventional business loan. In addition, there are tax benefits for registered businesses.

Despite these advantages, only 469 financial leases have been undertaken by financial institutions since 2006. Major suppliers include five banks (BCR, Finabank, Cogebanque, Access and Ecobank), the BRD and microfinance institution Vision Finance with agreements worth \$20 million (roughly Rwf11 billion). According to a market survey conducted by the IFC in 2008:

- 65% of leasing is for business vehicles.
- Correspondingly, 64% of leasing finance goes to SMEs in the transport sector, followed by manufacturing SMEs (12%) and SMEs in the trade sector (11%).
- The majority of leasing finance is conducted in Kigali and border towns where a lot of trading activity occurs.
- 41% of loans are less than \$50,000 and 40% are between \$50,000 and \$150,000.

Finabank's leasing product starts at Rwf500 000 for a maximum term of five years and can be applied towards any business asset. The asset is owned by Fina and rented by the lessee until the end of the lease term, whereby the lessee can purchase the asset at a discounted rate. The lessee is required to take out insurance on the product. By contrast, BCR's lease product starts at Rwf5 million and is aimed at a more up market business.

Leasing is potentially an affordable option for small, informal businesses and microenterprises to access medium-term funding. Interestingly, FinScope suggests there is widespread understanding of what leasing is about but nevertheless the market is clearly underdeveloped.

MONEY TRANSFER

Money transfer services in Rwanda have until recently been limited to account transfers within bank or MFI networks as well as the services of global money transfer operators (MTOs) such as Western Union and MoneyGram. Transfers within bank networks are common and relatively

cheap. To transfer Rwf10 000 within the BPR network will cost the sender only Rwf 500. Similarly, Zigama CSS offers a money transfer service known as CSS Ntuma with costs ranging from Rwf400 for a minimum transfer of Rwf5 000 to Rwf7 000 for a maximum transfer of Rwf100, 000³⁹. Other banks such as BK and Access Bank allow free transfers. Transfers are sent from the branch and instantly recorded to the recipient's account. The only drawback is that the use of these services is restricted to clients of the banks, which tend to be middle-to-high income salaried workers and formal businesses. Unlike intra-bank transfers, CSS Ntuma permits the use of the service by non-members.

Table 12: The Cost of Sending Money Locally

MTO	Cost of sending RwF10,000?	Other fees	Total	Accessible to individuals outside network?
Access	Free	-	RwF 10,000	No
BK	Free	-	RwF 10,000	No
BPR	RwF 500	-	RwF 10,000	No
CSS Ntuma	RwF 550	-	RwF 10,550	Yes
Fina	RwF 300	-	RwF 10,300	No
MoneyGram	RwF 6500	RwF 0	RwF 16, 500	Yes
Western Union	RwF 8400 (\$15)	RwF 560/ (\$1)	RwF 18, 960	Yes

Source: Company websites, Stakeholder meetings

The regulatory environment permits only banks to offer international money transfer services. MFIs can operate as subagents of a particular bank to offer domestic transfer services. Unlike intra-bank transfers, anyone can send or receive money through MTOs but these are often costly and concentrated in urban centres. They operate via exclusivity arrangements which limit competition and keep prices high. Fees for these services can be prohibitively high, especially for small amounts. For instance, to send Rwf10 000 or less through MoneyGram, a sender will pay Rwf6 500⁴⁰. The value proposition becomes more attractive as the amount increases. The cost of sending less than \$100 through Western Union is 16% of the amount, whereas sending \$5 000 will only cost 4% of the amount⁴¹.

Western Union operates through 50 branches in Kigali, Cyangugu, Butare, Rwamagana, Gitarama, Ruhengeri and Gisenyi through BCR, BK, Ecobank, BPR, KCB and microfinance

³⁹ Stakeholder interviews

⁴⁰ Obtained from MoneyGram website.

⁴¹ Based on an analysis of Western Union pricing scale obtained from BPR.

institution CFE Agaseke. Western Union also operates through two post offices in Kigali and a few standalone branches (Western Union, 2009).

MoneyGram has only one agent, Finabank, and operations are restricted to two branches in Kigali where individuals can both send and receive money. MoneyTrans and RIA operate global money transfer services through Zigama.

Table 13 gives an indication of the value and volume of transactions per MTO in 2008/2009. Western Union dominates the market. The average amount per transaction is Rwf40,791 for CSS Ntuma and Rwf228,380 for Western Union, suggesting that formal money services are designed for, and used by, wealthy individuals while the poor use informal methods.

Table 13: Money Transfer products by volume and value

MTO	Total value (RwF)	Total volumes	Volume sent	Volume received	Average amount
CSS Ntuma	74 443 029	1 825	-	-	40 791
RIA	5 491 296	82	-	-	66 967
Moneytrans	357 123 798	2 526	-	-	141 379
MoneyGram	3 269 997 175	-	4 348	20 249	132 943
Western Union	33 446 241 837	-	36 340	110 110	228 380

Source: Orozco, M. (2009). Inter-American Dialogue. Adapted from Central Bank figures

Emerging players are mobile telecommunications providers such as MTN. Although Libyan-owned Rwandatel announced plans to introduce a mobile banking platform by the end of 2009, MTN is so far the only telco to launch a money transfer service in Rwanda. MTN has 1.8 million subscribers – 75% of Rwanda's 2.45 million mobile subscribers (RURA, 2010).

In January 2010, MTN launched its Mobile Money service in partnership with BCR. The service can be accessed at 120 agent locations throughout the country and is open to non-MTN subscribers. MTN subscribers can send and receive money, deposit cash into their mobile accounts, buy airtime for themselves and others. Non-MTN subscribers can receive and withdraw money from any MTN Mobile Money agent. Table 14 shows the pricing. There is no registration fee or minimum balance requirements, so users can top up their accounts at their convenience without penalties. The sending fee is fixed at Rwf250 regardless of the amount, provided both sender and receiver are subscribers to the Mobile Money business. The pricing structure for a transfer from an MTN subscriber to a non-MTN subscriber is similar to the cost of an intra-bank account transfer. The difference is the cost is split between the sender and the

receiver. This may actually discourage non-MTN subscribers from using the service, since they can obtain transfers at no extra charge at other providers.

The advantage of MTN Mobile Money is that senders can transfer very small amounts of money, starting at Rwf1 500, thereby favouring the low-income population. Also, there is no paperwork to be completed and there are more payout locations than for other services. Finally, the cash can be stored in a mobile account until the individual is ready to use it at no extra cost. There is great potential for this product to increase the volume of local transfers and the participation of the low-income population as senders and not just as recipients.

Table 14: Mobile Money Pricing

Money Transfer Transactions	Transaction Range (Rwf)		Customer Charge (Rwf)
	MIN	MAX	
Deposit Cash	1,500	300,000	0
Send money to registered MTN Mobile Money user	1,500	300,000	250
Send money to non MTN Mobile	1,500	10,000	600
	10,001	20,000	750
	20,001	40,000	1,000
	40,001	75,000	2,000
	75,001	150,000	3,000
	150,001	300,000	4,000
Withdraw cash by registered MTN Mobile Money user	1,500	10,000	250
	10,001	20,000	300
	20,001	40,000	600
	40,001	75,000	1,000
	75,001	150,000	2,000
	150,001	300,000	3,000
Withdraw cash by non MTN Mobile Money user	1,500	300,000	0
Buy airtime [for self or other]	1,500	300,000	0

Source: Company website

M-Pesa in neighbouring Kenya has been dramatically successful in transforming the landscape of access for Kenya. MTN Mobile Money has also, reportedly, been successful in Uganda. There are therefore high hopes for this product in Rwanda, as MTN accounts for 1.8 million out of Rwanda's 2.5 million subscribers.

Table 15: Mobile subscribers per provider as of January 16, 2010

TELCO	Active Subscribers
MTN	1,886,023
Rwandatel	487,250
Tigo	123,897
Total	2,497,170

Source: Rwanda Utilities Regulatory Agency, 2010

One of the factors behind M-Pesa's success in Kenya was Safaricom's dominant market position, which helped to launch the product at scale, and its strong corporate image, which allowed trust to be established quickly. MTN has a similar market position in Rwanda. Factors that may militate against the success of the product in Rwanda, however, include the fact that informal money transfer mechanisms are fairly well-trusted in Rwanda and that the country does not have the same migrant worker dynamics as Kenya.

3.4 THE SUPPORT OR MESO LEVEL

3.4.1 INDUSTRY ASSOCIATIONS

Well-functioning industry associations can be an important component of the meso layer. They can represent their industry in negotiations with government; they can take responsibility for initiatives that affect the industry as a whole; and they can provide important services such as training or research. The Bankers' Association and AMIR are to varying degrees, increasingly playing a role in promoting their respective industries.

The findings in this section are largely based on extensive stakeholder interviews.

BANKERS' ASSOCIATION

Recent developments affecting the industry— notably, the fiasco of the Mortgage Law and the failed attempt to introduce a private credit bureau, as well as the liquidity crisis – provided an opportunity for banks to voice their concerns more effectively through a collective body. As a result, the defunct Bankers Association has been revived in the past year.

The association meets quarterly (but more frequently at present, given the many issues affecting the sector) under a part-time Chair (currently the CEO of Fina Bank) who is appointed for two years. The association is advertising for a full-time Executive Secretary. Meeting attendance is patchy: not all the banks attend which is less than ideal and disappointing in view of the fact that there are only nine banks in the country. In addition, not all banks view the association as the appropriate representative body. This is likely to change as the organization

delivers benefits for its members. However, at present there is still skepticism about the ability to cater to the needs of its small but diverse members.

We believe the relationship between GoR/NBR and the banking industry will be enhanced as the Bankers' Association assumes a greater role as interlocutor on behalf of the industry and as the primary conduit through which policy changes are communicated. The important bilateral meetings between NBR and individual banks need to continue but there could be an advantage in the relationship with GoR/NBR becoming more formalised.

We also believe that as the Bankers' Association gains credibility, it could take on the responsibility for managing certain cross-industry initiatives that NBR, somewhat paternalistically, has felt the need to drive on behalf of the industry – for example, the development of the payments system or the introduction of a private credit bureau.

Furthermore, the existence of a well-functioning Bankers' Association could open up the prospect of less direct regulation (by NBR) and more self-regulation around issues that have a bearing on financial inclusion. Part 6 describes how a self-regulatory model for coordinating industry efforts towards greater financial inclusion might work – it would be appropriate for this to be coordinated by the Bankers' Association.

Finally, the Bankers' Association has a potentially critical and immediate role to play in developing a strategy for upgrading the skills of the banking sector and, eventually, establishing a Bankers' Institute that would accredit suitably qualified bank staff.

AMIR – ASSOCIATION FOR MICROFINANCE INSTITUTIONS IN RWANDA

AMIR was established in 2007 as an output of the National Microfinance Policy drafted by MINECOFIN, with the mandate to provide developmental support to the microfinance industry. AMIR has seven staff and, according to its website, 84 members. These have diverse needs, comprising the smaller SACCOs that make up most of the microfinance sector and the more sophisticated MFIs which are limited liability (or “Public”) companies.

AMIR's roles are:

- To provide a forum in which microfinance best practice can be discussed
- To facilitate training for MFIs
- To publish performance data on MFIs
- To promote the sector both in print and via a website

AMIR has arguably come quite far in a fairly short period of time. It is involved in a broad range of activities, including policy dialogue (which has led inter alia to securing a tax exemption on behalf of its members from the Rwanda Revenue Authority), developing a strategic business plan and a website, training (300 staff were trained between 2008 and 2009) and research. It has also been the focal point of initiatives involving international organisations, such as CGAP, the IFC, SIPP and others.

The organisation has had to work with unpredictable funding arrangements for some of its activities. For example, funding for training was provided MINECOFIN in 2008 but not in 2009 when, instead, a number of donors had to fund its capacity building activities. A Microfinance Capacity Building Fund was supposed to have been established as part of the National Microfinance Implementation Strategy but never materialised and although a fund has now been approved by Cabinet it is not clear if AMIR will have access to it. AMIR seems to have had trouble pitching its training support to its membership. The more sophisticated MFIs considered that the training courses were of poor quality while the less sophisticated MFIs thought they were high quality but also too high level.

AMIR recently drafted a strategic plan outlining five goals to execute by 2013:

- Capacity building for MFIs in the areas of credit risk management, business planning, product pricing and management information systems
- Financial intermediation through a credit facility for MFIs to be administered by AMIR
- Advocacy and coordination on behalf of MFIs, both locally and overseas
- Research on the impact of the industry on poverty alleviation as well as new products and innovation
- Information dissemination through benchmarking, industry ratings and international conferences (AMIR, 2009)

These diverse goals require a range of competencies that AMIR does not have at present. Currently, there is one staff member in charge of training and another in charge of research and development. Two additional staff will be recruited this year to provide training. However, to provide technical advice to microfinance institutions, these trainers must be recognised as industry experts by participating MFIs.

The strategic plan also introduces duplication. For instance, although smaller MFIs find it difficult to access funding from the facility being administered by the BRD, this does not justify the creation of another, purportedly more flexible fund for MFIs.

Another area of overlap is in training. There are several training organisations operating in Rwanda, as well as in the broader EAC region, that could be effectively leveraged to provide ad hoc technical assistance and training. AMIR does not need to do the training itself.

This is a highly ambitious programme for an organization that has yet to establish its credibility with the industry and which has struggled to define its relationship with the industry. The strategic plan, which outlines many roles and responsibilities, puts AMIR at risk of being perceived as a regulator, a lender or a service provider, instead of an advocate for the industry.

We are aware that the recent performance review of the implementation of the National Microfinance Policy⁴² examines AMIR's role in detail and makes a number of detailed recommendations. Chief among these is an institutional review of AMIR that would perhaps assess the association's capacity to carry out its very broad mandate. While we support the idea of an institutional review wholeheartedly, it seems inevitable that AMIR should simplify its mandate and concentrate on doing fewer activities but doing these more effectively.

Consideration should be given to changing AMIR's role to be the representative body for Category 3 MFIs (limited companies and large SACCOs) and leave the RCA with the responsibility of looking after the smaller (Category 2) SACCOs. Our thinking is partly driven by the recognition that the Umurenge SACCO programme will establish large numbers of new, small SACCOs (with potentially significant needs) which, when added to the existing Class 2 SACCO membership of AMIR, will mean that these types of organisations will come to dominate AMIR's activities, to the disadvantage – potentially – of the larger MFIs.

We are also skeptical of the idea that AMIR should become an apex fund. This is not to suggest that MFIs lack the capital to grow (although we have not seen evidence of this – and in fact this was not cited as a constraint by the MFIs we met). Our skepticism is based on AMIR's capacity deficiencies and the fact that apex funds, in the absence of strong management, have struggled internationally. Also, as mentioned above, there are already wholesale facilities in the market which could be made to work more effectively.

Overall, AMIR could play a valuable role in strengthening microfinance in Rwanda. It is bizarre that of the 84 institutions that are AMIR members, only seven feature on CGAP's MixMarket website. As competition in the sector is likely to intensify as the Umurenge SACCO programme unfolds, effective organisation to help MFIs remain viable is essential.

In conclusion, while there are indications that AMIR is not yet fulfilling its mandate adequately, we think it should receive more support to carry out a more circumscribed set of tasks.

3.4.2 PAYMENTS SYSTEM

⁴² Research carried out by PDP (Australia) Pty Ltd on behalf of the FSDS

A widespread and affordable retail payments infrastructure is a key driver of financial inclusion. By widespread we mean that people can easily reach a point of representation of some kind. By affordable we mean that people have an incentive to hold balances and savings in a bank account, as the cost of reaching a point of representation and completing a deposit/withdrawal/transaction is less than the risk or opportunity cost of maintaining their funds in cash. This section reviews the current and anticipated supply of retail payments services in Rwanda, and considers the constraints to the growth of such services.

CURRENT STATE OF PROVISION

Table 16 highlights the poor provision of electronic payments services in Rwanda. The rollout of services is much less advanced than in comparable countries, even when income disparities and population size are taken into consideration with one card per 455 people compared to one card per 30 people in Uganda, and a 1:1 ratio in Botswana and South Africa. On the ATM side 370,000 people per ATM compares poorly with the 60,000 figure in Uganda. However, when comparing the cards per ATMs the ratio is relatively low suggesting that the key constraint is on the issuing side, rather than the acquiring side although these factors are linked.

Table 16: Payments Statistics in the SADC region

Payments systems	SA	Botswana	Uganda	Tanzania	Mozambique	Rwanda
Population	44,600,000	1,800,000	30,000,000	38,300,000	20,530,000	10,000,000
Number of Cards	44,600,000	1,450,000	1,000,000	218,000	1,122,200	22,000
Number of POS	655,000	2,508	1100	1,871	3,645	120
Number of ATMs	40,000	292	500	424	431	27
Individuals per ATM	1,115	6,164	60,000	90,330	47,633	370,370
Individuals per POS Terminal	68	718	27,273	20,470	5,632	83,333
People per card	1	1	30	176	18	455
Cards per ATM	1,115	4,966	2,000	514	2,604	815
Pos per ATM	16.375	8.6	2.2	4.4	8.5	4.4
Cards per POS	68	578	909	117	308	183

Source: SADC payments systems statistics, Bank of Uganda, Bank of Rwanda

The key question is why have banks in Rwanda been so much worse than their counterparts in the region at converting their account holders to cards when providing banking services at ATM's should be a lot cheaper than providing such services at branches? Interviews with industry participants highlight two main factors:

- 1 Current pricing practices and cost structures
- 2 Institutional arrangements that were put in place with regards to the national payments switch, SIMTEL.

CURRENT PRICING PRACTICES AND COST STRUCTURES

Establishing a card and ATM infrastructure is expensive. The economics of the investment are driven by the extent to which an institution can outsource services to players with greater scale economies and the extent to which infrastructure is shared across different institutions. Although almost every step of the card value chain can be outsourced, the extent to which institutions are able to outsource is governed by regulation, and to some extent telecommunications. Of relevance to small or young card markets is the extent to which an ATM can be used by any bank customer. An ATM that can be used by any card holder is far more likely to be profitable than an ATM that can only accept cards from the banks' own customers. This is especially the case in low volume areas.

Thus it is crucial that banks and regulators drive inter-operability of services. Creating a shared infrastructure is one way to address a lack of scale. In Rwanda, SIMTEL was established to achieve some scale economies but also to drive inter-operability. Another strategy is to rely on existing infrastructure such as those provided by international card associations like Visa. Botswana and India provide good examples of such a strategy. To this day there is no national switch and both countries rely entirely on the networks of Visa and MasterCard. In Botswana, card penetration is over 100% of the adult population with a network of 292 ATMs or one per 6000 individuals. All banks that issue cards need to be members or associate members of Visa/MasterCard, but once they have become members they are able to "switch payments" between them without any need to create and sustain a local switch platform. Even more importantly payments cost P2 (\$0.15) and P4 (\$0.30) respectively for an on-us and off-us transaction. Of this amount only \$0.06, is paid to the switch. This leaves a profit of \$0.12 for the acquiring bank and \$0.12 for the issuing bank.

Although there are scale economies in payments that mean at some stage it would be possible for a country to create a local infrastructure that is cheaper than relying on Visa/MasterCard it is not clear that Rwanda will ever achieve this scale. It goes without saying that the banks have not had to capitalise or support the creation of a local switch. Despite the sophistication of the market Botswana remains a magstripe market with much lower card issuing costs. Table 17 compares some of the wholesale and retail pricing issues in the provision of ATM services in Botswana, Uganda and Rwanda.

Table 17: Charges and pricing for ATM card transactions

Variable	Botswana	Uganda *	Rwanda
Customer on us charge	15c	16-20c	0
Customer off-us charge	30c	32c	0
Switch fee per transaction	2c	10c	\$10000/month fixed
Cost to issue card	50c	\$2	\$4
Income to Acquiring bank per transaction	15c	6c	0
Income to issuing bank per transaction	13c	4c	0

Source: Bankom

SIMTEL charges \$4 per card issued and a monthly maintenance fee of \$10,000. As the banks are not charging for transactions, the benefit to the banks of migrating to cards was severely muted. Thus despite three years of operations until 2008 only 13,000 cards had been issued (this has subsequently increased to 22,000 cards by October 2009).

Although customers should have a strong incentive to use ATM services, the current pricing structure may mean that it is not particularly interesting for banks to issue cards or to grow their low cost customer base. This is because in most low income environments banks make much more income from transaction revenue than from investing customer deposits.

INSTITUTIONAL ARRANGEMENTS AND ROLE OF SIMTEL

The NBR in partnership with Rwanda's commercial banks adopted a co-operative model to drive the provision of services, which ultimately led to the formation of SIMTEL in 2002. SIMTEL was meant to be a shared platform to support the deployment of cards and the interoperability of different payment channels. However, the partnership yielded little growth and SIMTEL was recapitalised in 2008 with a new strategic partner, ADC, a German private equity firm, acquiring 75% of the institution to improve technical expertise within the organisation. SIMTEL is responsible for the issuing of cards, the provision of ATM services, and for the processing and switching of transactions.

SIMTEL was set up using top of the range software (BASE 24/ACI) and advanced chip technology. At the time this technology was significantly more expensive than the magstripe solutions rolled out by other banks in East Africa. Given the card technology adopted (the EMV

standard or chip and pin), cards needed to be produced offshore resulting in long delays in the issuing process.

Although the SIMTEL financials are not publically available it is clear that despite the initial capitalisation the lack of card volumes resulted in a rapid deterioration in the financial position with the result that essential maintenance of the network and ATMs deteriorated. Before the new management contract was signed in 2008, ATM downtime and availability further compromised the acceptance and migration to ATM services. The migration to POS has been equally unsuccessful. The original technology supplied was designed to operate in a landline environment when the entire telecommunications market is focused on mobile.

The partial liberalisation of the payments system that has just started is extremely encouraging because it seems that there will now be regulatory support for banks wishing to implement solutions that are more suitable to their needs.

The change in regulatory policy will introduce efficiency and better service delivery allowing banks to price their card and transaction products appropriately. However, these potential arrangements do call into question the future role of SIMTEL, even though the industry seems (for now) committed to working with them.

RWANDA PAYMENT CARD INITIATIVE

One of the more innovative projects by the NBR's Payments Division involves using national identity cards to support the provision of payment services. It is envisaged that Rwanda will move to a chip-based national identity card and that this card should be inter-operable with the wider electronic payment infrastructure. The card will be linked to the client's bank account and will be used to pay for a variety of services at various merchants, using a specialised POS. Although this is technically possible, reaching agreement on the same chip standards for encryption, and achieving bank standard security management of the PIN have frustrated similar plans in other markets. Although the project is reportedly being piloted successfully, given the changes that are underway in the payments system, it may be advisable to wait until the entire system has taken shape to avoid integration problems later. An ambitious plan to adopt a "single bank/government identity card" in South Africa was abandoned after five years of planning due to the complexity of integration of the different systems and concerns over security and key management.

A more fundamental question is whether the payment card is really needed at all given that bank cards will be interoperable very soon and that MTN Mobile Money is offering similar services. It is possible to construct a plausible rationale for national "trophy" projects like this, but the political push can sometimes obscure whether there really is a need for the project.

3.4.3 SKILLS DEVELOPMENT

Skills shortages have emerged as the most pressing constraint in the financial sector, based on our interviews and the Investor Perception Surveys. NBR has acknowledged this and a skills audit is underway with a view to putting in place a strategy for enhancing skills across the financial industry and for maintaining professional standards. Skills shortages affect the banking, microfinance and insurance industry, as well as industry and regulatory bodies.

With such a widespread need it is surprising that there has been no progress towards putting in place a skills development system for the financial sector, particularly as bankers' institutes operate in Rwanda's major EAC neighbours and in many other African countries.

What is lacking is a Rwanda Bankers Institute (RBI) whose role would be to promote and maintain skills through the design of appropriate course material, the certification of students, and by maintaining a register of industry staff with appropriate certification.

Table 18: Bankers Associations in Select African Countries

Kenya	Tanzania	Nigeria	South Africa	Ghana
Kenya Institute of Bankers	Tanzania Institute of Bankers	Chartered Institute of Bankers of Nigeria	BankSeta (Banking Sector Education and Training Authority)	Chartered Institute of Bankers in Ghana
www.kib.co.ke	www.bot-tz.org/tiob	www.cibng.org	www.bankseta.org.za	www.cibghana.com
To promote professional banking education through the co-ordination and provision of advanced knowledge and professional qualifications in banking and finance.	The Tanzania Institute of Bankers (TIOB) was established with the objectives of setting, promoting and upgrading the excellence and professionalism in the banking and financial services industry in Tanzania. The aim is to alleviate the acute shortage of professional and efficient career bankers, thus enhancing the quality services to the public	To be a world-class Institution in banking and finance education, ethics and Professionalism Objectives: 1. To organize lectures, seminars and workshops on banking, finance and other allied subjects 2. To develop the skills of the operators within the banking industry 3. To improve the knowledge of members in areas of interest	To support transformation and people development and through partnerships, to enable stakeholders to advance the national and global position of the broader banking and microfinance industry.	The Institute seeks to provide the stimulus for the development of competent and more qualified human resources that will enable the banks to offer efficient and competitive services to meet modern day sophisticated demands and satisfaction

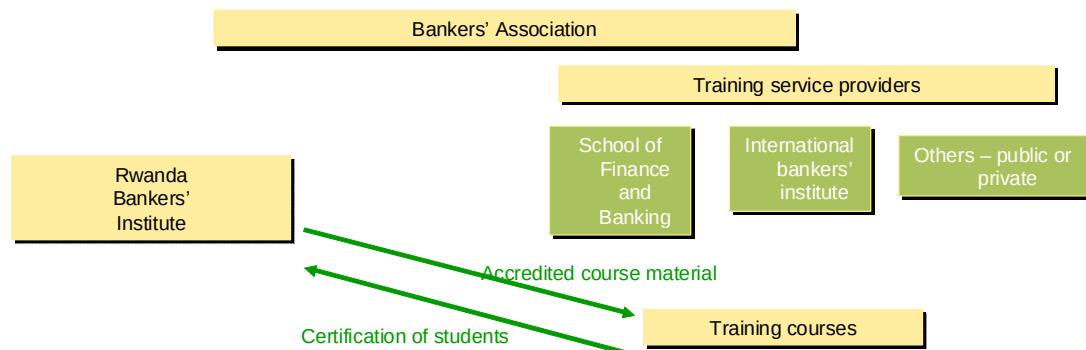
Source: Association website

The RBI will probably take a few years to become fully functional and so outsourcing or partnering arrangements will be needed in the interim. Technical support to the nascent RBI is available regionally – bankers' institutes operate in Rwanda's major EAC neighbours and in many other African countries too (see Table 18) – and globally (e.g. the Chartered Institute of Bankers in London). It is not necessary for the RBI itself to do the training. Training service providers, from the private or public sector, from within Rwanda or from outside, could deliver RBI-accredited course material. The School of Finance and Banking would be an obvious partner although it has capacity constraints of its own.

We believe the Bankers' Association has a role to play in initiating the industry skills development strategy and secure industry-wide participation on ongoing basis. It may make sense for the Association to also manage this on behalf of the insurance and microfinance industries.

Key will be the development of a sustainable, practical funding strategy. This will likely involve a mix of industry levy, membership fees, course fees (paid by students but perhaps involving an employer subsidy), coupled with (ideally, short-term) donor support. Figure 25 illustrates how the training system might look in practice.

Figure 25: Potential roles and responsibilities in capacity building



Source: Stakeholder interviews

3.4.4 CREDIT INFORMATION

A long-running initiative to bring a private credit bureau into Rwanda appears to have ended successfully with the award of a license to CRB Africa based in Kenya and the passing of new legislation (before Cabinet at the time of writing). CRB is expected to become operational in

Rwanda in May 2010. This has been warmly welcomed by the industry and should plug a big hole in the support infrastructure of Rwanda's financial markets.

It will also improve Rwanda's Doing Business indicators' rating as the arrangement with CRB allows (inter alia) for the distribution of data on loans less than 1% of per capita income and for borrowers to be able to access their credit records.

The existing state-run bureau is the Centrale des Risques et des Impayés (CRI) which is managed by NBR. CRB will effectively replace CRI and absorb its database. The CRI has data from the banking industry and also from the nine biggest MFIs (comprising 80% of the MFI market). According to information from mid-2009, CRI has 61,000 accounts belonging to 50,000 borrowers. Importantly, there are no records for small loans: information (including default information) on loans smaller than \$800 is not reported to the CRI and whilst the minimum loan sizes from the commercial banks tend to exceed this figure, there are lenders such as Urwego Opportunity Bank or the MFIs whose loan sizes can be much smaller.

The role that credit bureaux play in facilitating credit extension is well-documented. Good quality information on borrowers can help lenders with competitive pricing strategies by directing cheaper credit towards the better borrowers and can also help circumvent the problem of a lack of collateral, which is a major problem among lower income borrowers or small businesses. Credit bureaux are also important for protecting consumers as they provide information that allows borrowers to determine whether it is in the consumer's interests to be offered a loan or not.

To be effective, the information held by the bureau needs to be as complete as possible. A financial profile should ideally include the way an individual has transacted with different organisations with claims on his or her income. These may include banks, MFIs, insurance companies, mobile phone companies, retailers who offer credit and utilities⁴³. There are significant technical IT challenges in automating data uploads and enquiries as well as regulatory challenges to ensure compliance by the different organisations providing data.

Positively, it is clearly the intention (according to the tender documentation) that the credit bureau should benefit not just banks, but "other supervised financial institutions, and ... other qualified subscribers" as well. This would include insurance companies and MFIs.

The operational practicalities of bringing MFIs into the credit bureau net are, however, daunting – according to AMIR, 86% of MFIs have no internet access⁴⁴ and fewer than half even have a computer. Most have inadequate loan management systems meaning they would

⁴³ It is recognised that the widespread use of pre-paid (i.e. non-credit) solutions for, for example, mobile phones or utilities means that there are certain transactions that a credit bureau will not pick up.

⁴⁴ As at March 2009

not be able to feed data into the credit bureau in the required format. Clearly, it is going to be important that MFIs are not saddled with the obligation to participate in the credit bureau (which they would struggle to fulfill) without being able to benefit from it.

It is too early to say how significant or quick an impact the credit bureau will have on financial inclusion. We presume the primary focus for the new bureau will be on providing a usable system for the banks, which is good, but it is hoped that they system will eventually benefit a much larger number of MFIs, although many are likely to need substantial external support.

3.5 CONSUMER LEVEL

Financial markets are not conventionally analysed through the lens of the consumer: the macro, meso, micro approach tends to focus on the architecture of financial markets rather than consumers who are the object of financial market reform. The terms of reference for this report, however, expressly call for a discussion around the consumer.

3.5.1 CONSUMER PROTECTION

Consumer protection is an emerging topic in microfinance as credit becomes more accessible (or more “pushed”), and as new forms of distribution, such as mobile payments, introduce new risks for consumers. At its core, this is about how individuals and financial service providers transact with each other, especially around the buying and selling of credit, and whether those transactions are conducted with consumers’, as well as providers’, interests in mind. Typical flashpoints include the non-transparent pricing of credit⁴⁵, the selling of credit to people who are heavily indebted (“reckless lending”) and mis-selling of complex financial products, e.g. to people who have limited understanding of financial terms.

Recourse in Rwanda for consumers who have a legitimate grievance against a service provider is limited. Since 2004, Rwanda has had an operational Office of the Ombudsman whose job is “to prevent and fight against injustice, corruption and other related offences in public and private administration”. Telephone calls established that while the Office does deal with financial sector complaints, there are not many, and the most frequent complaints handled related to land administration. There is no dedicated banking or financial sector ombudsman.

As there is also no legislation to combat reckless lending, borrowers have limited legal redress although labour market legislation (apparently not well enforced) that limits payroll deductions (e.g. for a loan) to one-third of after tax pay.

Rwanda is a small market and our sense is that a dedicated ombud system is not appropriate because the volumes of complaints would probably not justify the cost of maintaining an

⁴⁵ The SMART Campaign, promoted by CGAP, ACCION and others, is the microfinance industry’s approach to consumer protection.

ombud infrastructure. However, we do think that financial service providers should be required, through regulation, to maintain a credible internal ombud function, which is independent from line management, to deal with customers' complaints.

It may be possible for the financial industry to collaborate to expand the capacity of the Office of the Ombudsman and publicise its role as an avenue of recourse for financial complaints. Rwanda does not suffer from the egregious forms of lending abuse seen elsewhere in Africa (the local consumer lending market has not exploded as it has elsewhere) but payroll lending is widespread and the need for a functional system of consumer protection will increase.

GoR essentially has two choices regarding regulation – either to put in place comprehensive credit market regulation (we think that South Africa's National Credit Act is progressive and interesting but possibly inappropriate for Rwanda without significant modification), or require the financial industry to adopt a voluntary code of conduct to deal with these issues, and monitor its compliance against the code. The latter may be more practical given that regulatory capacity is already quite stretched. NBR needs to decide what role, if any, it wishes to play in dealing with consumers' complaints.

3.5.2 FINANCIAL CAPABILITY

Financial capability refers to the enhancement of an individual's ability to manage their financial affairs properly. It involves education on financial terms and products but also the exercise of appropriate financial behavior such as budgeting and saving.

FinScope data suggests that levels of financial literacy in Rwanda, though disappointing, are not as low as in other African countries. Still, two out of three Rwandans were unsure what the term "microfinance institution" meant and almost nobody understood the term "ATM". More tellingly, perhaps, two-thirds said they wanted to know more about how to keep money safe and how credit works. Half of Rwandans wanted to know how interest rates work. A snapshot like FinScope needs to be supplemented by more in-depth research and we recommend this as a necessary step towards putting in place a national strategy on financial capability.

Increasing numbers of countries are considering introducing national strategies and it is important to consider what might work best in the local context. Above all, it is important to be realistic about goals and to recognise that improving the nation's financial capability will take years, if not decades.

It is also necessary to think through how a long-term investment in financial education should be funded. Some countries levy financial institutions annually so that a central pot of money is mobilised for generic financial education. There is some logic in this as providers also benefit from more capable consumers. The main arguments against this approach are:

- Supply-driven consumer education initiatives (typically, classroom-based) can be very wasteful and have little impact
- Centrally managed initiatives take the incentive away from the service provider. An element of self-interest in the way financial education messages are delivered can ensure they are high quality and well-targeted.

It is perhaps surprising, given Rwanda's busy policy agenda in the financial sector, that there is as yet no national strategy for financial capability. We recommend that GoR, through MINICOFIN/FSDS, initiate the development of a framework for a national strategy as an addendum to the National Savings Mobilisation Strategy.

4 PART 4: CONSTRAINTS TO FINANCIAL INCLUSION – A SUMMARY

4.1 DEMAND SIDE CONSTRAINTS

- 1 77 percent of the population earns below the national poverty line and the majority generates their own income, which is irregular.
- 2 Demand for savings products is high as half of all adults use formal and informal savings mechanisms.
- 3 Lack of access to formal products is more pronounced in rural areas as only 19% of the rural population use formal products compared to 33% of the urban population.
- 4 72% of the population earns less than Rwf 10000 with the bulk earning less than Rwf5000. In contrast, the salaried high-income population represents only 5% of the total population and earns above Rwf 40,000 per month.
- 5 Even in the wealthiest segment, penetration of financial services is only 60% and for all salaried individuals, penetration is only 32%. Therefore, there is room to expand provision at all income and employment levels.
- 6 Of the banked, 96% are banked with Banque Populaire.

4.2 SUPPLY SIDE CONSTRAINTS

- 1 Available bank products are mainly targeted at higher income, typically salaried individuals
- 2 While most bank basic transactional accounts are free to open and have relatively low monthly fees, high operating balances and minimum interest earning amounts increase the cost of operating a bank account at these organizations.
- 3 The microfinance sector is the main provider of finance to the low-income market especially in key areas such as housing finance. However, most large MFIs tend to be concentrated at the low-end of the middle-income market and have not sufficiently penetrated the low-income, informal or rural markets.
- 4 Pricing of loan products is similar across banks and microfinance institutions, suggesting that competition has not yet driven prices down. However, lower

opening and operating balances at microfinance institutions make them more affordable and accessible.

- 5 Insurance products are expensive and aimed at the salaried class. Although some experimentation in microinsurance is occurring, these products are not currently available and the insurance industry does not appear to make this a priority.
- 6 Physical outreach is growing but is based on the suitability of basic infrastructure, and is therefore limited to towns and other urban centers.
- 7 In addition, the perception that there is no viable market in these areas prevents banks from establishing branches in these areas.
- 8 The exceptions are BPR and Urwego Opportunity Bank which provide products specifically for the low-income salaried markets. BPR has at least 109 sub-branches and is therefore the most accessible institution in the country. UOB's mobile branches, while few in number, avail services to individuals in more remote areas.
- 9 The availability of specialised loan products for agriculture, housing and SME finance is currently limited to formal businesses and is subject to the availability of collateral. However, leasing provides an alternative to conventional financing.

4.2.1 REGULATION

- 1 Several key regulations have been or are being drafted in line with international standards to support the development of all financial sector industries. These have boosted the robustness of the sector.
- 2 However, regulators tend to adopt a paternalistic stance towards financial institutions, imposing services and products that are perceived as not being in the best interest of banks and other service providers.
- 3 In addition, microfinance institutions struggle to comply with new prudential requirements as these may have been introduced without providing the support needed to equip especially smaller MFIs to adequately address these changes.
- 4 A better communication style and a more consultative process for introduction of new regulation should be considered.

4.2.2 POLICY

- 1 Although there has been no explicit financial inclusion policy, key policies have directly impacted on financial inclusion. Chief among these are the National Microfinance Implementation Strategy and the National Savings Mobilisation Strategy impact directly on financial inclusion.
- 2 The SACCO Umurenge programme under the National Savings Mobilisation Strategy is already being implemented and will increase the availability and accessibility of financial services. However, there are problems with the messaging of the policy, and many MFIs complain of unfair competition as some of their clients join these SACCOs to avoid undue political pressure.
- 3 The payments system is undergoing some de-facto liberalisation with the potential for cheaper, more accessible card services that will enable further outreach. This is to be encouraged as the payments system is currently a barrier to financial provision.
- 4 Overall, the policy environment is dynamic with many programs, institutions and strategies. Given multiple government and donor initiatives, greater coordination and regular evaluations of existing programs should be undertaken to determine what is working and what should be discarded.
- 5 At the very least, encouraging industries to adopt some form of self-regulation and codes of conduct can relieve some of the burden on regulators and banks are more likely to adopt more inclusionary measures.

4.2.3 SUPPORT INFRASTRUCTURE

- 1 The greatest constraint to financial service provision in the banking industry is the lack of skills at every level, from basic teller skills to more technical risk management skills. In addition, specialised skills for agricultural finance, SME finance and housing finance are also needed.
- 2 Although the lack of skills is not as much of a problem for microfinance institutions, the lack of staff and skills in credit risk and delinquency management is obviously affecting the ability of the industry to comply with prudential requirements.
- 3 The payments system has been characterised by high costs and poor maintenance. As a result, banks have been reluctant to roll out cards and ATMs at a great scale, even in urban areas. However, the system appears to be liberalizing and banks are evaluating solutions that are more cost-effective.

This should result in greater availability of cards and should encourage more branchless banking expansion.

- 4 Increased competition from regional banks, microlenders and more recently the SACCO Umurenges will necessarily drive prices, customer service, physical outreach and improve financial service provision overall. However, these can also have a negative impact on consumer protection as providers through reckless lending habits. The introduction of a credit bureau should counter some of these effects, but is insufficient without explicit consumer protection regulation or code of conduct.

5 ACCESS FRONTIERS

5.1 DESCRIPTION OF THE TOOL

An analysis of access is more complex than a review of usage. Usage is directly observable either using survey data or using data from various product providers. Access, by contrast, is not. The analysis of access described in this chapter is loosely based on the Access Frontier Methodology described by Porteous (2005), although there are specific characteristics of Rwanda that require some modification to the methodology. Broadly, access frontiers explore the degree of congruency between product-level supply factors and demand conditions as measured by surveys such as FinScope. Key aspects of the offering defined by product providers are overlaid against the characteristics of the market to determine how many individuals could use a product as it is currently configured.

This chapter explores access to banking and credit products.

5.1.1 ACCESS TO BANK ACCOUNTS

Detailed product information was gathered on a set of entry-level banking products offered by a range of institutions: basic savings accounts from Fina Bank and Ecobank; and basic current accounts from BPR, BCR and Access Bank. Data was mainly gathered by telephone conversations and emails with staff. In many cases detailed questions, for example on pricing of specific transactions or on the precise documentation required, could not be answered. The core features of these offerings, based on data available, are summarised in Table 19.

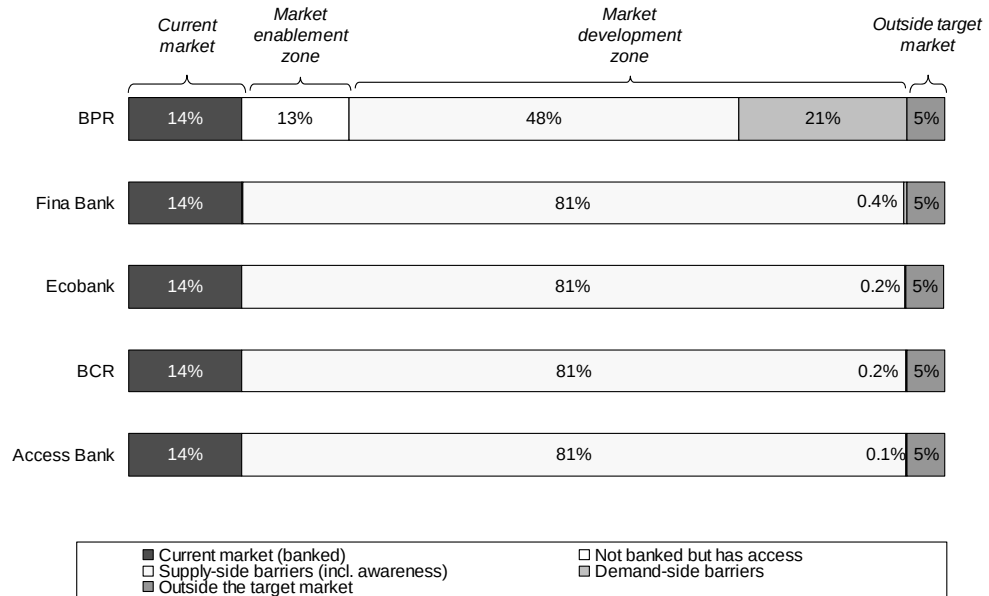
A set of access frontiers corresponding to each of these products is presented as a strand (see Figure 26). The target market for these access frontiers excludes individuals who are not monetised or those who do not earn any form of income. The left-most segment of the strand reflects the size of the current market comprising those who are currently banked within the target market. Next along the continuum is the market enablement zone, which comprises those adults that appear to face no barriers to access, neither of a supply-side nature arising from a mismatch between provider-stipulated requirements to access the product and the characteristics of the market, or of a demand-side nature where negative perceptions of banking inhibit adoption. The market development zone comprises those that face one or more supply-side or demand-side barriers to access. While supply-side and demand-side barriers typically co-exist, given the primacy of supply-side considerations this segment is quantified first with the demand-side constraints depicted as the residual.

The analysis highlights that, with the notable exception of BPR, supply-side access barriers are significant. However, given the dominance of BPR (which appears to be widely accessible), to enhance up-take of its banking products a focused effort to address demand-side factors inhibiting take-up is required.

Table 19: Banking products eligibility, pricing and channels

Product name	Client requirements / eligibility criteria	Pricing and thresholds	Service channels
Ecobank Personal Savings Account	• Identification (ID/passport) • Proof of address • Proof of employment • Initial opening deposit	• Monthly fee: Rwf 250 • No minimum balance; • Deposits / withdrawals are free • Interest paid (2.5% p.a. if balance is greater than Rwf 700,000)	• Branch • ATM • POS • Internet banking
Bank Populaire (BPR) Current Account	• Identification (ID/passport) • Proof of address • No job required • Initial opening deposit Rwf 2,000 for 'cheque booklet' or Rwf 10,000 for 'cheque book' – not clear what the difference is (website: no opening deposit)	• No monthly fee • No minimum balance • Deposits / withdrawals are free • Transfer Rwf 500 for an amount < Rwf 500,000 and Rwf 1,000 for above • Debit order Rwf 500 • Standing order book Rwf 2,500 • No interest paid	• Branch • ATM • POS
Bank Commerciale (BCR) Current Account	• Identification (ID/passport) • Proof of address • Proof of employment (copy of work contract) • Initial opening deposit Rwf 10,000 (website: Rwf 100,000)	• Monthly fee Rwf 1,000 • Minimum balance Rwf 1,000 • Deposits / withdrawals are free • No interest paid	• Branch • ATM • POS • Internet banking
Fina Bank Savings Account	• Identification (ID/passport) • Proof of address • Proof of employment • No opening deposit	• No monthly fee • No minimum balance (website) • Deposits / withdrawals are free • Debit order Rwf 300 • Interest paid 9% (website: no % given, but minimum balance Rwf 35,000)	• Branch • ATM
Access Bank Current Account	• Identification (ID/passport) • Proof of address • No job required but if no job then need income that is verifiable and genuine • No opening deposit	• Monthly fee Rwf 2,000 • Deposits / withdrawals are free • Transfers are free • Debit/standing orders are free • Interest paid 5%	• Branch • ATM • POS • Internet banking

Source: NBR, National Institute of Statistics Rwanda

Figure 26: Access frontiers for bank accounts

Source: Finscope Rwanda 2008

Source: FinScope Rwanda 2008

The remainder of this section explores the different segments of the access frontier, beginning with a review of the target market.

THE TARGET MARKET: MONETISED ADULTS

The target market for the analysis of access to bank accounts comprises only those who have a monetary income. FinScope indicates that around 5% of adults either do not have any source of income or earn an income in kind only, and they have been excluded from the target market.

THE CURRENT MARKET: BANKED

Fifteen percent of adults in the target market are currently banked⁴⁶. While bank savings products are frequently used by individuals in the current market, transactional products and

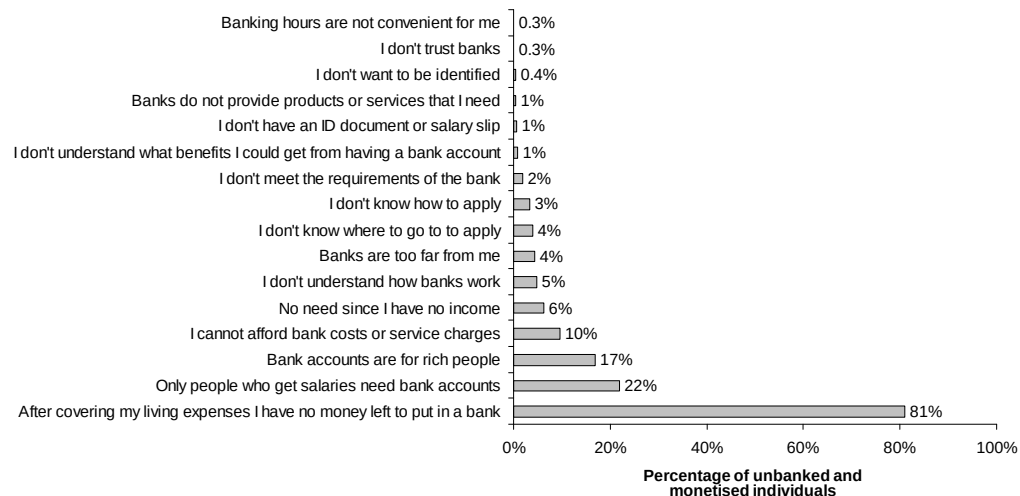
⁴⁶ As defined by the institutional access strand. This includes a foreign bank account, a loan from any bank, and other banking products from the following institutions: Bank Kigali, Bank Commerciale, Ecobank, Fina Bank, Cogebanque, Bancor/Access Bank and Bank Populaire

services such as ATM and debit cards are not. Among those who are banked, stated reasons for having a bank account are dominated by the need for saving and accessing credit with far fewer banked adults indicating that transacting is an important reason to have a bank account. Only 5% of banked individuals indicate that the reason they have a bank account is to make it easier to get money to other people, and only 4% say it is to transfer money safely and cheaply. It is not clear whether this is a result of the poor quality of these services or whether it reflects limited inherent need for them. Given often very low incomes the latter may overwhelmingly be the case.

UNBANKED: AN INTRODUCTION

Eighty-five percent of adults in the target market are not currently banked. Figure 27 provides a useful view of the perceptions of the unbanked about the reasons they do not have a bank account. Over 80% of the unbanked say they have no money left over to put into a bank account after covering living expenses. Once again, the common perception appears to be that a bank account should be used for saving, rather than for transacting – arguably a justifiable perception given low incomes. Of the unbanked who say they have no money left after expenses, 25% save in a tontine and 60% say they have cash savings at home.

Figure 27: Reason no bank account: unbanked and monetised



Source: FinScope Rwanda 2008

While the perceptions of the unbanked are important, they do not indicate the extent to which those without bank accounts are excluded because of provider-stipulated requirements or other supply-side factors as opposed to those who may have access to the product but choose

to exclude themselves. Other indicators from the FinScope survey are therefore used to estimate the magnitude of 'objective' access constraints.

UNBANKED AND NO ACCESS: THE MARKET DEVELOPMENT ZONE

Various factors may prevent individuals from accessing banking products. These include limited physical access to sales or service channels, high service charges or threshold costs, limited awareness of products, and lack of required documentation (including identification, and proof of employment or income). In addition negative perceptions relating to service levels or a limited sense of the benefits of having an account may also inhibit take-up. While access varies depending on the product specifications, based on the survey data it is estimated that even for the most accessible of the products under review approximately 84% of unbanked adults in the target market face one or more of these supply-side or demand-side constraints, and therefore do not have access to the product. Key constraints are assessed for the products under review.

Physical Proximity

It can be fairly complex to assess the extent to which physical proximity inhibits bank account adoption. Only 4% of individuals not in the current market say the reason they are unbanked is that "banks are too far from me". Other data in the survey indicates that this may understate the magnitude of this access constraint significantly. For instance, 43% of individuals not in the current market associate the statement "they are too far away from you" with banks.

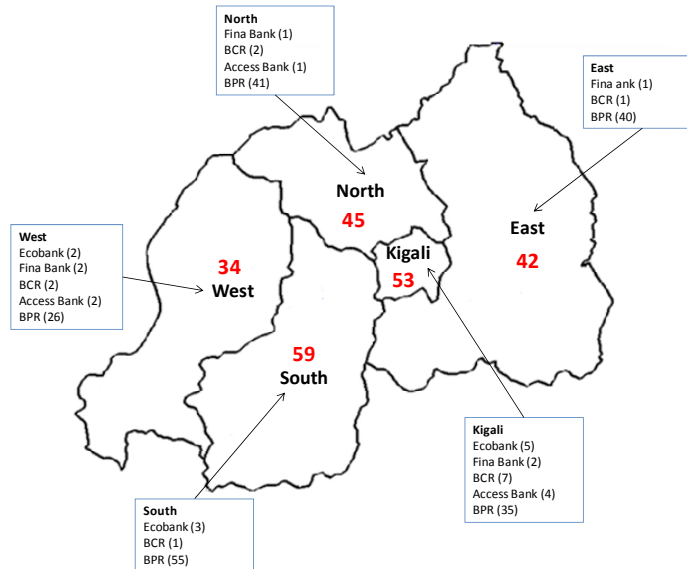
There are others indicators pertaining to physical access to banking institutions. For example, 46% of adults not in the current market associate the statement 'It costs too much to get there' with banks. Survey data on time to reach a bank is incomplete. 20% say it takes them less than two hours to get to a bank while a further 7% say it takes them two or more hours. The remainder do not travel to the bank at all and so do not provide any data.

In light of conflicting FinScope data, data on the physical footprint of banks incorporated in this analysis was gathered from banking institutions' websites as well as correspondence with several banking representatives. The provincial distribution of these bank branches is presented in Figures 28 and 29⁴⁷:

Of course, physical proximity while certainly necessary is not a sufficient condition for physical access. Population densities may be high, resulting in excessive delays in accessing banking services, severely compromising access. The perceptions of the unbanked relating to service levels may reduce the perceived value of having a bank account and lead to self-exclusion.

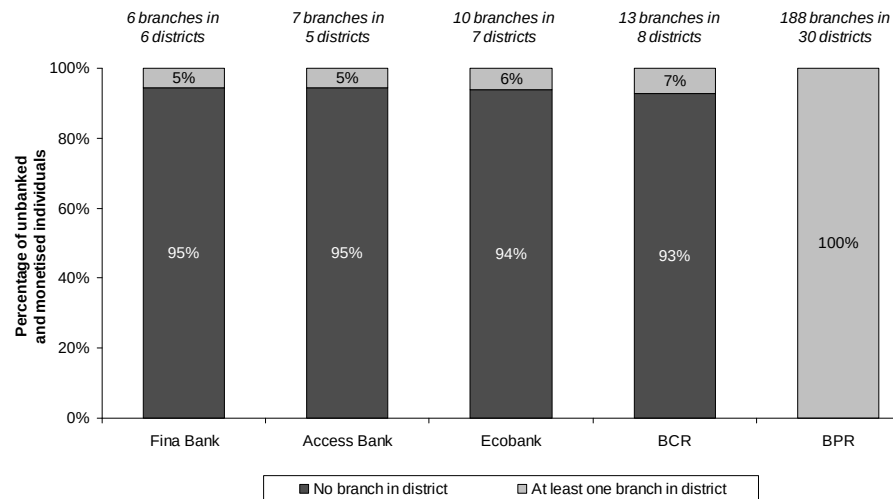
⁴⁷ Bank Populaire branches include sub-branches and outlets, as these locations allow for opening a bank account and conducting regular banking transactions

Figure 28: Selected bank branch distribution by province



Source: Bank websites

Figure 29: Physical access: Unbanked and monetised

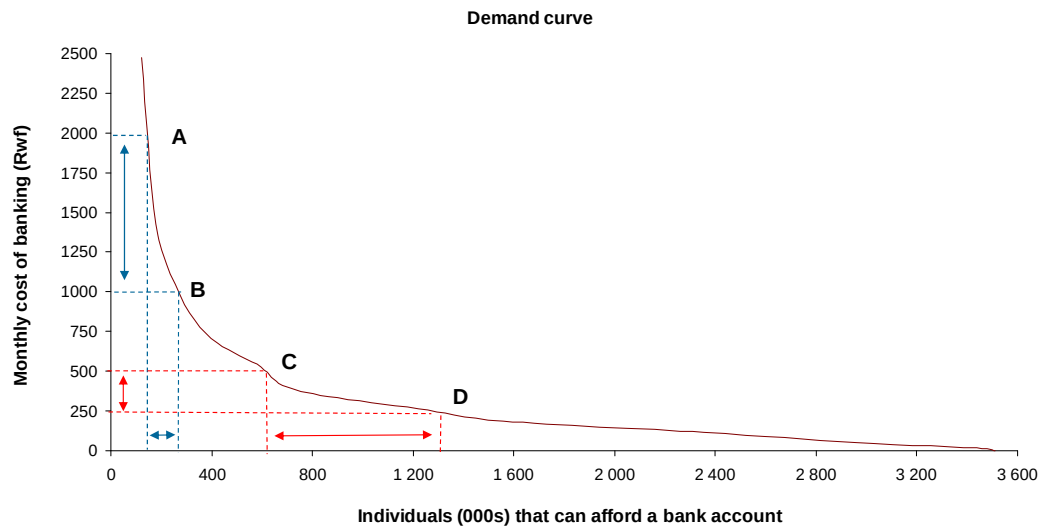


Source: FinScope Rwanda 2008

Affordability and Regularity of Income

Even though people are monetised, low personal incomes can remain a barrier to opening and operating a bank account. In some case service charges may be unaffordable. Of course, affordability is a subjective notion – individuals assess whether a product is affordable based on perceived and actual cost and benefits. For the purposes of this analysis, it is assumed that a reasonable affordability threshold is 3% of personal monthly income, that is, a maximum of 3% of personal income should be spent on banking charges. Using this assumption a notional demand curve for a bank account can be generated⁴⁸ as illustrated in Figure 30.

Figure 30: Demand curve for banking based on an affordability threshold of 3% of personal income



Source: FinScope Rwanda 2008

The slope of the demand curve indicates price elasticity or responsiveness of demand to changes in pricing. Between points A and B the curve is very steep – a large change in price yields a fairly small change in quantity demanded⁴⁹. This is not the case further down the curve. For instance, if the costs of banking fall from Rwf 500 per month to Rwf 250 per month

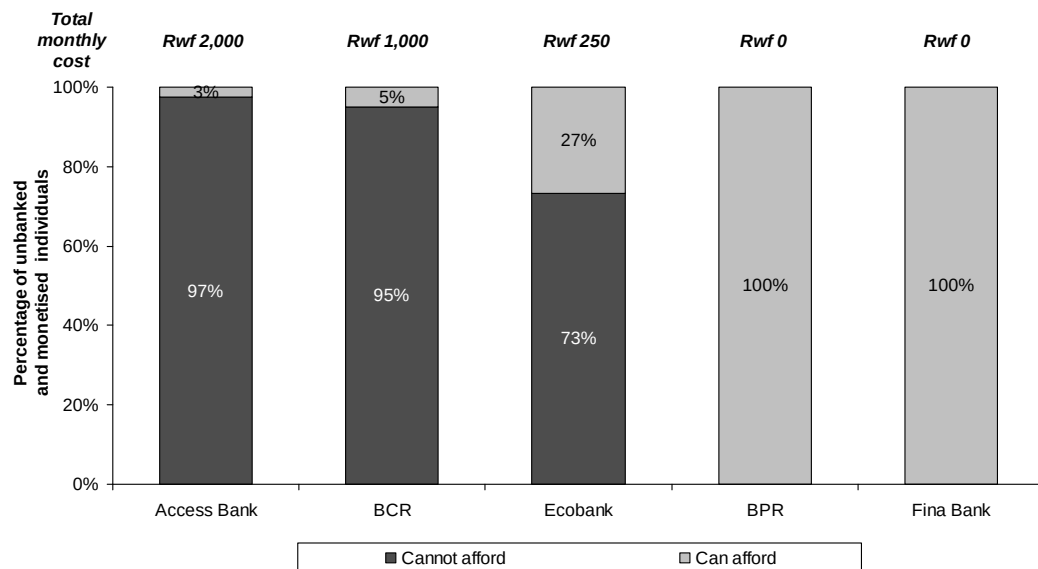
⁴⁸ Limitations in the use of personal income from FinScope include inaccurate reporting of income (5% of those not in the current market answered “don’t know” or “refuse”), as well as variability of income over time (the majority of individuals are involved in agriculture). There are also wide income bands, limiting the accuracy of affordability cut-offs.

⁴⁹ Based on the data price elasticity of demand between points A and B is around 0.2

(points C and D on the curve), quantity demanded increases noticeably. Based on the data, price elasticity of demand between points A and B is around 0.2⁵⁰.

To determine the impact of an affordability constraint, assumptions about the 'banking bundle' are also required. For this analysis, it is assumed that a minimum useful service bundle comprises a number of cash deposits and cash withdrawals at a branch each month. It is noted that across all banks reviewed, withdrawals and deposits are free. The quantum of transactions is therefore immaterial. Where applicable, a monthly fee is included. No transfers or statements have been included in the transaction bundle as fees were not obtainable for most of the banking products reviewed. Affordability constraints are therefore solely determined by monthly fees associated with each product applying the 3% affordability threshold⁵¹.

Figure 31: Affordability – Unbanked and monetised



Source: FinScope Rwanda 2008

⁵⁰ Between points C and D price elasticity of demand is estimated to be around 2.7

⁵¹ With regard to those individuals who do not provide income data, those that answer "don't know" have been grouped with those that cannot afford the product. Those individuals who refused to provide income data have been grouped with those that can afford the product.

Because Banque Populaire and Fina Bank have no monthly fees, assuming a usage profile based solely on withdrawing and depositing cash, banking is free at these institutions. The most expensive product reviewed is the Access Bank current account where monthly fees are Rwf 2,000. Roughly 3% of unbanked monetised individuals would be able to afford these fees.

The requirement that fees be paid monthly may also hinder access for individuals without a regular income. Such a product would not be well suited to individuals who receive income irregularly. According to FinScope, 83% of the unbanked and monetised receive their incomes irregularly. A 'pay as you go' offering would certainly enhance access.

In some cases minimum deposits are required to open bank accounts⁵². This is true of BCR, BPR and Ecobank. There is no data in the survey to indicate whether individuals have access to these lump sums and therefore no constraint has been modelled. In reality these threshold costs can have a significant impact on access particularly when they are high relative to monthly incomes. In addition, the BCR current account stipulates a minimum operating balance of Rwf 1,000. While the other bank accounts under review do not require a minimum operating balance, those of Ecobank, Fina Bank and Access Bank only pay interest above a certain threshold (see Table 19).

Other supply side barriers: Documentation and Awareness

Documentation required by all of the banking institutions for the products under review includes official identity documents and a proof of address⁵³. Bank Commerciale, Ecobank and Fina Bank also require proof of employment. While Access Bank does not require an individual to have a job, it does require a verifiable and genuine income source. Presumably those who generate their incomes from small-scale farming or informal enterprises would not qualify to open a bank account at these institutions⁵⁴.

Individuals cannot be considered to have meaningful access to formal products if they do not have a working knowledge of product benefits or of their rights and responsibilities as product users. FinScope highlights the limited familiarity with basic terminology of financial products. Only 1% of individuals not in the current market understand what an ATM is, 32% understand the phrase "interest on savings", and 23% understand what a "current account" is. It is noted

⁵² BCR: Rwf 10,000; BPR: Rwf 2,000 (or Rwf 10,000); Ecobank: amount unknown; Access Bank: none; Fina Bank: none.

⁵³ There is no direct data in the survey to assess the magnitude of these constraints. It appears that lack of identity documentation is not a significant constraint - 1% of unbanked adults say the reason for being unbanked is a lack of identification documents. No details could be supplied by the banks reviewed as to what constitutes proof of address.

⁵⁴ For the purposes of this analysis, those who receive wages or salary from a private employer or from the state / government are deemed to be able to provide proof of employment. In addition, those receiving an income in the form of a state / government grant or other grant assistance (for example from an aid agency), would presumably be able to verify a source of income as per the requirements of Access Bank.

that the data is self-reported. In some cases individuals may not understand terminology even when they report that they do⁵⁵.

Demand side barriers to access: Perceptions of banks

Levels of trust by those who are unbanked and monetised are relatively high. Almost 80% say they would trust a bank with their money. However, prevailing perceptions of poor service levels and the usefulness of bank accounts may inhibit take up. Forty-one percent of individuals not in the current market associate with the statement “there are long queues for their services” with banks, and 47% associate with the statement “getting things done with them is difficult and takes a long time”. While the unbanked may frequently observe long queues outside bank branches it is not clear on what basis the perceptions of the unbanked relating to service levels are formed given that they have had no experience with the product.

Voluntary self-exclusion

In a country with such low levels of banking penetration and low levels of income it is a little surprising that only 26% agree with the statement ‘You can easily live your life without having a bank account’. Based on this data it would appear that basic self-exclusion is relatively limited.

5.1.2 BANKING ACCESS FRONTIER SUMMARY

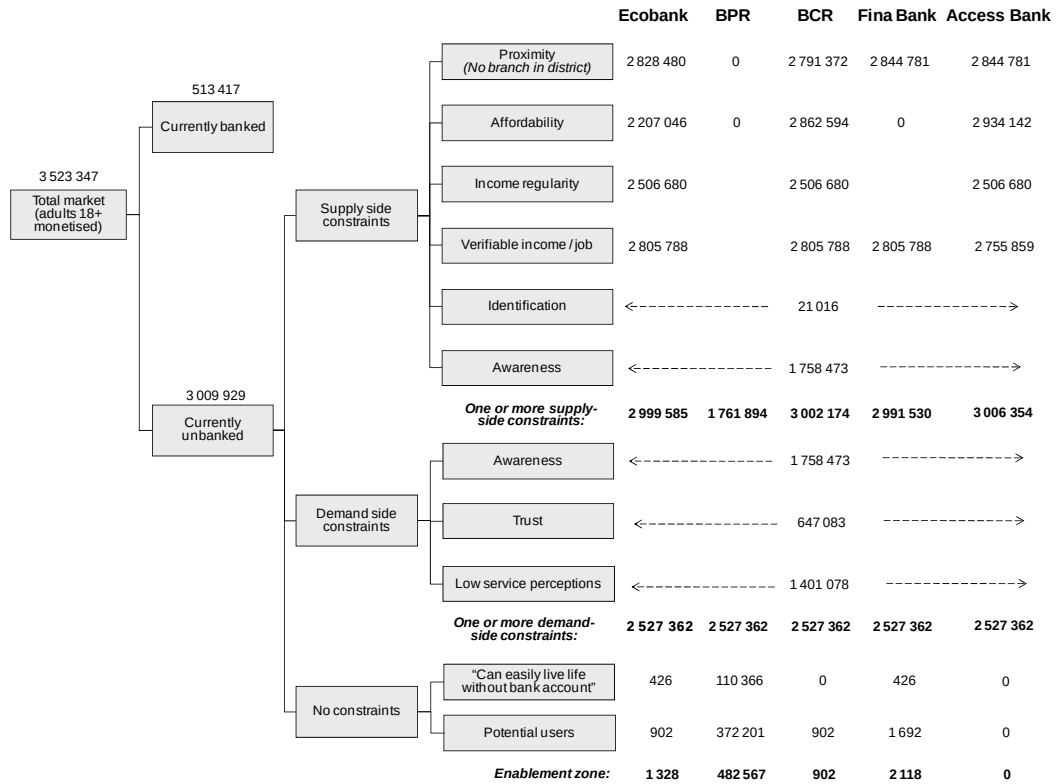
The access frontier ‘tree’ (see Figure 32) quantifies the magnitude of the various constraints for the products under review. Some constraints do not vary by institution, such as the requirement for proof of identity. Other constraints vary reflecting for instance the pricing structure associated with each product or physical footprint of each banking institution.

The size of the market development zone (bold in the tree) quantifies the number of individuals that face one or more of the access constraints identified. Access constraints are not mutually exclusive – many individuals face several constraints simultaneously. Because a number of constraints may exist simultaneously, the size of the development zone reflects the union, as opposed to the sum, of the constraints. Both supply-side and demand-side constraints are incorporated in the market development zone.

In the case of the market enablement zone (also in bold in the tree), there are no apparent constraints that prevent individuals from being potential users of bank accounts.

⁵⁵ While a lack of awareness is, strictly speaking, a demand-side issue, providers can modify products and services to align with market characteristics. By designing simple products, using appropriate communication and training front-line staff to assist clients, providers can mitigate the impact of awareness barriers. In addition, providers can try to improve general levels of awareness through financial literacy campaigns. Nevertheless, where basic literacy and numeracy skills are absent the constraint may remain binding even if banks simplify their communications and modify their process at client contact points. In this regard, improved levels of education among younger people noted earlier in this document is a positive development. See Table 9 in the appendix for more data on financial terminology

Figure 32: Banking Access Frontier Tree



Source: FinScope Rwanda 2008

The analysis highlights a number of factors:

- It appears that there is scope to increase the current market significantly, mainly because of the highly accessible nature of BPR's product, despite levels of poverty. However, significant barriers impede access to services offered by other institutions. By implication, any increase in banking penetration across the country is likely to be accounted for almost entirely by BPR.
- Survey data indicates that while perceptions of banks are generally good, service levels are perceived to be poor. Holding things constant, an increase in penetration levels is likely to exacerbate this. Interventions to improve service levels are therefore critical if penetration levels are to increase.
- While current channels and processes can be scaled up to improve service levels, in the absence of indirect costs arising from poor service, clients are

likely to over-use services that are free. In addition, scaling up or even introducing lower cost channels (such as ATMs or cell phone based models) may not be financially viable given low returns on investment.

- The dominance of BPR is clearly evident both in terms of the current market and the future market. Should the stability or sustainability of that institution be threatened bank account access in Rwanda would effectively be eliminated.

5.1.3 ACCESS TO CREDIT

As with banking products, to explore access to credit, product information was gathered on a set of basic loan products; the UOB group loan, the Fina Bank personal loan, and the BPR agricultural and housing loans. Key features of these products are summarised in Table 20.

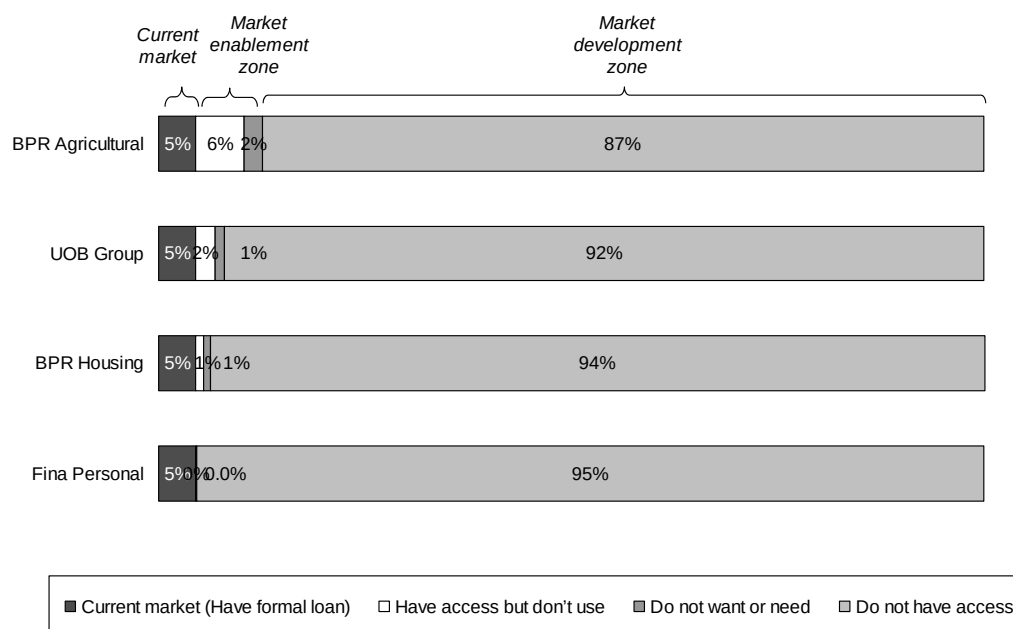
Table 20: Credit products description

Product		UOB Group Loan	BPR Agriculture Loan	BPR Housing Loan	Fina Bank Personal Loan
Basic description and requirements	Loan Type	Group (self selected)	Agricultural	Housing	Personal
	Loan Size	Rwf 28,550 - Rwf 856,500	Rwf 200,000 - ??	Rwf 200,000 - ??	Rwf 200,000 - Rwf 30m
	Loan Term	16 weeks	4 Years max	10 Years Max	3 months - 5 Years
	Group Size	20 - 40	1-?	1-?	1
	Repayments	Weekly	Monthly/Quarterly/Seasonally	Monthly	Monthly
	Documentation	ID	Need Agricultural product Documents	Housing Documentation	ID
	Requirements	Must own a small business Regular income	Agri project needs to make enough money to pay back loan Hard/soft collateral Bank account	Employment or Regular income Hard/soft collateral or joint guarantee	Employed: Salary transferred into bank account; or Regular income: Bank statement Collateral required (Car, house or insurance) Bank account Insurance
	Minimum Income	Age 21+ Rwf 25,600 for group	Age 18+ Rwf 19,923	Age 18+ Rwf 12,445	Age 18+ Rwf 17,663
Costs	Interest Weekly savings contribution	36% flat 10% of payment	17-19% -	17-19% -	20% -
Service channels	Branches	Located in 29 out of 30 districts Staff will also travel to clients	Every District Only available at branch	Every District Only available at branch	7 Branches around the country Only available at branch

Source: FinScope Rwanda 2008

The access frontiers for each loan product are summarised as a strand in Figure 33.

Figure 33: Access frontiers for credit products: Percentage of all adults



Source: FinScope Rwanda 2008

Each segment of the access frontier is explored, beginning with a review of the target market.

THE TARGET MARKET: ALL ADULTS

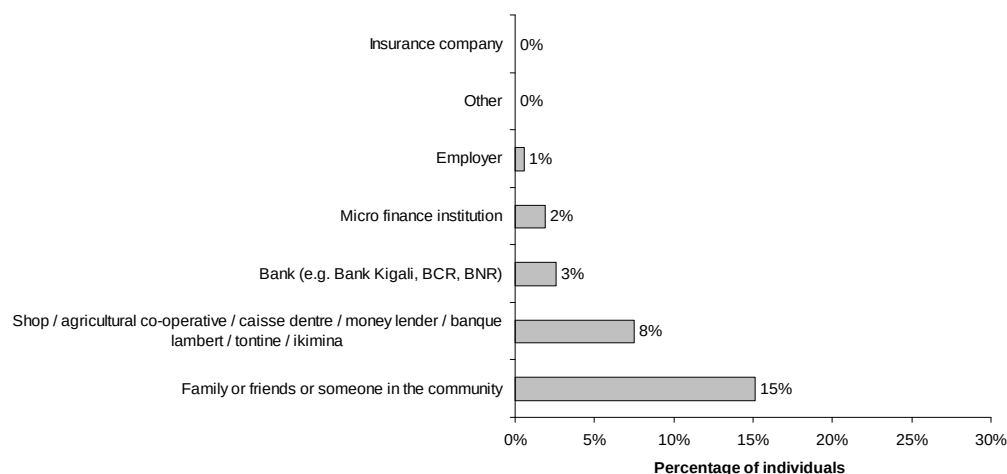
The target market for access to loan products includes all adults surveyed in FinScope (adults 18 years and older). Some loans are intended to be used by a smaller sub-segment within the market – business loans are targeted at business owners while agricultural loans target those involved in farming. Nevertheless in the interests of assessing and comparing accessibility of the products across the market, no distinction is made in the definition of the target market.

THE CURRENT MARKET: ADULTS WITH A FORMAL LOAN

Figure 34 summarises survey data on credit usage in the past 12 months. The data indicates that usage of credit products, both formal and informal, is less common than borrowing in general. This analysis is primarily concerned with access to formal credit defined as a loan

from a bank, microfinance institution (MFI) or an insurance company. According to FinScope less than 5% of adults have taken out a formal loan in the past 12 months.

Figure 34: Formal and informal credit products used in the past 12 months



Source: FinScope Rwanda 2008

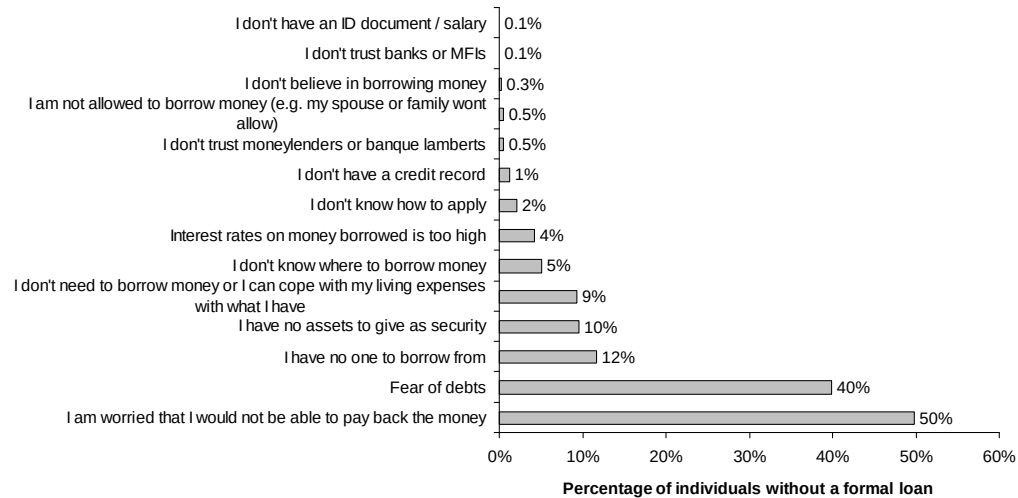
Reasons provided for borrowing by adults in the current market (that is, they have a loan from a formal source) are dominated by home improvements and expanding property or business⁵⁶. It is noteworthy that 13% of those who borrowed did so to cover living expenses.

NO FORMAL LOAN: AN INTRODUCTION

Ninety-six percent of adults in the target market have not taken out a formal loan in the past year. Figure 35 summarises the perceptions of those without a formal loan as to why they do not have one. Half are worried they would not be able to make repayments, and 40% have a general fear of debt. Access related reasons (such as “no one to borrow from” or “no assets to give as security”) are noticeably less commonly cited.

As with the analysis of access to banking products, the perceptions of those without a formal loan, important as they are, do not indicate the extent of exclusion. Other indicators from the FinScope survey are used to estimate the magnitude of access constraints

⁵⁶ It is not necessarily the case that a formal loan has been used for these purposes. Rather, these are reasons provided for borrowing from any source given by those who are deemed to be in the current market. They may well have borrowed from more than one source in the past year.

Figure 35: Reason no credit: Individuals without a formal loan

Source: FinScope Rwanda 2008

The following discussion looks at the access status of the unbanked. It focuses on the factors that inhibit access within the market development zone, which incorporate those who cannot access the product.

NO FORMAL LOAN: THE MARKET DEVELOPMENT ZONE

Various factors limit access to formal credit products. As with formal financial products in general they include the provider's physical footprint, required documentation and financial literacy of the consumer. Additional barriers for formal loan products include availability of collateral for secured credit and a sufficiently stable income to finance loan installments.

Collateral

Collateral requirements differ depending on the loan. With BPR's agricultural loan, a joint guarantee can remove the need for collateral. For other products, such as BPR's housing loan, collateral is required. This includes immovable property (3% of adults say they own what

appears to be a formal dwelling) as well as other valuable assets in their household (21% say they own large appliances or vehicles that might be regarded as collateral⁵⁷).

Group-based lending

As a substitute for collateral, some lenders leverage group membership to improve repayment rates. Group lending lowers distribution costs and might potentially reduce both loan sizes and administration costs. For borrowers there are disadvantages; borrowers would usually be required to attend group meetings which can be time-consuming. In addition, there are increased risks as borrowers are directly liable for default of group members.

Individuals need to form their own groups to obtain the UOB group loan under review (available to groups of 20 to 40 people). In this regard, 22% of adults not in the current market agree that they “don’t know very many people”. It is assumed that such individuals do not have a sufficiently large social network to form a trusted group.

Affordability and income regularity

For all loan products under review it has been assumed that an individual would spend up to a maximum of 30% of his or her monthly income to make repayments on the loan. Of course the survey data provides an indication of current or ex-ante income only. It is impossible to assess the impact of the loan on the productive capacity or income ex-post of the borrower. The affordability assumption based on 30% of current income (ex-ante) is therefore likely to be restrictive, but is necessary in light of the absence of other data.

UOB group loans range from 50 to 1,500 US dollars (equivalent to Rwf 28,550 - 856,500). For this analysis it has been assumed that a group of 20 members will receive the smallest loan available (Rwf 28,550) amounting to Rwf 1,428 per member. Installments would amount to Rwf 109 a week. According to FinScope, 81% of adults who do not have a loan would be able to afford the product assuming an affordability threshold of 30% of personal income.

For the Fina personal loan, loan sizes range from Rwf 200,000 to Rwf 30 million, depending on the repayment capacity of the individual and availability of collateral. Using the minimum loan size repayable monthly for the maximum term allowed (five years) an individual would require a personal income of almost Rwf 18,000 per month to afford the loan. According to FinScope, 85% of adults who do not have a loan would be unable to afford this product.

BPR’s housing loan product has no fixed minimum loan amount. The amount depends on the repayment capacity of the borrower as well as the amount required to complete the house. It

⁵⁷ Including a car, DVD player, TV, fridge, tractor, lounge suite, truck or pickup, motorcycle or scooter, bicycle, sewing machine, computer or laptop, music centre.

has been assumed that the minimum loan amount is Rwf 200,000 (as the minimum handling fee is Rwf 2,000 and is calculated as 1% of the loan amount), repayable monthly over the maximum term of 10 years. According to FinScope, 82% of individuals who do not have a formal loan would be unable to afford this product.

BPR's agricultural loan product has no minimum loan amount. This is decided by the bank, depending on the repayment capacity and profits expected to be generated by the project being financed. Repayments can be monthly, quarterly or seasonal depending on income flow. Given the flexibility of the payment schedule and the project-based determination of repayment capacity (i.e. this is not assessed using historic income but rather is based on projected profitability), no affordability or income regularity constraint has been included for this product.

Fina's personal loan product requires the individual to be banked at Fina for at least six months prior to obtaining the loan. Repayments are deducted from the individual's salary as it is paid into the bank account. Given limited accessibility of Fina's banking products, those who are unbanked are therefore unlikely to be able to access Fina's personal loan product. For BPR's housing and agricultural loans, the potential client must also be banked for at least three months with BPR as repayments are made via direct debit. However, previous analysis on banking access indicates that obtaining a basic bank account with BPR is not difficult (the only supply-side constraints were identification documents and awareness). For the purposes of this analysis, no banking constraint has been included in BPR's loan frontiers.

For loan products that require weekly or monthly repayments, a lack of regular income may hinder access.

Physical proximity

Although the footprint of institutions has been used to identify a physical access constraint, it must be noted that using the operating location of lenders may be too restrictive. Potential customers may be prepared to travel longer distances to apply for a sufficiently useful loan.

To access the UOB group loan, people can either travel to the institution (branches located in 29 of 30 districts) or staff will travel to the clients. No physical constraint has therefore been incorporated for this loan product. For BPR's housing and agricultural loans clients must travel to the bank. However, there are nearly 200 branches country-wide, in each of Rwanda's 30 districts. No physical access barrier has been incorporated for these loan products either.

The Fina Bank personal loan requires the client to travel to the bank to access the loan product. As Fina Bank branches are present in only six of Rwanda's 30 districts, that those individuals who do not reside in these districts are considered unable to access this loan.

Other supply side barriers: Documentation and Awareness

Fina Bank requires the individual to be employed; and BPR's housing loan requires the potential client to either have a regular income or to be employed. For this analysis, only those who receive wages or salary from a private employer or the government are deemed to have access to these products.

UOB's group loan and Fina Bank's personal loan require identification documents in the form of an ID or passport. Other documentation includes a proof of address for the personal loan, housing project documentation for the housing loan and agricultural project documentation for the agricultural loan product. In addition, BPR's agricultural loan requires documentation proving the project will be profitable (i.e. that it will generate sufficient income to meet repayments). The impact of these requirements cannot be assessed using FinScope data.

Again, individuals cannot be considered to have meaningful access to formal products if they do not have a working knowledge of product benefits or of their rights and responsibilities. Only 13% of individuals not in the current market understand the term "grace period for loans", 31% know what a micro-finance institution is, while 55% say they understand "interest on loans".

None of the loan products under review require a credit history for borrowers.

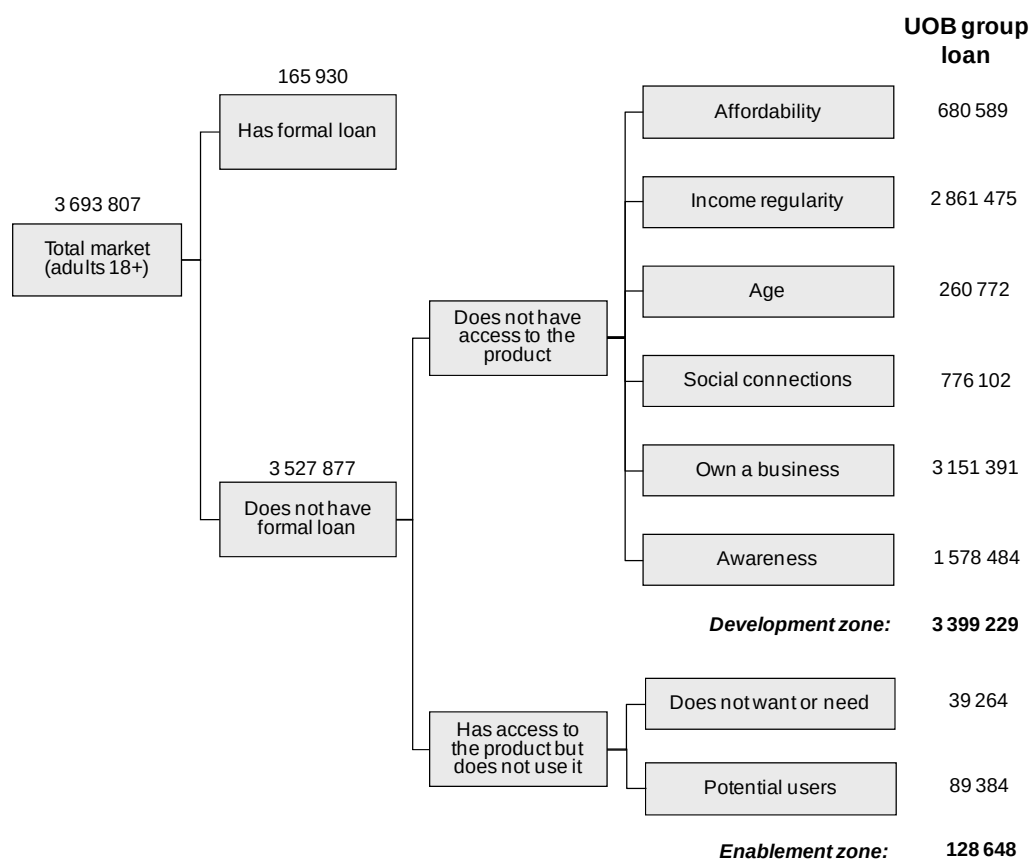
Voluntary self-exclusion

Nine percent of adults not in the current market say 'I don't need to borrow money or I can cope with my living expenses with what I have' when asked why they have not borrowed money.

5.1.4 CREDIT ACCESS FRONTIER SUMMARY

Access frontier 'trees' quantifying the magnitude of the various constraints for the products under review are in figures 36, 37 and 38. Some constraints do not vary by institution but characterise the market as a whole.

Note once again that access constraints are not mutually exclusive – many individuals in the market development zone may face several constraints simultaneously. In the case of the market enablement zone (noted in bold in the trees), there are no apparent constraints that prevent individuals from getting a formal loan.

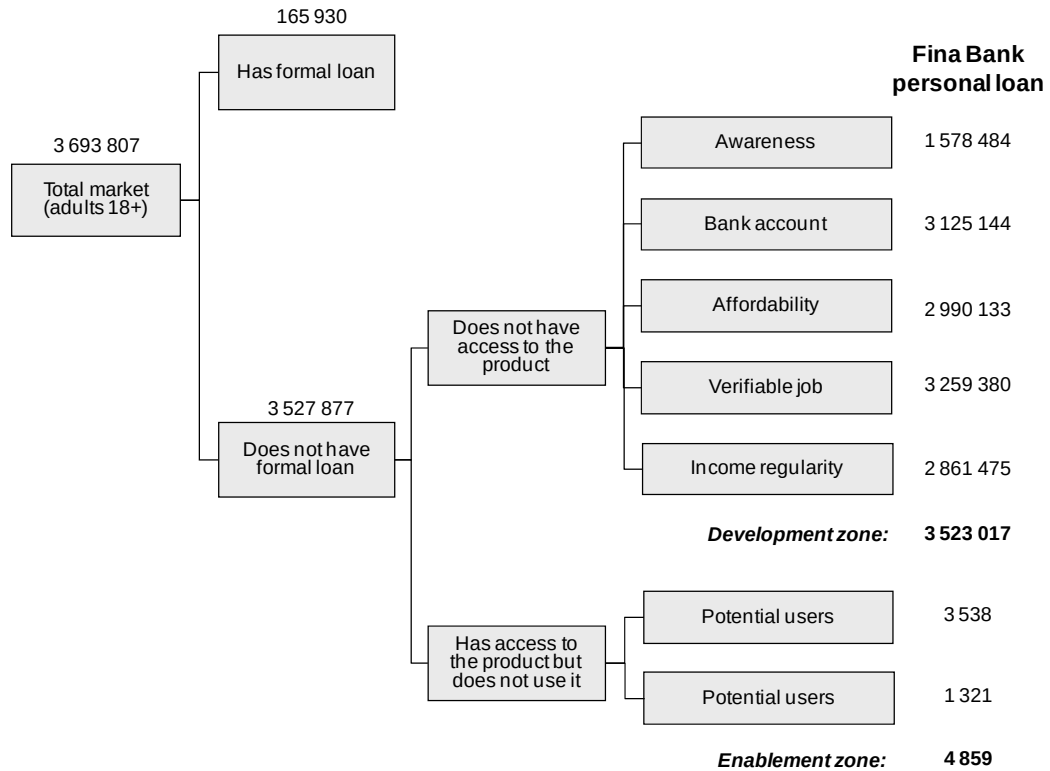
Figure 36: Credit Access Frontier “Tree”: UOB Group Loan


Source: FinScope Rwanda 2008

With the UOB loan, the analysis indicates that the product is accessible to roughly 128,000 individuals who do not currently borrow from formal sources. While this is a small proportion of adults in the country it is sizeable relative to a current market of around 166,000.

The analysis of access to Fina Bank's personal loan indicates very limited accessibility, because of requirements relating to income levels, income sources, bank account usage and awareness.

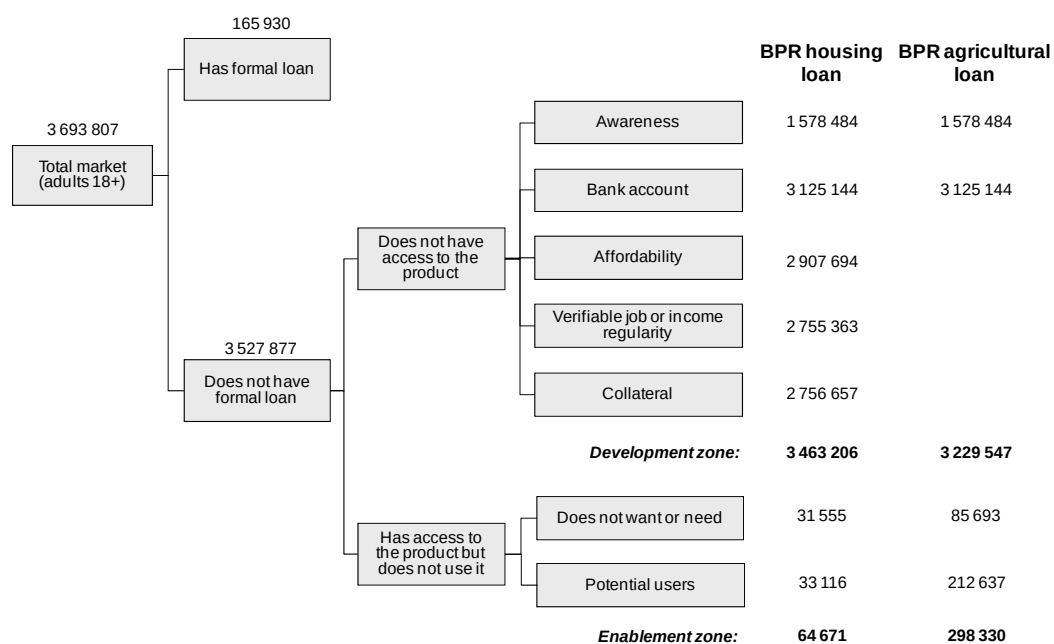
Figure 37: Credit Access Frontier “Tree”: Fina Bank Personal Loan



Source: FinScope Rwanda 2008

BPR's housing and agricultural loans appear to be far more accessible. Physical access does not appear to be a barrier given the footprint of the bank. In addition, the bank appears to be willing to assess affordability based on likely future profitability (rather than current income only) and is relatively flexible with regard to the timing of installments.

Figure 38: Credit Access Frontier “Tree”: BPR Housing and Agricultural Loans



Source: FinScope Rwanda 2008

6 PART 6: FINANCIAL INCLUSION POLICY AND VISION

6.1 INTRODUCTION

One of the more significant shifts in thinking around policy on access to financial services in recent years has been to recognise that, for low-access economies, it needs to be brought right to the centre of financial policy development as a guiding principle for financial policy reform. The term “financial inclusion” implies the need to understand how the financial system as a whole can cause, but also provide the solution to, the problem of financial exclusion. Microfinance, to use its broad definition of “financial services for the poor”, is not just about what microfinance institutions do: large parts of the financial system, including a wide range of service providers, private and state-owned, formal and informal, payment system providers, and information service providers such as credit bureaux market researchers, all have a potential role to play in delivering microfinance. Microfinance is part of the financial system, not a niche.

To manage the complexity of this interconnected field, some countries have considered introducing a formal policy on financial inclusion. The main reason is to lay out a vision for financial inclusion and create a framework within which multiple strands of activity can be initiated and monitored. Having an access policy can also help to establish the principles that would apply across government departments – financial policy does not emanate solely from the finance ministry and it is important that policy interventions from (for example) the ministry of commerce or agriculture have a common ideological basis around access.

It could be argued that because the FSDP long ago recognised the central importance of access – “expanding access to credit and financial services” is one of the FSDP’s three pillars – it does not need an access policy as such. Overall, there has been considerable progress towards greater financial inclusion in what could be called Phase 1 of the FSDP era. Rather than involving significant new initiatives, we believe Phase 2 should be a period of consolidation, coordination and monitoring, with clear agreement between GoR and the industry on what the vision for inclusive financial markets in Rwanda should be.

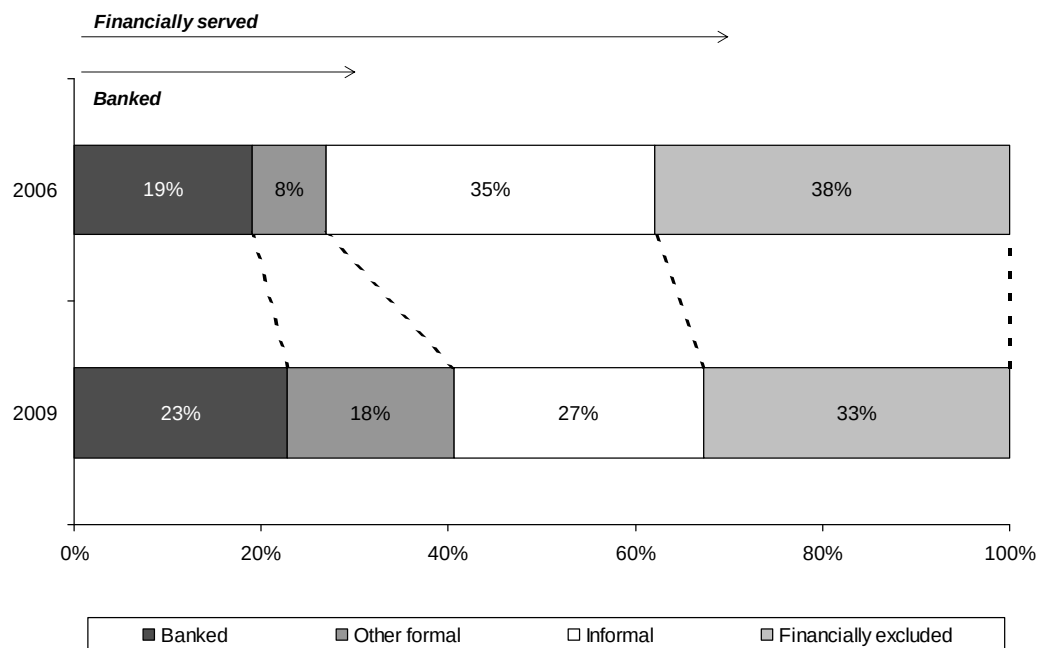
Precisely because of the considerable activity of recent years, it is appropriate to take stock by establishing a new baseline, setting targets for the next five years and formally monitoring progress towards the achievement of those targets. Good quality monitoring against agreed targets would provide the basis for informed dialogue between GoR and the industry and for determining whether the policy interventions since the FSDP have been effective, or should be strengthened or relaxed. It would also provide additional material in support of existing monitoring work (e.g. around the EDPRS or Vision 2020, but also of course FSDP itself).

This section of the report considers what this financial inclusion policy framework might look like.

6.2 VISION

Although Rwanda's policymaking and regulatory bodies are considered by the financial industry to be quite assertive, GoR nevertheless recognises that it is not the role of government to deliver financial services itself. This means that if financial inclusion policies are to be successful, they have to be effective at the micro level, i.e. it is organisations that will deliver the gains in access by reaching out to more people. It follows that there needs to be a good level of understanding between the government and the financial sector about what the vision is for financial inclusion, and where the gains in financial inclusion are going to come from – for example, from banks, or MFIs or the semi-formal sector – and over what period.

Figure 39: Kenya Access Strand

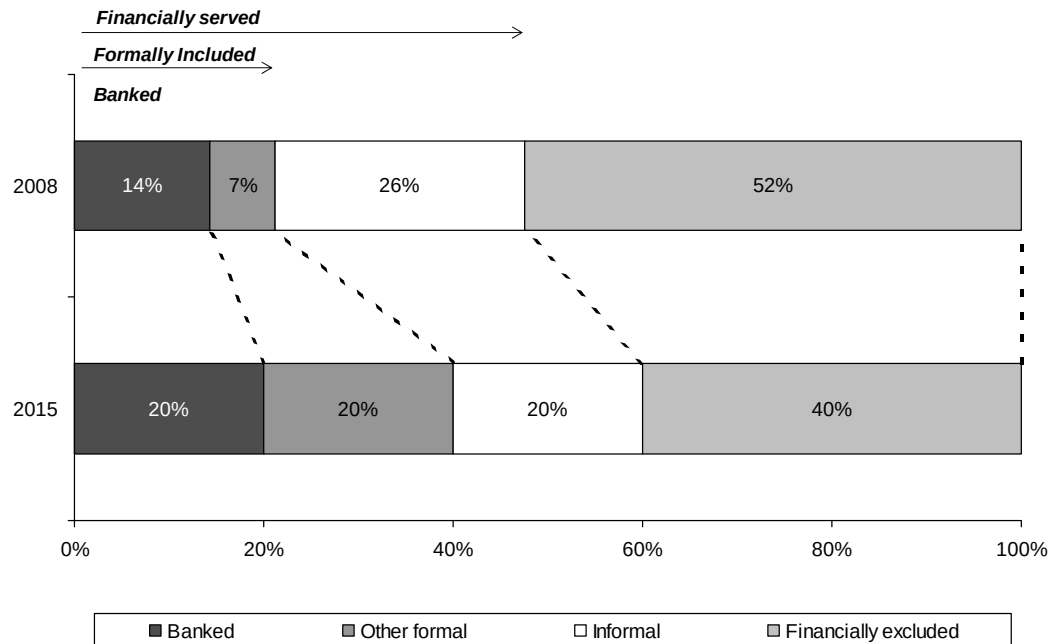


Source: FinAccess 2008

The case of Kenya is instructive. As Figure 39 shows, although the percentage of the financially excluded fell between 2006 and 2009, the bigger change in the composition of the access strand was in the percentage of the population who were formally served, reflecting an increase in the banked population but, more particularly, in the Other Formal segment, Rwanda has some interesting questions to resolve, flowing from the institutional structure of

the market. For example, how much of an increase in the banked population should come from BPR (which functions as a kind of universal, or proximity, bank) as opposed to the other commercial banks? Or how much increase should we expect from microfinance institutions if, as expected, they start to experience competition from the Umurenge SACCOS.

Figure 40: Rwanda Access Strand



Source: FinScope 2008

A further dimension has to do with service quality. Service quality in Rwanda (and not just in the financial sector) has been an issue for GoR. Poor service (e.g. unfriendly staff, long queues) is significant in entrenching financial exclusion. It makes sense that a vision for a more inclusive financial system should embrace the idea of a better quality of service as well as greater numbers of people accessing more financial products.

We suggest this could take the form of a “Charter for Access and Service Quality”, a voluntary initiative by the industry (bank and non-bank) which sets itself targets for access and service quality that are consistent with GoR policy objectives but delivered by the industry. Such a charter could also incorporate the kind of consumer protection issues that are becoming commonplace in industry voluntary codes across the world.

It is important to emphasise that the responsibility to deliver good service does not just rest with the banks. All types of formal or semi-formal service provider, including SACCOS, should

embrace the same principles. In the race for greater access, it would be all too easy to sacrifice quality of service in return for a rapid increase in headline numbers when in fact the kind of access where consumers feel bewildered or ignored, mistreated or defrauded, is worse than having no access at all. We believe this has particular relevance for an interventionist programme such as the Umurenge SACCO programme.

Important changes taking place in Rwanda make it challenging to visualise the shape of the financial sector in five years' time. The pace and sustainability of economic growth, the transformation of BPR, the Umurenge SACCO programme and MTN Mobile Money could all have a major impact on the extent and quality of financial inclusion in the future. So too will demographics, especially the number of young adults coming into the financial system for the first time.

We have constructed comparative access strands to illustrate what the institutional make-up of the financial sector might look like in the future. These are merely (we stress) possible outcomes. The access strand is an effective way to set realistic and measurable targets for financial inclusion because it captures both the formal and informal dimensions and is based on the percentage of the population (i.e. numbers of people) rather than numbers of accounts or products used.

Table 21: Projections of banked population

	2008 (%)	2008 No of adults	2015 (%)	2015 No of adults	Increase in no of adults (%)
Banked	14	500,000	20	820,000	+320,000
Formal Other	7	250,000	20	820,000	+570,000
Informal Only	26	950,000	20	820,000	-130,000
Excluded	52	2,000,000	40	1,640,000	-360,000
		3,700,000		4,100,000	+400,000

Source: Authors' estimates

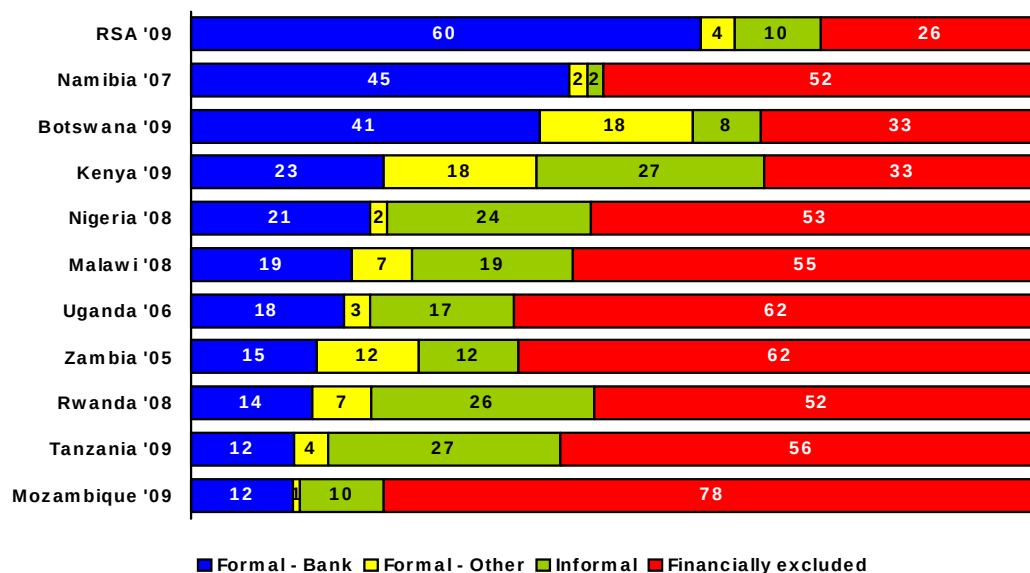
In the strands in Table 21 we see:

- an increase in the Banked population, reflecting increased outreach but also the contribution that a more liberalised payments system might make towards improved outreach

- a substantial increase in Formal Other, reflecting contributions from both MTN Mobile Money and the Umurenge SACCO programme (which, because it is regulated, is technically, a formal sector development)
- a reduction in the Informal Only population, reflecting the fact that people who use informal products today will migrate more easily to using formal products (possibly in conjunction with their existing informal products), than people who are excluded today
- a reduction in the population of Financially Excluded, reflecting the aggregate changes in the other parts of the strand.

Translating these percentages into real numbers brings the extent of the challenge to life and helps to determine whether the vision, expressed in percentages, is realistic. It also presupposes making an assumption about the increase in the adult population. On the assumption that the population grows at the same rate as for 2004-2009, i.e. 2%⁵⁸, we have assumed that the adult population increases from 3.7m to 4.1m by 2015.

Figure 41: Latest access strands from across Africa



Source: FinMark Trust, 2009

⁵⁸ IMF World Economic Outlook

Figure 41 shows the latest access strands from across Africa. Experience from other FinScope countries that have repeated the survey has shown that the gains can be disappointing. In Tanzania, for example, the Banked population grew between 2006 and 2009 (9% up to 12%) but the Excluded population actually increased – perhaps reflecting large numbers of young Tanzanians coming of age but remaining economically excluded.

6.3 INDICATORS

Ideally, the choice of indicators would comprise both supply and demand side indicators that reflect the quality and quantity of access. For ease of monitoring, it may be useful to group these into core indicators and supplementary indicators.

We have not included those supply indicators which NBR routinely tracks in fulfillment of its regulatory function but have suggested some less obvious ones that have a bearing on inclusion. The aim should be to track indicators that are likely to change because of specific policy interventions or because they are considered particularly critical to the development of the sector.

What is immediately apparent is the limited amount of baseline information (even from the supply side) on some of the indicators that could be useful in tracking inclusion. Further preparatory research to establish these baselines may be required.

6.4 IMPLEMENTATION

Underpinning the rationale for this policy framework for financial inclusion is the idea that if there is agreement on targets for financial inclusion and service quality, then, provided a robust monitoring framework is in place, government can afford to step back and allow the industry to self-regulate in respect of achieving its goals of financial inclusion.

This dovetails with the desire by banks for greater regulatory autonomy and a relaxation of what has been described as an unnecessarily paternalistic regulatory style from NBR. Given this appetite for self-regulation (or self-management), it seems appropriate to put the onus for delivering greater financial inclusion back on the industry – but to agree targets and a timeframe to ensure that policy goals are achieved.

Agreeing the targets requires some form of consultative process, or consensus-building. Box 3 describes the process that led to the Charters in South Africa and Namibia. This could be a series of facilitated workshops, perhaps supported by research to fill knowledge gaps. This kind of process would be an important opportunity for GoR to signal what it would consider an acceptable vision for financial inclusion. It would also be an opportunity for the industry to set out what it would require from GoR in exchange for delivering greater access on the ground. Clearly in Rwanda government action is also required to address the structural challenges that contribute to the high risks and costs of financial service provision, not least the provision of basic infrastructure in some areas.

Box 3: Financial Sector Charters in South Africa and Namibia

Although the contexts are very different, the experiences of South Africa and Namibia offer some useful pointers as to how these voluntary agreements can be implemented and managed. It is important to note that access to financial services is only one of a much broader set of objectives in both the South African and Namibian Charters. The motivation for introducing Charters in both these countries was driven primarily by the need to de-racialise the ownership and management structure of the industry. In South Africa's case, at least, the access targets contained in the Charter were an afterthought, albeit a politically important one.

South Africa

South Africa's Financial Sector Charter was signed in October 2003 and remains the most compelling example in Africa of how policy objectives can be fulfilled (or at least partly so) by moral suasion. It was intended to cover an initial period of 5 years (to 2009), when the various targets of the Charter would be measured formally, and thereafter to 2014. Chapter 8 of the Charter deals with access to financial services, setting targets for increasing access to first order retail financial products (in banking, insurance and collective investments) and for more lending to developmental sector such as low-cost housing, agriculture, infrastructure and black-owned small businesses.

The process that led to the signing of the Charter, involving weekly meetings by industry representatives and more substantive multi-stakeholder off-site sessions, started in August 2002 and took 15 months. The banking industry led the process with the insurance industry joining later. A draft Charter was available as early as January 2003. The South African government was an observer in the negotiations but was instrumental in signalling the importance of access as a key objective.

A Financial Sector Charter Council (FSCC) was created to give implementation oversight to the Charter. With its board, the executive, secretariat and various committees, it is the institutional embodiment of the Charter. Part of its job has been to produce annual reports on whether the Charter is meeting its objectives, including on access. The FSCC is representative of government, the industry, labour and community groups.

Measured empirically, the Charter can be said to have mostly achieved its objectives on access. For example, the Charter set out to promote entry-level banking through the Mzansi basic bank account. Six million Mzansi accounts were opened between 2004 and 2008, 72% by people who had never had a bank account before. The Charter target was that there should be 2.2m active Mzansi accounts open in the private sector banks (the state-owned Postbank also being a major issuer) at the end of 2008 – this target was met. The targets for new loans to low income housing, agriculture, infrastructure and black-owned small businesses were also

met (or substantially so) as early as 2007.

In the end the Charter became embroiled in political in-fighting which paralysed much of its operational effectiveness. The highly diverse interests on the board of the FSCC created the potential for conflict and dysfunctionality. In hindsight, it could be argued that government should perhaps have played a more *dirigiste* role in this “voluntary” industry initiative.

Namibia

Namibia's Financial Sector Charter (NFSC) was finally signed in May 2009 after 4 years of deliberation. As such there is no evidence of whether it has been successful or not. It runs from May 2009 until 31 December 2019 and is consistent with Namibia's Vision 2030 strategy. The goal of the NFSC is to guide the transformation and Namibianisation of the financial services sector and address issues of equity in the Namibian financial services arena – thus, like its South African “cousin”, its objectives are far broader than just access.

The NFSC also makes provision for a Financial Sector Council to oversee the implementation of the charter and ensure that signatories comply with its requirements. This Council made up of members from the financial services industry and two members nominated by the Ministry of Finance.

Lessons to be learned

Charters are by no means the only way to promote financial inclusion and, although the structure of the South African and Namibian documents have similarities, the differing lengths of time it took for these two initiatives to become effective perhaps shows how important the political economy is in project implementation. The obvious alternative to a Charter is a National Strategy of some kind. UNCDF espouses this approach through its Building Inclusive Financial Sectors in Africa (BIFSA) programme (UNCDF has 11 financial inclusion projects in Africa currently, according to its website) but National Strategies, with their explicitly governmental character, can be more bureaucratic in nature. At least in its inception and its early years, the South African Financial Sector Charter made quick progress.

Another lesson from the Charter approach is that government does need to play an active role in setting the parameters, not least because it has to ensure the Charter is consistent with wider policy objectives. This is, therefore, not about sub-contracting policy to the financial industry but, rather, about ensuring the industry takes responsibility for delivering against policy objectives. A final lesson is to ensure that monitoring and compliance do not become unsustainably complex and burdensome.

The consensus reached would need to be incorporated into a document setting out the vision and the targets and agreeing the monitoring process. As we have suggested this could take the form of a Charter for Access and Service Quality but it will be for stakeholders in Rwanda to decide on how this industry commitment should be framed.

Some form of stakeholder committee is needed, on which GoR and industry groups are represented to monitor formally progress towards inclusion goals. Our assumption is that the relevant industry representative bodies would be charged with the responsibility of preparing reports for the committee, the format and content of which would need to be agreed.

We anticipate that the newly-energised Bankers Association could provide the secretariat and coordinating function on behalf of the financial sector. Although we recognise that inclusion is about more than just banking, we do not believe it desirable for a market the size of Rwanda to have a wholly new monitoring institution representing all industry groups, although this depends on how extensive a reporting job the committee would be required to fulfill.

The stakeholders would collectively need to decide how frequently it would be necessary to meet but quarterly might seem appropriate.

On the assumption that the period under review is (broadly) 2010–2015 it would seem desirable to aim for a formal interim review of progress in 2013.

Annual reports should be prepared, and made available publicly, charting the improvements made to financial inclusion.

7 RECOMMENDATIONS

This section sets out the main recommendations based on the analysis in the preceding chapters.

7.1 POLICY AND REGULATION

- 1 Policy and regulation is not cited by industry as a major constraint on innovation and we believe a period of consolidation is needed to allow the market to fully absorb the changes that have taken place. Rather than introducing new regulation, there should be a more systematic focus on assessing the impact of recent regulation on financial inclusion. We suggest that a formal impact review of the Microfinance Law and regulations be undertaken, and, in view of an increasingly competitive operating environment for MFIs, consideration given to relaxing some of the more restrictive regulations.
- 2 As regards financial inclusion policy, we recommend that GoR/NBR allow the industry the latitude to come up solutions of its own for expanding access. This implies a degree of self-regulation by the industry in respect of access but within a framework agreed to by both GoR and industry. The framework should take the form of a cross-industry consumer charter which would include commitments on access, service quality and consumer protection. The charter should have measurable targets and a formal monitoring mechanism. GoR/NBR should use its convening power to initiate a process of consultation with the industry (and other stakeholders if relevant) to produce a vision for financial inclusion that is realistic and acceptable to both government and industry, and to agree indicators.
- 3 Although the pipeline of legislation affecting insurance is extensive and should be the priority focus, we recommend that NBR moves in due course towards adopting a formal policy on microinsurance. Very few people in Rwanda benefit from mainstream insurance and it is worth exploring whether constraints in the policy, regulation and supervision of the broader insurance market are negatively impacting on the development of insurance markets for the poor. This would require more in-depth analysis than was possible in this study.
- 4 There is a looming issue concerning regulation of the Umurenge SACCO programme. The fundamental problem is that there are not enough people with the right skills to supervise the expected number of SACCOs and we recommend urgent measures to address this shortfall. We also recommend that the licensing of new SACCOs should only proceed when there are enough supervisors to supervise them. If the momentum behind the Umurenge SACCO programme is to be maintained, training of supervisory staff needs to take place urgently.

- 5 We also recommend that regulation of this programme be moved from NBR to the Rwanda Cooperative Agency. The scale of the Umurenge SACCO will soon overwhelm the small NBR team overseeing the microfinance industry. There is also some logic in concentrating the extensive support needed for building the capacity of the SACCOs as well as the SACCO regulators under one regulatory roof.
- 6 We recommend that, to the extent GoR introduces new regulation, there is adequate time allowed for consultation with the industry and comments are taken into account. There have been instances where this has not happened, the Mortgage Law being the most egregious example.
- 7 We recommend that NBR mandates the Bankers Association to deal with external suppliers of services to the banking sector (as happened with the selection of the credit bureau), rather than lead these commercial arrangements itself.

7.2 SKILLS

- 1 There should be immediate and close collaboration with Bankers Association to formulate a strategy for:
 - establishing a Rwanda Bankers' Institute which would be responsible for setting standards for the accreditation of financial sector staff
 - ensuring the supply within Rwanda of training services of an appropriate quality and standard, having regard to existing facilities such as the School of Finance and Banking.
 - partnering in the interim with regional or international training organisations until such time as adequate capacity within Rwanda is built
 - developing a sustainable revenue model that would ensure skills levels can be maintained in the future
- 2 We recommend similar collaboration with the insurance industry although the much smaller scale of that industry raises questions about whether a system dedicated to skills development in the insurance industry could be viable in the same way as for banking.
- 3 The results of the skills audit should be a trigger for prompt action: it should be possible to have fully fledged skills development strategy in place for the financial sector by the year end 2010.

- 4 AMIR has limited resources and so we recommend that it should concentrate its skills development activities on Category 3 organisations – i.e. MFIs and larger co-operatives. Capacity building in smaller co-operatives' should be the responsibility of RCA.
- 5 With a more manageable scope, we recommend AMIR should then be given support to strengthen its capacity building role. One important goal is to ensure that course material is pitched at the right level for those people attending training courses: currently, the larger MFIs say they derive little benefit from the course material on offer.
- 6 With the recommendation to concentrate regulation and capacity building of Class 2 SACCOs (including the Umurenge SACCOs) on the RCA, immediate and extensive support should be given to RCA to ensure it has the capacity to take on these functions.

7.3 SAVINGS

- 1 We recommend better communication of government efforts to promote savings including the new Pensions and Collective Investment Law and the National Savings Mobilization Strategy itself. We also recommend that the Umurenge SACCO programme be properly understood as a national savings brand, even if it is a source of credit for some.
- 2 The range of savings products on offer is exclusionary in the sense that the required minimum deposit is often quite high and often no interest is paid until a sizeable deposit has been built up. We recommend that GoR use the banking infrastructure to introduce savings products of its own to (i) stimulate higher deposit rates and (ii) provide savings opportunities for poorer consumers. These products should be made available through banks, for a fee, to unbanked people as well as bank customers. Such products could include:
 - A lottery linked savings product (or “prize bond”)
 - A retail bond, available in units of as low as Rwf1,000
- 3 Consideration should be given to supporting matched savings products, e.g. for higher education or housebuilding. Such products could be targeted to lower income groups.
- 4 The negative public perception of the Rwanda Revenue Authority's ability to freeze a bank account is acting as a disincentive for savings. We recommend the RRA's powers should either be modified or that there should be better communication of the circumstances in which such powers can be exercised.

- 5 The reforms to the Caisse Sociale are unlikely to have a significant impact on financial inclusion in the short term because most people who have access to Caisse Sociale, being formally employed, already have access to the financial system. However, there is a need to consider how to boost access to long term savings products for those who are not formally employed and we recommend that GoR considers how to address this as part of its National Savings Mobilization Strategy.
- 6 Restoring low inflation is key to boosting savings. Accordingly, macroeconomic policy should continue to emphasise this.

7.4 CREDIT MARKETS

- 1 Responsible lending provisions should be incorporated into the proposed consumer charter (or, separately, into a code of conduct) to address issues such as pricing transparency and avoiding over indebtedness
- 2 We recommend that all banks should have appropriate independent, internal recourse mechanisms to deal with legitimate complaints and appropriate arrangements for referring complaints that cannot be dealt with in house.
- 3 We recommend that NBR should decide what role (if any) it wishes to play in consumer recourse. Given its own capacity constraints, it might be most appropriate role for it to play a standard-setting and monitoring role, leaving the industry itself to take on responsibility for resolving complaints
- 4 We recommend GoR increases its particular focus on consumer protection surrounding the Umurenge SACCO programme. This requires there to be not just a functional complaints procedure for SACCO customers but also appropriate messaging from MINECOFIN to SACCO managers about the consequences of fraud or negligence occurring under their watch
- 5 We recommend that GoR and the financial industry collaborate to develop a realistic plan for improving financial capability in Rwanda

7.5 CONSUMER PROTECTION AND FINANCIAL CAPABILITY

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- 5 We recommend that GoR and the financial industry collaborate to develop a realistic plan for improving financial capability in Rwanda

7.6 UMURENGE SACCO PROGRAMME

- 1 We recommend that GoR significantly strengthen its communication around the Umurenge SACCO programme. There are two audiences for this – local government officials and the general public.

Local government officials need to be encouraged to avoid the heavy-handed tactics they are reportedly using in some instances to persuade members of their community to participate in the SACCOs; they also need to be reminded of the serious consequences of allowing the SACCO to be captured by corrupt or incompetent managers.

The public, who are uncertain about whether this is a voluntary initiative or not, need to be reminded they do not have to participate if they do not want to. They also need to be made aware of the governance arrangements in these SACCOs – i.e. that they, rather than the managers, own them.

- 2 We recommend that GoR returns to the original concept of establishing new SACCOs only in locations which are not already served by a bank, MFI or SACCO. The purpose of the Umurenge SACCO programme was always to extend coverage of the financial system: if a SACCO is established by taking over the deposits and customer base of an existing MFI, it has not contributed to greater financial inclusion. Competition (e.g. between an Umurenge SACCO and an MFI) is not a bad thing, even for MFIs, but the SACCOs enjoy a considerable, and possibly unfair, competitive advantage because they are seen to have the backing of the state.

An alternative solution would be to prioritise the licensing of new SACCOs in areas where there are no MFIs or SACCOs already operating.

- 3 There is an urgent need to train a significant number of new SACCO regulators and to decide which agency (NBR or RCA) should be responsible for supervising the new SACCOs
- 4 A comprehensive capacity building programme needs to be scaled up as the new SACCOs get licensed. We recommend as follows:
 - Scarce capacity-building resources should be directed towards well-performing SACCOs. Although the aim of the programme is to have 416 new SACCOs (one in each sector), it may not be possible to give all of these organisations the support they need. In these circumstances it would be better to concentrate resources on those SACCOs likely to succeed, rather than spread resources too thinly.
 - GoR should forge strategic partnerships around capacity building with experts in the field (e.g. CARE, AquaDev etc) and sub-contract the management of capacity building efforts to these organisations on a geographic basis. This would also rich control data on how best capacity building in SACCOs should be done.
- 5 We recommend GoR should ensure that the SACCOs are never used as a conduit for government or donor funding as this would destroy the common bond ethos that underpins cooperatives.
- 6 We recommend GoR should commit to a transparent impact assessment of the programme once a sufficient number (we suggest 50) of new SACCOs have been established.

7.7 PAYMENTS SYSTEM

- 7 The de facto liberalisation of the payments infrastructure is welcome and we recommend support for likely forthcoming developments such as the introduction of “off us” pricing arrangements.
- 8 We believe the Rwanda payment card initiative should be reconsidered. Even though this “trophy” initiative may be technically feasible, it is not really necessary. It may be desirable to postpone the introduction of the card until the changes now affecting the payments system have been bedded down.

7.8 COMPETITION

- 1 There is evidence that competition in the middle of the market, where certain banks with mass market strategies are competing for business against MFIs, is intensifying to the point where further competition, in the form of new market entrants, could actually be destabilising and counterproductive to financial

inclusion. We recommend temporarily restricting the granting of new bank licenses in view of the competition that now seems to exist in that part of the market.

- 2 NBR should consider more in-depth research to explore what the impact of increased competition has been, e.g. on the pricing of loans, product strategy and service quality.

7.9 INDUSTRY ASSOCIATIONS

- 1 Although the Bankers Association is more active than it used to be, attendance is patchy. We recommend that NBR encourage more regular participation by all bank CEOs.
- 2 Various actions are needed to bolster the capacity and credibility of AMIR, an organisation that is still quite new, including:
 - An institutional and skills audit, backed up by investment in training for AMIR staff in certain management and technical functions
 - A streamlining of functions to concentrate on delivering fewer outputs but doing these more effectively
 - A strategic plan that sets clear targets. These could include: (i) increasing the number of MFIs reporting to MixMarket (ii) recruitment (iii) increasing core funding
- 3 We also recommend that AMIR should avoid taking on the role of an apex for the time being and only move towards this if (i) there is compelling evidence of demand and (ii) it has enough capacity to manage it.

7.10 AGRICULTURE FINANCE

- 1 There is a need for innovation in this area. We recommend, however, a greater focus on the provision of project-based equity finance, targeting specialised areas of agriculture, rather than on increasing the supply of bank debt to smallholder farmers
- 2 We also recommend market studies to obtain a clearer picture of the demand for agriculture finance

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APPENDICES

APPENDIX 1: FIAT ANALYSIS METHODOLOGY

FIAT tier	Analysis
Macro – policy and regulatory level	• Review of regulation: banking (including AML/CFT), microfinance, insurance and consumer protection; unintended consequences of recent legislation • Review of macroeconomic and fiscal policy • Relationship between GOR and banking sector (formal and informal) • Clarity with which GOR policy on access is understood • Global financial crisis effects • Some analysis of investment climate initiatives (for SME development) • Extent to which absence of long term capital impedes retail access • Explore relevance for Rwanda of international access initiatives (Brazil, Colombia, SA)
Meso - information/support layer	• Availability and quality of credit information • Functionality of payments system • Available technologies and constraints to deployment • Capacity/skills of regulators, FIs, AMIR, CAPMER, farmers' cooperatives, other support organisations: NB skills constraints in key areas, such as governance, risk management, data analysis • Research gaps

1 Micro - organisational layer	• What does the organisational supply landscape look like, e.g. balance between public and private, commercial and semi-formal etc (see below for list of organisations to be targeted) • BPR's special role (i) its interconnectedness (ii) implications of market dominance in lower income segments • What products and services are available to poorer consumers and SMEs? • Specialised products e.g. agri, housing, micro insurance • How has their penetration of lower income segments changed in recent years? • What pricing structures are in force? Are these differentiated? • How (i) efficient are the different types of institution and (ii) effective are they at reaching lower income segments and/or SMEs (iii) what is the relationship (if any) between the efficiency of the organisations and access? • Cost structures and perceived risks • Operational constraints (payments system and other)
2 Consumer layer	• Levels of consumer capability • The consumer experience of banking • Recourse mechanisms • Consumer rights

APPENDIX 2: GENERAL FINANCIAL INSTITUTIONS SURVEY

Instructions: Thank you for taking the time to complete this survey. We appreciate your cooperation. Please try to answer questions 1 to 10 in full and as accurately as possible. These require little time but provide a lot of insight on the accessibility and constraints of financial institutions in Rwanda. The questions are followed by data request tables for different types of financial institutions. Please complete the table that applies to your organisation. These require more time but only refer to data that should already be available to you and do not require any computations. Your answers will be treated as confidential.

ID Organisation Name:**1 What is your legal status? (Please tick or specify where relevant)**

Commercial Bank	☐	Building Society	☐
Microfinance Bank/NGO	☐	Leasing Company	☐
Insurance/Reinsurance Company	☐	Other, Registered	☐
Financial Cooperative	☐	Other, Not registered	☐

2 How many employees do you have in the following categories?

	2008		2009
Branch tellers	☐	Branch tellers	☐
Sales personnel/agents (own employees)	☐	Sales personnel/agents (own employees)	☐
Customer service staff	☐	Customer service staff	☐
Head office	☐	Head office	☐
Branch staff (excluding tellers)	☐	Branch staff (excluding tellers)	☐

3 How many access points/channels do you have throughout the country?

	2008		2009
Full-service branches	☐	Full-service branches	☐
Limited-service branches	☐	Limited-service branches	☐
Agent outlets	☐	Agent outlets	☐
Automated Teller Machines	☐	Automated Teller Machines	☐
Online banking	☐	Online banking	☐
Mobile banking	☐	Mobile banking	☐
POS devices	☐	POS devices	☐
Other, please specify	☐	Other, please specify	☐
	☐		☐
	☐		☐
	☐		☐

4 What types of products does your institution provide to individuals? (Please tick or specify where relevant)

Cheque/Current accounts	☐	Debit cards	☐
Term deposits	☐	Credit cards	☐
Savings/Transactional accounts	☐	Overdraft facilities	☐
Contractual savings product	☐	Consumer loans	☐
Household & contents insurance	☐	Microloans	☐
Life insurance	☐	Micro insurance	☐
Vehicle insurance	☐	Money transfer	☐
Pension/Retirement policy	☐	<i>Other, please specify</i>	☐
Mortgage loan	☐		☐
Home improvement loan	☐		☐

5 What types of products does your institution provide to businesses? (Please tick or specify where relevant)

Cheque/Current accounts	☐	Debit cards	☐
Term deposits	☐	Credit cards	☐
Savings/Transactional accounts	☐	Overdraft facilities	☐
Contractual savings product	☐	SME loans	☐
Business insurance	☐	Microloans	☐
Credit risk insurance	☐	Micro insurance	☐
Vehicle insurance	☐	Trade credit	☐
Asset leasing	☐	Money transfer	☐
	☐	<i>Other, please specify</i>	☐
			☐

6 What documentation is required to open a basic transactional account? (Please tick or specify where relevant)

Documentation		<i>Other, please specify</i>	
Passport photograph	☐		☐
ID document	☐		☐
Proof of residence	☐		☐
Proof of asset purchase/ownership	☐		☐
Minimum deposit requirement	☐		☐
Business registration	☐		☐
Tax certificate	☐		☐
Operating licenses	☐		☐
Minimum turnover	☐		☐
Audited financial statements	☐		☐

Proof of employment

Cash flow statement

7 What material is required to obtain a small business loan at your institution?**(Please tick or specify where relevant)****Documentation***Other, please specify*

Passport photograph

ID document

Proof of residence

Proof of purchase/ownership

Some form of deposit as part collateral

Business registration

Tax certificate

Other form of collateral

Operating licenses

Minimum turnover

Audited financial statements

Cash flow statement

RANKINGS

8. Please rank the following customer groups in terms of their contribution to your overall portfolio? (where 1 = least significant; 5 = most significant)		
	<i>Rank (last year)</i>	<i>Rank (this year)</i>
<i>Large businesses (< 50 people)</i>		
<i>Small businesses (> 50 people)</i>		
<i>Individual, salaried</i>		
<i>Individual, self-employed</i>		
<i>Individual, informally employed</i>		
<i>Individual, employed in agricultural activities</i>		
<i>Microenterprise (2-5 people)</i>		

9. Please rank the following cost items in terms of their contribution to your overall operating costs? (where 1 = least significant; 5 = most significant)

	<i>Rank (last year)</i>	<i>Rank (this year)</i>
<i>Cost of funds</i>		
<i>Salaries</i>		
<i>Compliance with government regulations</i>		
<i>Marketing, sales</i>		
<i>IT system</i>		
<i>Provisioning for bad debts</i>		
<i>Communication costs</i>		

10. How would you rank the following elements of Rwanda's financial infrastructure? (where 1 = very poor; 5 = very good)		
	<i>Rank (last year)</i>	<i>Rank (this year)</i>
<i>Switching costs</i>		
<i>ACH transaction capacity</i>		
<i>Credit information/bureau</i>		
<i>Real-time gross settlements</i>		
<i>Interoperability of channels</i>		

DATA REQUESTS

Commercial Banks Only

Indicator	2007	2008	2009
<i>Total Assets</i>			
<i>Total Deposits</i>			
<i>Total Loan Portfolio</i>			
<i>Total impairments as a % of book</i>			
<i>Number of Savers</i>			
<i>Number of Borrowers</i>			
<i>Number of Branches</i>			
<i>Number of Field Staff/Agents</i>			
<i>Operating Expenses</i>			
<i>Operating Revenue</i>			

<i>Net Income</i>			
Volume of business (in Rwf):	2007	2008	2009
<i>Cheque/Transactional Accounts</i>			
<i>Term Deposits</i>			
<i>Business Loans</i>			
<i>Consumer/Individual loans</i>			
<i>Agricultural loans</i>			
<i>Microloans</i>			
<i>Money transfer/Remittances</i>			
<i>Debit/Credit cards</i>			
<i>Mortgage/Housing loans</i>			

Microfinance Banks/Financial Co-operatives Only

Indicator	2007	2008	2009
<i>Total Assets</i>			
<i>Total Deposits</i>			
<i>Total Loan Portfolio</i>			
<i>Portfolio at Risk (PAR)</i>			
<i>Number of savers</i>			
<i>Number of borrowers</i>			
<i>Number of branches</i>			
<i>Number of field staff/agents</i>			
<i>Operating expenses</i>			
<i>Operating revenue</i>			
<i>Net income</i>			
Volume of business (in Rwf):	2007	2008	2009
<i>Cheque/Transactional accounts</i>			
<i>Term deposits</i>			

<i>Consumer/Individual loans</i>			
<i>Agricultural loans</i>			
<i>Microenterprise loans</i>			
<i>Money transfer/Remittances</i>			
<i>Debit/Credit cards</i>			
<i>Housing/Home improvement loans</i>			

Insurance Providers Only

Indicator	2007	2008	2009
<i>Total Premiums</i>			
<i>Total Impairments as a % of Book</i>			
<i>Number of Policyholders</i>			
<i>Number of Branches</i>			
<i>Number of Field Staff/Agents</i>			
<i>Operating Expenses</i>			
<i>Operating Revenues</i>			
Volume of business (in Rwf):	2007	2008	2009
<i>Total Premiums (individuals)</i>			
<i>Total Premiums (large businesses)</i>			
<i>Total Premiums (small businesses)</i>			
<i>Total Premiums (agribusinesses)</i>			

Request for Supporting Documentation

Please kindly provide the following documents where available:

- Recent Audited Financial Statements
- marketing collateral or other document showing product features, costs and fees
- Available documents showing volume of accounts: new and existing for each product category
- Breakdown of organisation costs in Rwf

Note that this information will be treated as confidential and will be used solely for the purpose of research. Thank you for your cooperation.

APPENDIX 3: INVESTOR PERCEPTIONS SURVEY

	Main questions	Sub questions
1	<i>Rwanda's financial sector has undergone several policy changes in the past two years. Can you discuss the impact of these changes on your organisation? On your industry?</i>	• Increased minimum capital requirements for banks • Establishment of OTC market • Anti-money laundering law • New microfinance law • NBR supervision of NMFIs • UBPR transformation • SIMTEL restructuring
2	<i>Which of the issues you've raised have had a beneficial impact? A negative or less beneficial impact on your organisation?</i>	
3	Given these changes, how has the financial system become more/less inclusive?	• New products • Managing risks • Technology
4	<i>What entry level products do you currently provide? Have these been profitable?</i>	• Types of products • Target market • Uptake • Costs and risks • Growth
5	<i>What are the main factors contributing to the profitability of your institution? What are the main constraints to growth or profitability within your institution?</i>	
6	<i>Please discuss your organisation's medium term growth strategy for the low-income market.</i>	• Service offering • Target markets • Card and mobile strategies • Capacity building • Information systems
7	<i>Has your organisation participated in one or more of the existing government credit guarantee funds/refinancing facilities? Which ones? Please discuss the organisational experience.</i>	
	<i>What has been the organisational/sector experience with card and transaction processing in terms of issuing, switching, acquiring as well as growing your network?</i>	• Issuing costs⁵⁹ • Switching costs • Acquiring costs

⁵⁹ Focus on obtaining specific costs to FI

		• <i>Growing your network</i>
8	<i>MTN is about to introduce its Mobile Money service in Rwanda (like M-Pesa). Please discuss the expected impact of this service.</i>	• <i>Impact on organization</i> • <i>Impact on industry/sector</i> • <i>Impact on financial sector</i>
9	<i>What training programs do you currently have in place?</i>	• <i>Employee levels</i> • <i>Skills development</i> • <i>Performance management</i>
10	<i>What specific key performance indicators (KPIs) do you have in place for front-end staff? Are these monitored regularly?</i>	1. <i>Turnaround time on applications/transaction</i> 2. <i>Customer service</i>⁶⁰ 3. <i>Efficiency</i> 4. <i>Productivity</i>
11	<i>Is there constant monitoring of learning outcomes from training?</i>	• <i>Outcomes</i>
12	<i>Where other skills are needed in your organisation? Is there a shortage of these skills?</i>	• <i>Government role</i> • <i>Private sector role</i> • <i>Industry association role</i>

⁶⁰ Focus on complaints management focusing on client segments, reasons for complaints and handling of complaints

APPENDIX 4: LIST OF INTERVIEWEES

Organisation	Type of Organisation	Contact
Central Bank (NBR)	Government	Francois Kanimba, NBR Governor Kagabo, Microfinance Supervision Unit Joy Ntare, NBFi Supervision Unit John Bosco Sebabi, Payments Systems
Ministry of Agriculture (MINAGRI)	Government	Rhoda Rubaiza, Agriculture Rural Finance and Donor Mobilisation, Planning AND Policy, Capacity Building UNIT
Financial Sector Development Program (FSDP)	Government	Francois Ngarambe, Executive Secretary
Capital Markets Authority Council (CMAC)	Government	Olivier Kamanzi, Deputy Executive Director Robert Mathu, Chairman
World Bank	Donor	Anne Rennie, Lead Financial Specialist, Financial Sector Assessment Programme
International Monetary Fund (IMF)	Donor	Dmitry Gershensohn, Resident Representative
CARE International	Donor	Josephine Marealle-Ulimwengu, Asst Country Director Glycérie Niyibizi, Program Manager, Economic Security and Development
OTF Group	Donor	Ashani Alles, Associate
USAID	Donor	Joseph Obi, Office of Development Credit (EGAT/DC)
School of Finance and Banking	Association/other	Dr. Papias Musafiri Malimba, Vice Rector Academic
AGASEKE	Association/other	Festus Gasigwa, Director General
Association of	Association/other	Claudine Mbaraga, Director

Organisation	Type of Organisation	Contact
Microfinance Institutions in Rwanda (AMIR)		
FinaBank	Bank	Steve Caley, MD
Banque Populaire du Rwanda (BPR)	Bank	Ben Kalkman, CEO
Bank of Kigali (BK)	Bank	Lawson Naibo, COO
Banque Commerciale du Rwanda (BCR)	Bank	Sanjeev Anand, MD John Gatashya, Chief Accountant
Banque de l'Habitat (BHR)	Bank	COO
Rwanda Development Bank (BRD)	Bank	Alphonse Ngendahimana, Head of Research & Innovation Unit
Access Bank	Bank	Gilbert Rugiramaza, CFO Oyelola Oyetola, Country Operations Officer Jean Claude Karayenzi, MD Aline Rwingimba, Head Kigali Branch Services
Ecobank	Bank	Denis Kayumba (Branch Manager, City Plaza branch) Isabelle Uwimana, Executive Assistant to MD
Amasezerano	MFI	Daniel Bavugamenshi, MD
Blue Financial Services	MFI	Gert Venter, MD
Capec Rubengera	MFI	Leonille Murekeyisoni, Director
CAF Isonga	MFI	Joseph Kabundi
CFE Agaseke	MFI	Francis Gasigwa, MD
Duterimbere	MFI	Pelagie Uwamariya, MD
Goshen Finance	MFI	John Nzakamwita, Director General

Organisation	Type of Organisation	Contact
Kozibi	MFI	Theoneste Mbonimana, MD
Rwanda Microfinance Limited (RML)	MFI	Peter Patel Ochiengs, MD
Vision Finance	MFI	Olive Mukankwaya, Finance and Administration Director
Union des Caisses d'Epargne et de Crédit (UCAPEC)	MFI	Solange Uwera, MD
Urwego Opportunity Microfinance Bank (UOMB)	MFI	Ross Nathan, Executive VP - COO
Zigama CSS	MFI	Cornielle Emile Nkundimana, Chief Accountant Capt. Augustin Mutabazi, Operations Manager
SONARWA	Insurance company	Olufemi Aborowa, CFO Olusegun Durojaiye, Ag MD Titian Muberangabo, Director Life & Personal Accidents
SORAS	Insurance company	Peter Andere, Technical & Commercial Advisor Jean Enoch Habiambere, Director General
SIMTEL	Payments	Sigrid Bruch, CEO
MTN	Payments/Mobile	
VISA	Payments	Charles Niehaus, GM SSA

ECONOMIC OPPORTUNITIES FOR LOW-INCOME WOMEN AND THE VERY POOR IN RWANDA

**Carried out under the FIELD-Support Leader with
Associates Cooperative Agreement**

*Submitted by AED
May 2010*

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ECONOMIC OPPORTUNITIES FOR LOW-INCOME WOMEN AND THE VERY POOR IN RWANDA

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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EXECUTIVE SUMMARY

At the request of the USAID mission in Rwanda, the Academy for Education Development (AED), under the FIELD-Support LWA cooperative agreement, carried out a rapid study of the need for an integrated economic opportunities program in rural Rwanda with increased access to agricultural finance. This assessment was undertaken by a five-person team of enterprise development professionals and carried out in collaboration with USAID staff from both the Economic Growth and Education teams.

The scope of work for the study can be usefully divided into three stages. First was information gathering, during which the team conducted an analysis of organizations, programs and relevant government and donor programs as well as financial institutions that provide support to Rwanda's rural very poor. Second, based on this gathered information, the team assessed the validity of an integrated approach given the breadth of the rural poor's financial and economic needs in Rwanda and identified opportunities for improving or creating mechanisms or channels through which these needs could be met. Third, once an integrated approach had been validated, the team was tasked with developing a menu of program-design concept strategies, which would enable USAID/Rwanda to identify interventions most necessary for a strong and effective program design. This report provides a summary of the team's findings and recommendations.

The report is divided into two main sections and is designed to parallel this scope of work. After this brief introduction to the background of the assessment and potential program, Section 2 provides an overview of the assessment and findings. Observations are made about the existing Rwanda microfinance environment, providers, and policies. The recommendation section provides design options for consideration by USAID/Rwanda, setting forth the basic elements of a new project that USAID would be able to turn into a program description if the recommendations fit with the overall mission priorities and available resources.

BACKGROUND, CONTEXT AND RATIONALE

Rwanda has made great strides since the 1994 genocide and civil war. Real GDP growth experienced a period (2001 -2006) of stabilization where it fell to an annual rate of 6.4 percent¹. Rwanda, just like the rest of the world is and will be affected by the economic crisis of 2008/2009. It is estimated that in 2009, real GDP growth slowed to 5.5 percent, from 11.2 percent in 2008.² Estimates from 2006 showed that 56.9 percent of Rwandans lived below the poverty line, 37.9 percent of those can be classified as extremely poor.³ Based on 2006, 68 percent of the total poverty reduction in the country occurred in the Eastern Province while the Southern province did not experience a significant change in the poverty level (the low level of growth made the Southern province the poorest province in Rwanda).⁴

There is a large emphasis on economic development through the goals set by the Government of Rwanda through Vision 2020 and in the Economic Development and Poverty Reduction Strategy (EDPRS) which focuses on the objectives, priorities and major policies of Rwanda from 2008-2012. The economy is dependent on agriculture (mainly subsistence) that accounts for 42.6 percent of Rwanda's GDP,⁵ and provides employment for 80 percent of the population. Food crops account for 92 percent of the cultivated area, and two thirds of food crops are earmarked for family consumption, per 2007 numbers.⁶ High population density (370 persons/km²) combined with continual exploitation of natural resources and limited use of inputs has led to soil depletion, increasingly fragmented farms and, through time, reduced output. The lack of sufficient infrastructure and being a resource-poor country provides additional challenges for agricultural development.

Improving the education level of the Rwandan population is an important part of helping Rwanda grow. Two-thirds of the population is aged twenty-five years and less.⁷ Seventy five percent of the labor force is unskilled and less than ten percent of Rwanda's working population is educated beyond the primary level.⁸ Completion of primary school is only accomplished by 51 percent of the student population.⁹ There is still a challenge and a need to have women complete primary school and to continue to secondary school as females make up 54 percent of the population, and growing numbers of households are headed by women (an estimated 29 percent)¹⁰.

¹ Government of the Republic of Rwanda. September 2007. Economic Development and Poverty Reduction Strategy (ED & PRS) 2008-2012.

² CIA World Factbook 2010. Rwanda. Accessed on May 12, 2010 at <https://www.cia.gov/library/publications/the-world-factbook/geos/rw.html>

³ International Fund for Agricultural Development. September 2007. Republic of Rwanda: Country strategic opportunities programme.

⁴ Government of the Republic of Rwanda. September 2007. Economic Development and Poverty Reduction Strategy (ED & PRS) 2008-2012.

⁵ CIA World Factbook 2010. Rwanda. Accessed on May 12, 2010 at <https://www.cia.gov/library/publications/the-world-factbook/geos/rw.html>

⁶ International Fund for Agricultural Development. September 2007. Republic of Rwanda: Country strategic opportunities programme.

⁷ Government of the Republic of Rwanda. September 2007. Economic Development and Poverty Reduction Strategy (ED & PRS) 2008-2012.

⁸ Ibid, September 2007

⁹ OTF Group. March 2010. Analysis of Economic Opportunities for Low-Income Women and the Very Poor in Rwanda.

¹⁰ International Fund for Agricultural Development. September 2007. Republic of Rwanda: Country strategic opportunities programme.

ANALYSIS AND FINDINGS

The government of Rwanda and many national and international organizations operating in Rwanda are committed to finding strategies for alleviating poverty. Most of the actors are convinced that poverty reduction cannot be achieved without access to financial services by the poor. Microfinance is considered a powerful tool in expanding financial access to the poor and finding a way out of the poverty. The microfinance sector did not have a legal framework until 2003, when the government of Rwanda started licensing microfinance institutions (MFIs). Many NGOs were engaged in providing microfinance services but were instead were aid-donors. A number of initiatives to boost the microfinance sector in Rwanda have been put in place so far, including the development of a legal and regulatory framework.

The development of a sector policy is underway. The Central Bank (BNR) is trying to put in place supervision mechanisms to ensure professional and prudent microfinance institutions. Public institutions such as Rwanda Cooperative Agency (RCA), MINECOFIN and BNR are engaged in helping and organize the microfinance sector; Banque Rwandaise de Développement (BRD) and commercial banks are being committed to help refinance the MFIs in need at a preferential interest rate. AMIR, as an association of microfinance institutions, and many other NGOs are endeavoring to give technical and capacity building support to the sector.

Indeed, the microfinance industry in Rwanda is growing at a good pace. Many institutions are being created and licensed by BNR. More than 100 MFIs have been granted a license; 416 Umerenge SACCOs (Savings and Credit Cooperatives) are being created in each sector across the country, under the patronage of the government. MFI and SACCOs come in addition to the banks network that has been operating in the country but with limited outreach, and MFI are expanding the outreach to the rural areas. The creation of Umerenge SACCO is the idea of the government to increase the financial outreach in rural areas. Some MFIs managers and NGOs have expressed concerns about the way these government supported SACCOs are recruiting members; thus, they think these SACCOs might not help in the growth of the sector. RCA and people from the government, while denying existence of any serious problem with Umerenge SACCOs, affirm that they are to be supported and helped to reach a good level of professionalism.

MFIs and SACCOs are specialized in providing savings and loan products that are adapted to the medium and small income population. Many MFI/SACCO use innovative lending mechanisms of group solidarity as collateral. Most of them give financial literacy to their members. Some innovative MFIs have even tried diversified products such as micro-leasing, warehouse receipt financing, agri-products and micro-insurance.

Microfinance services are given also by informal groups, defined by microfinance law as the first category of microfinance institutions. Informal finance is very active across the country, even though it is neither encouraged by formal institutions, nor regulated by the law. The most popular informal groups in Rwanda are Rotating Savings and Credit Associations (ROSCAS) or *tontine*, usually called *Ikimina* or *Umuryango* in Kinyarwanda language. These groups provide credit and loans and other services to their members. Other new models of informal groups are being initiated and have proved to be more adapted to vulnerable and rural people: Care International and World Vision developed VSLAS; CRS developed SILC. Some of these informal groups have managed to work with formal financial institutions. All these groups have the potential to serve the poor, small income women, and operate mainly in rural areas.

Financial service providers have many growth opportunities due to a number of factors. The good will of the government and stakeholders is likely to give a sound environment for the providers, particularly MFIs and SACCOs. The government provides institutional framework and microfinance policy that can foster a sound industry. NGOs and private stakeholders are willing to invest energy

and money to support the sector and to increase the outreach to the poor. The association of microfinance institution (AMIR) has the potential to pool knowledge, practices and experience of different MFIs and SACCOs and disseminate the best practices among its members. The availability of untapped market, particularly in rural areas, is also an opportunity for growth to the microfinance institutions and the financial sector as a whole.

However, financial outreach in Rwanda is still limited and a large part of the population is still excluded from financial services. Specific segments of the population are the most excluded: the poor, the rural, the women. These are the target population of the IMP. A number of reasons of this financial exclusion have been found. On the supply side, there is lack of institutional capacity, poor product development skills, lack of infrastructures in rural areas, the legal environment not yet conducive for the expansion of microfinance institutions' activities, lack of rating system, etc. Microfinance services are limited to urban centers and are mainly supply-driven. On the other hand, the demand for financial services is low because the population does not yet have the culture of using financial services such as loans and savings, it does not have financial literacy to efficiently use their money.

As a way to increase financial access to the poor, a holistic approach has been recommended. Increasing the supply and the demand of financial services has to be coupled with education, business development and agriculture extension. With regards to financial provision, formal and informal microfinance institutions are to be supported, financially and technically. Agriculture products are believed to best help the rural poor to escape the poverty trap, and these kinds of products have to be developed at a large scale. Incentives must also be used to prod MFIs to reach the rural poor and develop pro-poor products.

Informal groups are the immediate alternative in increasing the outreach in remote areas. They are affordable to even the poorest and attract women segments. NGOs found them as the way forward to poverty eradication in rural areas, provided that they are gradually linked to formal finance.

Interventions must be geared at supporting MFIs to be professional, reliable, and give more inclusive and holistic services to the poor; increasing the uptake of financial services and productivity among the poor by providing relevant education.

POLICY ENVIRONMENT

Relevant GOR policies as regards to informal financial groups

The GOR supports the formation activities of informal financial groups and has recognized the informal sector in the BNR laws and regulations governing the microfinance sector, co-operatives and GOR initiated Umerenge SACCOs. The laws and regulations governing these are BNR Law No 40/2008 of 26/08/2008 and BNR regulation No 2/2009 of 27/05/2009 establishing and regulating the organization of microfinance activities.

Article 3 of the regulation identifies four broad categories of microfinance institutions, namely:

- Informal microfinance institutions that do not require prior license (*tontines*, savings clubs, ROSCAs, VSLs, etc.);
- Microfinance institutions that are governed by laws on SACCOs;
- Microfinance institutions that do not accept public savings; and
- Microfinance institutions that accept public deposits.

Informal financial institutions are further defined as “those constituted as all types of *Tontines* and which only operate on the basis of the contributions made by their members. They require no legal status or license from the Central Bank to exercise their activities. However, members of such

institutions shall adopt internal by laws.” Additionally, these informal microfinance institutions have the following obligations specified under the law. They must:

- i. Register and submit the list of its members at the level of District Cells;
- ii. File with the administrative Cell entity the agreement between members and any amendments made thereto;
- iii. Describe in writing the methodological approach for intervention with its members and the amount of the funds available;
- iv. Receive contribution from its members and, when providing loans to members, not exceed the contributions received.

GOR attitudes towards and implementation of these policies

Based on our meetings with Regulators (BNR) and other stakeholders in the GOR circles (RCA, AMIR, and MINECOFIN), with regard to discussion on the policies as stipulated in the Central Bank laws and regulations, as well as other microfinance sector private stakeholders, there is a need for clarity and communication as regards to the rules governing microfinance and SACCOs and informal financial institutions in particular. The BNR is of the opinion that although these informal financial institutions come under the MFI framework they are not regulated in any strict sense, and these groups are free to conduct their business without any intervention of the GOR.

With concern that such a low percentage of the Rwandan population was banked, particularly at the rural level, GOR has developed a “Umerenge SACCO Strategy” led by the Ministry of Finance and Economic Planning. The MINECOFIN’s Umerenge SACCO Strategy is intended to address “specific major challenges hampering [appropriate SACCO] development,” primarily: little awareness of or education on them; poor governance and low human resource capacity for management; low information on bad clients; inappropriate legal framework and taxes; and a lack of adequate infrastructure. The intention of the Umerenge SACCO Strategy is to address these issues by developing a successful SACCO model in line with national policies and international best practices. The strategy provides a subsidy to cover in a digressive manner staffing of three full-time employees at the District level and records District success in meeting savings targets through SACCOs.

The GOR strongly supports the implementation of the Strategy and the formation of the Umerenge SACCO’s and, by the end of May 2010, all 416 Cell level SACCOs were expected to be fully registered and accepting member savings. Although the intent of the GOR in forming these institutions is good, there is a clear indication that the implementation and understanding of this program by the local authorities is in many areas less than desired. There have been complaints of intimidation of present and active financial institutions, informal and formal microfinance institutions, as well as accounts of members being pressured to join the SACCO and to invest their savings with the SACCOs. There is a strong defensive attitude towards this program by some GOR representatives. It is also clear that many within the financial services industry feel that insufficient input from the sector was garnered before structuring the SACCO initiative, that the same objectives could have been achieved by working through private sector players and programs that were already in place, and that the program is now being implemented without sufficient planning and capacity.

Key Findings

IFIs are recognized under the GOR regulations with specific obligations stipulated in Article 4 of the Central Bank laws. Since, under this law, IFIs are required to register with local authorities not only their by-laws but also how much funds they have as well as keep this information current, it is unclear how frequently groups actually comply as many would be uncomfortable disclosing their

savings balances to Cell authorities. This may, then, in some Districts and Cells discourage the formation of informal financial services groups where there could be potential abuse by the local administrative officials.

The Article 4 (iv) restricts development of these groups as they are not free to access external funding from banks or from other development organization, who may wish to support the informal groups thus affecting the IMP. As per BNR's statement during our interview "they are not very strict in implementing or monitoring the policies set for the VSLs." Although most of the MFIs are supporting these informal groups, the law is restrictive and could be enforced by policymakers and regulators any time in the future.

The Umerenge SACCO initiative is perceived by some as discouraging *tontines*, savings clubs, other IFIs, private co-ops and MFIs. The ambiguity of the initiative has created a lot of fear and contributed to mistrust amongst various industry players. There is a lot of misunderstandings and miscommunications and the initiative's implementation has already created ambiguity amongst--and even restrictions for--(though some of these may only be perceived) IFIs, NGOs, MFIs and other SACCOs. These ambiguities and miscommunications have resulted in intimidation of the rural population in forming or joining U-SACCOs. Many NGOs and other development institutions, who are currently working with the target population in forming or capacitating informal financial groups, are being pressured by some local authorities to join or merge with U-SACCOs. The understanding as to the intent of forming Umerenge SACCOs is low among the local District officials, which has triggered much of the problems. The GOR has recognized this and set up a hotline telephone number to field U-SACCO questions, comments, or reports but the number is not fully and clearly disseminated.

There are needs for interventions at the macro, meso and micro levels as there are obstacles to the clear provision of financial services at all levels. At the macro level there is a need for better policies that more effectively meet the needs of the poor as well as improved communication amongst the different government agencies that affect and implement these policies. The Government of Rwanda is highly engaged in this sector but not engaging in an effective or productive manner. At the meso level, there is a real need for institutional support to the industry as to influencing financial services policies and the enabling environment for a more holistic and practical perspective as well as fuller stakeholder buy-in. There is a need for a forum through which local financial service providers can share, learn and build a common voice and advocate for as well as set and maintain local best practices and standards. At the micro service provider level, there is a need for technical assistance provision around servicing the very poor, rural poor and agricultural client as well as a venue for engagement with the GOR and its governing bodies. Specifically,

- Industry engagement and input would add value in reconsidering and reviewing the law as IFIs should only be required to register; this is a good practice and appropriate given the effective level of administrative structure of GOR. However, other IFI requirements, especially under Article 4 Section iii and iv should be scrapped as they create vulnerabilities to IFIs and their members with increased threat of intimidation and corruption (the former) and restrict growth opportunities and linkages with the formal sector (the latter). There is strong anecdotal evidence that most IFIs do not fully conform to these latter two requirements.
- There is very strong support within the GOR for the Umerenge SACCO Strategy as a program to increase financial access to the rural population. However, the RCA capacity needs to be strengthened as it will not be able to oversee all of the U-SACCOs as well as all of the cooperatives. Failure to increase the RCA's capacity both in terms of number of staff and skills could have devastating effect on the MF sector. These institutions fall under the legal definitions of MFIs but are not fully qualified as such, receive savings under the

auspices of a government program, and are managed by local Cell authorities, and yet are not truly part of the government and have very little true accountability to their depositors.

- The RCA and the BNR both recognize the practical challenge of monitoring and regulating the 416 Umerenge SACCOs, plus the existing formal co-ops and MFIs, however the development of a capacity building program for the agencies to effectively overcome these challenge remains a need.
- Absence of a deposit insurance scheme from BNR and lack of incentives by the policy makers to MFIs, co-operatives, and SACCOs is an obstacle to rural/agricultural sector growth and has greatly discouraged outreach. While the GOR has considered this for awhile, there has been no activity. There is a need for lobbying and input from the MFIs to bring this to fruition but there is no framework currently to support this.
- There seems to be very little engagement across the multiple players that should be communicating clearly and with one strategy—MINOFIN, RCA, MINAGRI and BNR with engagement from AMIR need to come together to develop and jointly implement a plan to reach the rural population, especially for agriculture finance sector development.
- AMIR could take a lead in representing its members with the GOR various governing bodies. AMIR has potential that it is not delivering on. It should be structured around member-driven initiatives and ‘working groups’ to address and represent the industry perspectives up to GOR ministries and departments as well as clarifying relevant GOR policies for members.
- Though there have been a few training opportunities in the past through AMIR for members, AMIR’s training program seems to be derailed. AMIR could act as a conduit for strengthening the capacity of financial service providers, particularly as regards to increasing awareness of the rural poor as clients, appropriate provision of services to this client base, general product development and products, social performance assessments to assure a pro-poor approach to provision and management, etc.

In summation, there is a critical need for macro and meso level engagement in order to build an effective financial services industry that will serve the needs of the poor and do so in a sustainable fashion with local buy-in and institutions. There is a need for a, or perhaps even multiple, meso level institutions that represent and engage on behalf of the micro service providers—a forum for input to industry decision makers, an agency leading member-driven agendas, a venue for peer-to-peer grappling with issues (political influences and policy ramifications as well as best practices and lessons learned), an agency that can lead a rating system, etc. At the macro level, there is a need for policy review and management so as to foster rural outreach by service providers. However, we do not see this as being the focus of this USAID program but do see it as complex environment issues that need some assistance and interventions to create an environment that will enable this program to be fully impactful.

SUPPLY OF FINANCIAL SERVICES

Financial Service Providers

The national finance system is composed of a variety of financial institutions that deliver banking, microfinance and insurance products and services. Commercial banks and insurance companies are based in Kigali and other major cities of the country. The largest commercial bank, Banque Populaire du Rwanda (BPR), has a network of over 100 branches, sub-branches and counters located across the country. However the customer service points are not directly linked and transactions at one locale take a week to twelve days to be transmitted and recognized at another. This bank was previously a credit union with microfinance services that, in 2008, was converted into

a commercial bank. The second group of financial intermediaries--MFIs--are classified according to the four categories outlined above with those in the third and fourth categories registered and operating as Limited Companies or Limited Liabilities Companies.

There are a large number of MFIs, most of which are SACCOs, operating in different parts of the country. According to MINECOFIN (2008), as of June 30, 2008, 95 of 108 (88 percent) MFIs registered by the BNR are SACCOs.¹¹ Though these MFIs and SACCOS tend to concentrate in commercial centers, some have increased rural outreach by providing different points of sale in rural areas and grouping members geographically with a management committee that serves as a liaison between localized members and the SACCOs.

In addition to these MFIs, a large quantity of the government-sponsored SACCOs are being created in rural areas. As explained above, last year a government campaign was launched to create *Umerenge* SACCOs¹² in each *umerenge* (administrative sector). By the end of May, there will be 416 *Umerenge* SACCOs—the expected maximum.

Within the informal microfinance sector, *tontines* are the most well-known for providing some level of financial services to Rwandans. These *tontines* are very active throughout the country, in urban as well as rural areas. Indeed, tontines present a number of advantages: they are close to their members, are managed by members who know each other, and give members access to savings and credit with greater flexibility. As *tontines* are self-selected, they can group members of very low income, medium or high income. A survey carried out by WOCCU (2008), showed that some *tontines* can have members who save as little as 100 Rwf (\$0.2) a month, other *tontines* whose members save more than 100,000 Rwf a month (\$200). The main motivations to join a *tontine* is the ease of saving small amounts that accumulate into a larger sum of money, access to loans and social reasons such as sharing ideas with others, mutual help in case of emergencies, and just increased social relationships with others.

In some parts of the country, other informal financial groups are being fostered by NGOs, such as Village Saving and Loans Associations (VSLA), an approach used by World Vision, CARE International, World Relief and CHF International; and Savings and Internal Lending Communities (SILC), developed by CRS. These groups receive technical support from NGOs for a period of time and are meant to be autonomous and self-sustainable after ‘graduation’. NGOs that support these kinds of groups affirm their effectiveness in alleviating subsistence and building pathways out of poverty and, equally as important, in educating poor people in financial literacy such as savings, proper use of loans and loan repayment. These savings groups resemble *tontines* in most aspects but are much more elaborate in structure because they benefit from technical support from the parenting NGOs; they also teach their members how to calculate and change interest on loans made from internal funds to members, calculate and receive dividends as a member return on investment in loans made to other members, and impart small entrepreneurship skills.

Financial Products and Delivery

The Rwandan financial system provides a wide range of products, such as savings, credits, insurance, financial literacy and microfinance services. Commercial banks and some MFIs are mostly concentrated in larger, urban cities, and they develop products and services for the most attractive

¹¹ According to our conversation with the MINECOFIN Microfinance Specialist, there were 124 MFIs registered with no need for anymore, though partnerships with internationally or regionally qualified MFIs were thought to be of great benefit for imparting skills and increasing management capacity.

¹² The term “Umerenge SACCO” will be used when referring to the SACCOs sponsored by the government that are based in each administrative sector. The term SACCO is used to refer to financial cooperatives, known as COOPECs, which preexisted the Umerenge Saccos.

clients—those with the greatest economic potential. Innovations are being made to ease service delivery, including the use of ATMs, cell-phone banking, and other new technologies. Banks are very exclusive of the poor and those with limited resources. MFIs, SACCOs and informal groups have taken the initiative to provide microfinance services, including micro-insurance, micro-credit, mobile branches, innovative lending methodology for solidarity groups, and financial literacy programs, to those excluded from the formal financial industry.

Even though agriculture is the most important mainstay of the economy in Rwanda, the sector does not receive the flow of credit from the banking sector that it requires. In general, the banks and even the MFIs and SACCOs lack the product development skills and expertise to develop and offer customized products that suit the needs of the agriculture sector. Broadly, the credit needs of the agriculture sector could be divided into working capital loans and capital investment loans.

Rwanda is a fairly small country. Yet, except for one bank (BPR), no other bank or microfinance institution has a nation-wide branch network. And given the small business volumes, setting up branches in all Districts may even be unviable to begin with. Thus, one has to look into delivery innovations which may address the issue of access:

Key Findings

Banque Populaire Rwanda (BPR)

This commercial bank is reaching rural people to some extent, as it has the largest network across the country and has the largest outreach as far as rural communities are concerned. It has experience working with rural people. More than 90 percent of “banked” people use BPR (FinScope, 2008), and yet only 20 percent of the rural population are banked. BPR has capacity in product development and is interested in starting a department of agriculture to better customize agricultural products. Recently, it has started to explore technology to link its branches and sub-branches to the same network, and to facilitate transfers and payments amongst its members/clients; currently, transfer within the bank take 7-12 days. Two government programs use BPR to give support to targeted people, such as women (guarantee fund for women) and rural people who seek loans for livestock (subsidy for cow loan - *gira inka*).

MFIs (limited companies) and SACCOs

These microfinance institutions are specialized in micro-products that are affordable to the poor: They have micro-credit available. They are breaking the collateral limitations by using solidarity group methodology to integrate people who cannot otherwise provide collateral. The solidarity group approach has proven helpful to small entrepreneurs without collateral, particularly women, who gain access to progressively higher loans. Many SACCOs and MFIs primarily use this methodology (UOB, DUTERIMBERE, CLECAM Wisigara, CLECAM Ejoheza, as well as others). Some MFIs specialize in serving women (DUTERIMBERE, COOPEDU) and many SACCOs have adopted an attitude supportive of more women participation in their by-laws and governance structures. Additionally, these MFIs have many points of service in rural areas and are physically closer to rural populations. Some SACCOs are owned by the farmers and provide specialized agricultural products to their members (CLECAM Wisigara, CLECAM Ejoheza, CAPEC, KOZIBI). Where these SACCOs are responsive to and capable of meeting member needs, they are preferred for ease of access and specialized agriculture products and activities. While some form of financial literacy awareness is part of the product package of almost all MFIs, many of these programs are poorly designed, ill-managed and inconsistently applied.

Umerenge SACCO

This type of SACCO is supported and sponsored by the government. The number of Umerenge SACCOs will ensure broad financial outreach, as each administrative sector is supposed to have its

own Umerenge SACCO. While it is difficult to assess their services in the preliminary phase of creation, one cannot ignore their ability to expand financial services to rural people. Expanding beyond the outreach of any formal microfinance provider, these U-SACCOs will reach deeper into the rural areas.

Informal groups

The most popular informal groups in Rwanda are ROSCAs (*tontines*). According to FinScope, informal products are used by 38.5 percent of the adult population, and 27.3 percent of farming households use them exclusively. Among the informal financial groups there are those supported by NGOs, namely those already mentioned (CARE, CHF International, CRS, World Relief). These groups, like *tontines*, are self-selected, and provide saving opportunities and services to their members. Their members are essentially the very poor, based in rural areas. The mentoring NGOs give them technical support with financial literacy elements imparted through learning-by-doing. These groups' success in helping the very poor achieve household security and creating pathways from poverty is well noted. The downside is that they are not yet in many parts of the country.

Despite this range of financial service providers in Rwanda, the penetration of financial services is still too shallow. Results from FinScope research (2008) show an alarming situation with 52 percent of the adult population totally excluded from financial services, including informal providers. Many of these are restricted to keeping money at home in a secret place without any return on investment. Most of the excluded live in rural areas and are wholly dependent on agriculture; in fact, 58 percent of households living exclusively on farming activities are excluded from any kind of financial services. The number of women using financial services is still low, especially among farmers (representing less than 30 percent of financial services users). These gaps are linked to obstacles on both the supply and the demand side. On the supply side, a number of obstacles hinder deeper market penetration, particularly in rural areas:

Institutional capacity: This encompasses lack of human resources skills, poor management and governance, and lack of capital.

- The recurring problem raised by MFIs and most SACCOs is the limited availability of capital. They cannot expand services to new areas as this requires investment and loan capital, which many do not have. As is, they are saturated with loan applicants without being able to satisfy them, even those that qualify for credit. This results in consideration of only the most promising applicants while leaving the poorest and riskiest loan applicants unsatisfied, further contributing to the exclusion of the farmer.
- The lack of information technology and management information systems (MIS) is also a hindrance to better service and good management, as many MFIs and SACCOs cannot afford new technology and are very laboriously entering and monitoring client and institutional data.
- The agriculture sector needs customized products, but there are few innovations in micro-leasing, crop insurance, micro-insurance, agricultural loans, and warehouse receipt financing. Most MFIs provide undifferentiated loans to their members and are unable to attract new clients from specialized sectors because the loans products offered do not match market needs. Besides agriculture, poor clients and informal finance users need to be attracted by specialized products in general—both financial (savings, loans) and non-financial (education). There are very few pro-poor and pro-women products developed and supported.
- There is a lack of appropriate marketing strategies to increase the penetration of the untapped market or even an understanding of the importance and role of good client-based

marketing. Where an MFI has a good initiative in agricultural products or pro-poor services and educational programs, there is a lack of information sharing and marketing limits the general use of these products. This is also a consequence of low institutional capacity.

- There is no rating system, public tracking or accountability along these lines. The lack of rating system leaves MFIs/SACCOs to work without any social performance measuring and reporting and may diminish the motivation to keep social transformation objectives and pro-poor approaches at the forefront of management and incentives.
- The national payment system is underdeveloped. The use of electronic cards, cell-phone banking and other payment technology is still in its infancy keeping financial transactions cumbersome and creating further obstacles for participation by the illiterate and financial illiterate.
- Poor infrastructure in rural areas increases the inaccessibility to remote areas (bad roads, lack of electricity and/or internet connection).

Additionally, the Umerenge SACCOs provide unique but very real challenges. Many within the microfinance system have expressed their concern about these new government-supported SACCOs. Though the intent of creating them for the inclusive expansion of financial services is good, they are creating concerns, confusion and unfair competition for MFIs and SACCOs, particularly in administrative sectors where there is cause to believe that populations are being coerced to join the U-SACCO. Some members of SACCOs interviewed said that they joined the local Umerenge SACCOs because they believe that they will receive loans very easily and at very low interests rates. Many people may be thinking the same: the government wants to “help” them get money. This seems unrealistic and may be the result of the types of campaigns that Umerenge management employs to encourage membership.

Furthermore, there is not enough understanding amongst the MFIs and SACCOs of the very real benefits that poor people are receiving from membership in informal financial groups. This is true for regulators as well as for formal financial service providers, MFIs and SACCOs. Even if regulation recognizes informal finance providers, there is no legal framework to support these groups where formal financial institutions are inaccessible or when the very poor are excluded. The representatives of MFIs/SACCOs recognize the role informal groups are playing with the very poor but often perceive the group as competition and do not have strategies to bring them in as clients.

Identified solutions

Institutional capacity: Trainings and refinancing of MFIs would strengthen the institutional capacity and address the weakness of human resources, financial and economic resources, poor management and governance. Some institutions, such as AMIR, have already engaged in training through its capacity building activities, but this needs to be supported so that the trainings are demand-driven and meet the members’ priorities with an increased degree of engagement of and therefore accountability to members. For the refinancing, some initiatives are under way to provide funds at affordable rate (guarantee fund, credits from Banque Rwandaise de Développement – BRD). But, if Rwandan MFIs/SACCOs can participate in a bona fide rating system, show sound management and sustainability potential, they are likely to attract more donors and investors. Implementing savings mobilization best practices could help offset financing needs of MFIs. However, the availability of external funds to MFIs does not necessarily mean the inclusion of the poor or very poor and often creates moral hazard dilemmas with conflicting agendas—sustainability versus very-poor service provision. Therefore, MFIs should be encouraged to keep the social mission of including the poor and the very poor and women in rural areas and agriculturalist. Social performance measuring and accountability reporting would help in this.

Product development skills: Most of the MFIs and SACCOs provide ordinary loans, with monthly terms repayment. As already noted that MFI/SACCOs are not diversifying products enough to reach the rural unbanked, such as savings and agriculture specific products as well as non financial services. There is a great need for product diversification and product development in order to provide services that meet the demand. Microfinance institutions should endeavor to tailor products that really meet the needs of the clients, particularly the poor and the farmer. In other markets, products have been recognized as particularly helpful in creating security and options for the rural poor (such as the micro-insurance, crop insurance, micro-leasing, warehouse receipts, agriculture loans and diversified savings products) and these need to be adapted and applied appropriately in the Rwanda context. Information sharing of the best practices and the success and even failure of piloted products may be of great help for the institutions to provide better services.

Market research/strategies/awareness campaigns: This is a need that exists at all levels. There is a need for an awareness campaign targeting the service providers and based on market research of the untapped potential hidden amongst the rural poor and the benefit of bringing in the unbanked. MFIs/SACCOs need to have clear strategic plans to increase their outreach to this market, have deeper market penetration and expansion of products and services (increasing depth and breadth of services) based upon the real needs of these potential clients. The MFIs need to develop strategies for attracting and servicing the very poor, women and farmers in a manner that will hold the MFIs accountable to pro-poor and socially responsible practices.

Working with informal financial institutions and encouraging their participation and maturity: It is evident that the informal groups are a means of bridging the gap in financial service provision to the poor. MFIs/SACCOs should view these groups as partners and potential and smooth the groups' or their members' transition to formal finance. Models that have been shown to build practices and records reliable for the MFIs/SACCOs, such as working with Voluntary Savings and Lending (VSLs) groups, may be replicated and expanded using the NGOs expertise. Working with these groups decreases the MFIs'/SACCOs' transaction costs and allows them to feasibly serve rural areas previously unreachable in a financially sustainable way and ensures working with poor clients that have established for themselves through practice a degree of financial literacy.¹³

Umerenge SACCOs: These government-supported institutions are one of the opportunities of increasing outreach to the rural people and should not be ignored. While the capacity of the U-SACCOs is uncertain, especially given the rapid initiative roll-out, some of them are being well managed, with good systems and internal governance structures. Umerenge SACCOs which meet standards of professionalism and international best practices should be fostered and engaged. Doing so would help the U-SACCO's reach a faster level of maturity, would provide the above stated benefits to the MFIs engaging with them, and would provide an example of a productive U-SACCO/MFI relationship would work for other districts to aspire to.

Access to Finance Rwanda

DFID Rwanda is planning a program to improve the livelihoods of Rwanda's poor with a purpose of increased access to financial services for rural and urban micro, small and medium enterprises.¹⁴ The program will engage at the micro level by building the capacity of microfinance institutions to provide additional products and services; at the meso level, improving financial services support systems through increased capacity of industry institutions; and at the macro level, strengthening the financial sector's legal and regulatory structure(s) and increasing private-public dialog.

¹³ Though even in these cases, there are stories of "sticker shock" when the savings groups first encounter the real costs of external loan capital, resulting in or nearly resulting in a breakdown of the new relationship.

¹⁴ Access to Finance Rwanda Programme Document, DFID, January 2010.

VALIDATION OF AN INTEGRATED APPROACH

Agriculture plays an important role in the Rwandan economy and also in the livelihood security for a very large number of people in Rwanda. Over 90% of the households practice some form of crop cultivation while the sector serves as the principal source of employment for nearly 80 percent of the country's labor force. Since Rwanda has one of the highest population densities in Africa (approximately 350 people per km²), the average land-holding is very small and when people depend on this small land-holding as the primary source of their livelihoods, they will largely remain at the subsistence level. The proportion of Rwanda's poor is the highest amongst the agricultural wage labor (91 percent) followed by people directly involved in agriculture (61.3 percent) while households relying on non- farm income are less likely to be poor.

Analysis by OTF clearly shows that the poorest households are those headed by women whose members are less educated than the average Rwandan and have a higher number of dependents (elders and children) in relation to working members. With 60-80 percent of most developing countries' food being produced by women, a 10 percent gain could potentially be achieved simply by equalizing women's access to inputs while a greater percentage of that gain will be spent on household food and children's needs. With only 51 percent of the student population completing primary school, there is a great need for informal adult learning opportunities that not only impart functional literacy and numeracy skills but also increase life-coping skills in a manner that adds immediate value in life application with minimal opportunity costs.

Data on land distribution shows that poor households have significantly less land than non-poor. However, the poor and extreme poor are less likely to be land-less than non-poor. This is perhaps due to the people who have migrated to towns and live there as tenants, earning higher wages than they did as agricultural laborers (e.g., as construction workers). The poor, especially the extreme poor, are more likely to be farming predominantly staples than non- poor. Processing agricultural produce, including post-harvest processing activities, has a positive impact and correlates negatively with poverty. This causality works in poor farmers favor. i.e., increases in value addition to otherwise exclusive agricultural activities would create higher incomes. Higher productivity per hectare is positively correlated with use of veterinary and extension services, as well as with use of inputs such as seeds, fertilizers, packaging materials, storage, transport and irrigation. Access to market correlates inversely with poverty. This access includes aspects like proximity to a road, access to extension services, having membership in a producer cooperative etc. Poor also have less access to credit.

Thus, poverty is related to a series of inter-related issues, including land, access to resources and markets, little or low quality education, etc., and goes beyond lack of basic physical needs and includes a denial of social needs. Thus, not a single symptom can be treated individually to get the sought-after result and it calls for an integrated approach, addressing the issues of access to credit, access to markets, and access to extension services. Women in particular need special integration into interventions due to their current exclusion and their current degree of poverty. Concurrently, if women are made a focal point or prime recipient of any intervention, not only will it help the program in reaching the most marginalized and vulnerable, but it is likely to have greater multiplier effect since not it will also most impact parameters like enrollment and school drop-out rate, number of years spent in the school, and literacy rates amongst girl children as well as have a greater impact improving household food security. The following sections elaborate the elements on which the program will focus.

Elements of in Integrated Approach

Literacy/Numeracy and Financial Literacy

There is a link between illiteracy and economic disempowerment and between illiteracy and household insecurity, gender-based violence, and lower educational attainment of the household's

children, particularly the girl child, hence a need to link basic literacy and numeracy with increased economic empowerment. Illiteracy rates amongst women are also a significant barrier to the most vulnerable achieving their economic potential and participating economically. The Ministry of Gender and Family Promotion report issued in 2008 indicates female illiteracy levels of 38.9 percent compared to illiteracy rates amongst men of 28.5 percent. Additionally, it has been observed that for adult informal educational opportunities to be best received and applied, they must be linked or embedded with programs that address priority household needs—increased income and food security. The same is true with linking financial literacy and income generating activities like those that can be provided through a VSL scheme in order to ensure economic empowerment accompanies increased individual learning with real life application.

Business Development and Extension Services

Improved household access to and use of financial services is an important foundation but not the only factor influencing how poor households can take better advantage of economic opportunities. Of central importance is whether households have access to the knowledge, skills, non-financial resources, and market relationships that define business success. Prior experiences with informal savings and loan groups show that they quickly outpace their immediate understanding and begin to demand this kind of assistance if it is not already available as part of the project design or as separate, standalone service providers.

Health and Nutrition Education

Poverty and poor health are irrevocably married—poverty engenders poor health, and poor health keep households from taking advantage of economic opportunities for change, or spirals families back into the cycle of poverty. Prime characteristics of the poor that contribute to this are lack of knowledge and access to health interventions and unhealthy sanitary and dietary practices. The results are greater insecurity at the household level, loss of wages with increased health costs, and greater vulnerability to catastrophic illnesses.

Key Findings

As is evident from the above snap-shot view, it is clear that to be able to make any significant impact, the IMP program will have to follow a multi-sector approach. There is a need for increased access to finance combined with increased ‘investment’ opportunities for that finance in addition to a higher degree of understanding and capabilities for solid and independent economic decision making. This becomes necessary to note that these deprivations are not just a supply side issue, but very much a demand-side issue also.

Demand of Financial Services

Reaching economies of scale is one of the most important contributors to the financially sustainable provision of services. It is also one of the prime reason why we see the very poor, rural populations and even farmers excluded from microcredit—because the size of the loan that they need is too small or, in the case of agriculture loans, the specialization of their products too costly for a conventional microcredit provider to meet in an way that is viable and maintains their institutional sustainability. Similarly the amounts the truly poor wish to save is very small and it becomes unviable for the formal financial institutions to accept such small savings and provide savings services. It is therefore, important, when considering the supply of financial services, to look also at the issue of access to financial services from the demand perspective.

For demand of financial services, there must be an understanding of the need and importance of different financial services as well as how these can be accessed; something that is lacking in much of rural Rwanda. A high degree of trust between the users of the services and the providers of

financial services needs to be built and nurtured—again, something that was found lacking in much of rural Rwanda; social performance assessments on behalf of the service providers help ensure management, policies and staff incentives in the poor's best interest and facilitate the growth and continuance of this trust. Access to services should be made available at a place which is not too far for the people and at which they feel comfortable. Cost should be perceived as reasonable, including transaction and opportunity costs. Finally, demand must be organized in such a manner that it is possible for the financial service providers to respond to and meet this demand while maintaining reasonable institutional costs burdens.

There still exists a high degree of institutional mistrust in Rwanda, resulting from the 2006 failure of many recognized MFIs, while concurrently (according to FinScope) many of the poor remain unaware that MFIs, SACCOs and their services exist. Gender discrimination continues to plague women and affect their access to financial services and, with 30 percent of households headed by females and many of these amongst the very poor, there is still a need for female specific product development and considerations. Finally, perceptions continue (exacerbated by the institutions) that banks are for the rich and taking loans are feared and not common amongst the poor who could have access. This may partially explain why even in the vicinity of the financial institutions, informal finance is blossoming. Following demand-side interventions will be focused as part of this program:

- The awareness about use of financial services amongst the vast majority of poor is quite low and that is one of the important reasons for low demand for financial services.
- Informal mechanisms to access financial services are more popular in Rwanda than formal services. The reasons for this twofold. One is the supply side—supply of financial services by financial institutions does not reach every corner of the country. The other is the lack of understanding about the formal financial services, particularly amongst the poor and very poor. Historically, there have been instances of some of the microfinance institutions collapsing in past and people are scared of losing their money. Also, there is lack of understanding about how to approach a bank and how to access their different savings and credit products. In several cases, people may also perceive these formal products to be expensive. On the other hand, Rwanda has a history of informal mechanisms like the tontines and, in rural areas, a very large number of people are part of such informal groups. Success of the Village Savings and Loan Associations organized by organizations like CARE and others is a testimony to the fact that people are far more comfortable in joining such informal groups, where they know everyone in the group and the management and ownership of such groups is in their own hands. Low transaction costs and transparency in operations are other strong attributes of such informal groups.
- There also appears to be some degree of aversion or discomfort in using credit amongst many people, because, it is considered too risky or expensive. On the other hand, a savings-led approach poses no such risk. It also helps in building a financial asset for the people, which they can use when they need it. High degree of flexibility that the informal savings groups offer is also a huge attraction.
- Being members in informal groups also builds some degree of financial literacy amongst the clients. Organizations like CARE are also providing financial literacy and business literacy skill training curriculum to the participants in informal groups. When people get some exposure and experience in dealing with financial services through informal financial/VSL groups, they are better prepared to access financial services offered by other institutions. Moreover, when organized into VSL groups, it also provides a forum through which other non-financial inputs like financial literacy, business skills training could be delivered. CARE has experimented with providing these inputs to the VSLs promoted by it and IMP could build on these and offer the financial literacy and business skill training as part of a

comprehensive package, which will not only maximize the impact of financial services, it will also train people in how to better use such services.

- Working with informal groups like VSLs will have the greatest advantage in terms of reaching the desired target population, i.e., poor with a particular focus on the women. While credit-led approaches work better with the economically active poor, savings-led approaches have more universal appeal and such approaches have demonstrated their efficacy in reaching the very poor in remote areas.
- Working with VSLs also has the advantage that instead of posing a competition to banks, MFIs or SACCOs, it can be positioned as a complementing strategy. Several remarks during the assessment pointed to perceived threats felt by several participants from the Government's Umerenge SACCOs program. However, Umerenge SACCOs will be established at the Sector (sub-district) level, which is not the level where VSLs are set up. Average area covered by an Umerenge SACCO will be about 60 km², still too big to go for very small weekly savings or small loan repayments. Whereas, VSLs consist of neighborhood members and it is the most convenient place for regular weekly meetings, small savings, small loans and loan repayments. Once, and if, the Umerenge SACCOs are established effectively, then the VSLs under IMP could become institutional members in these SACCOs for their higher order savings and credit needs. Similar possibility exists for the VSLs becoming group clients of Banks and MFIs as well.
- The need will be to define these complimenting roles of different institutions, where each institutional form works on its own niche and competitive advantage. In a country like Rwanda, where every 1 in 2 person does have any kind of access, it is hardly the place to debate on either/or questions. It is important for the financial system to take advantage of these alternative institutional forms and find out synergies rather than competing elements.
- Combining business skills training with financial services is also an important aspect, since without this input, people cannot make good use of credit and credit provision alone will not result in enterprise development and job creation.
- Linkages between Banks and Informal groups could help in reducing transaction costs: while Banks find it hard to manage small value transactions, savings, loans and loan repayments, if the same is done with an informal group like a VSLs, the problem is addressed to some extent, since instead of doing 25 small transactions with 25 individual members, the Bank could have transaction with just one group. There have been experiments to link the VSL groups to Bank in Rwanda and IMP could build on such examples to facilitate group savings and group-lending relationships between Banks and VSL groups.
- The FinScope study has for the first time, did a comprehensive analysis of demand and supply side of access to financial services. However, this study only presents an analytical tool for decision making, since it is based on a sample survey. For operational purposes, the financial institutions will need more real life concurrent data on demand for different types of financial services. Aggregation and quantification of such demand from the operational areas of IMP program is seen as an important determinant in attracting financial service providers and also exploring cross-selling opportunities amongst financial institutions. IMP can therefore set up a mechanism to build an information network on the clients reached by the program, so that the product and service needs of this group could be aggregated and articulated in a manner which a service provider could understand and respond to.

GEOGRAPHIC FOCUS

USAID’s investments in economic opportunities for poorer households will be most effective when focused on a cluster of, preferably contiguous, districts. Yet the incidence of poverty is both severe and widespread in Rwanda, making clear geographic priorities difficult to discern from available data. Two methods of prioritization were considered:

- Mapping the geographic priorities identified through relevant analyses to indicate geographic priorities
- Mapping the geographic coverage of complementary USAID projects – both ongoing and planned – to identify a pattern suggesting priorities for this effort.

USAID/Rwanda recently sponsored an “Assessment of Economic Opportunities for Low-Income Women and Very Poor Households” conducted by the OTF Group. This assessment undertook an analysis of various statistical measures of the depth and breadth of poverty in Rwanda that were compiled from the most recent national household survey. OTF notes the shortcomings of their methods, namely that district-level data are not statistically significant to permit comparisons among districts. However, they were confident enough in their findings to suggest five districts in the South and North as geographic priorities: Gicumbi, Gisagara, Huye, Nyamagabe, and Nyaruguru.

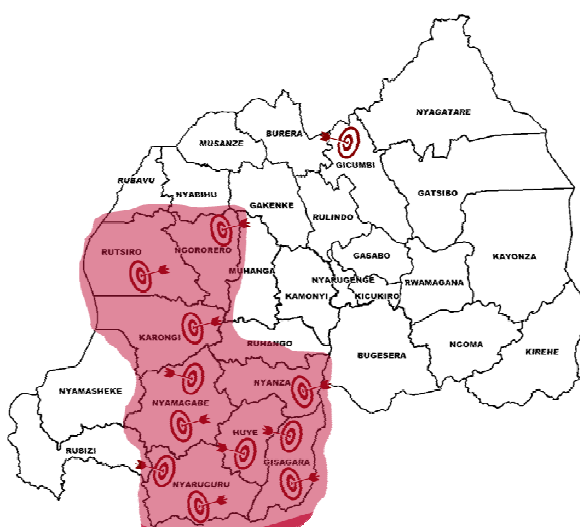
The “Comprehensive Food Security and Vulnerability Analysis and Nutrition Survey” led by the World Food Programme to measure the extent and depth of food insecurity and vulnerability as well as to identify underlying causes. This assessment undertook its own household surveying and was designed to enable comparisons at the district level (with the exception of Kigali). Geographic priorities (defined according to three dimensions of food security, wealth, and nutrition) include: Bugesera, Gakenke, Gisagara, Kamonyi, Muhanga, Nyamagabe, Nyanza, Nyaruguru, Ruhango, Karongi, Ngororero, Nyabihu, Rubavu, and Rutsiro.

Figure integrates the recommendation of these two assessments and shows a clear emphasis on southwestern Rwanda, excluding Nyamasheke and Rusizi districts (the portion shaded in red).

FIGURE I.

GEOGRAPHICAL PRIORITIES FROM ITF AND CFSVA ASSESSMENTS

	OTF	CFSVA		
	Poverty	Food security	Wealth	Nutrition
Bugesera		•		
Gakenke				•
Gicumbi	•			
Gisagara	•		•	•
Huye	•			
Kamonyi		•		
Muhanga		•		
Nyamagabe	•	•	•	•
Nyanza			•	•
Nyaruguru	•	•	•	•
Ruhango		•		
Karongi		•	•	
Ngororero		•	•	•
Nyabihu		•		
Rubavu				•
Rutsiro		•	•	



The assessment team also surveyed USAID/Rwanda staff and implementing partners to ascertain the geographic coverage of complementary activities and service providers. Ongoing activities include the SPREAD, dairy competitiveness, and Akazi Kanozi projects sponsored by SO7; the Higa Ubeho project financed by PEPFAR; and, the SAFI project implemented by CARE with support from the MasterCard Foundation. Upcoming activities include the planned feeder roads project, post-harvest handling and storage project, LWH project in collaboration with the World Bank, and a new water project. The team also used the service coverage of Urwego Opportunity Bank as a proxy in the absence of detailed information on the outreach of microfinance providers (MFIs, NGOs, and SACCOs).

Many of these activities were highly targeted (only focused on a few, often non-contiguous, districts) and demonstrated a fairly chaotic scattering of coverage areas. Accordingly the assessment team selected two activities (the Higa Ubeho and SAFI projects) as well as UOB's service area as helpful proxies, since they represent the most complementary activities and also the broadest scopes of those projects reviewed. Combining these three activities, Figure shows the most intense existing coverage (the portion shaded blue) in the northern and western areas of Rwanda.

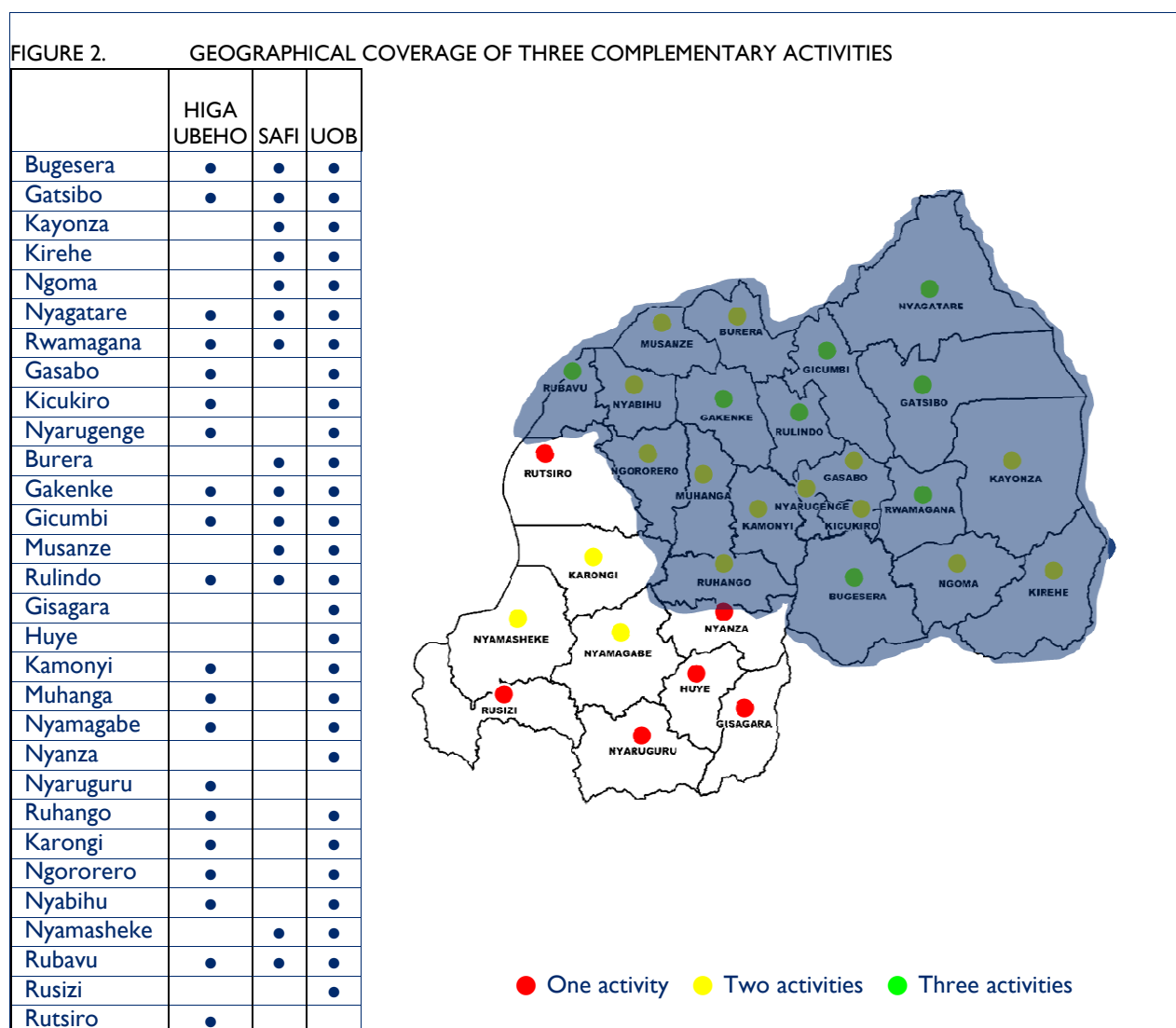
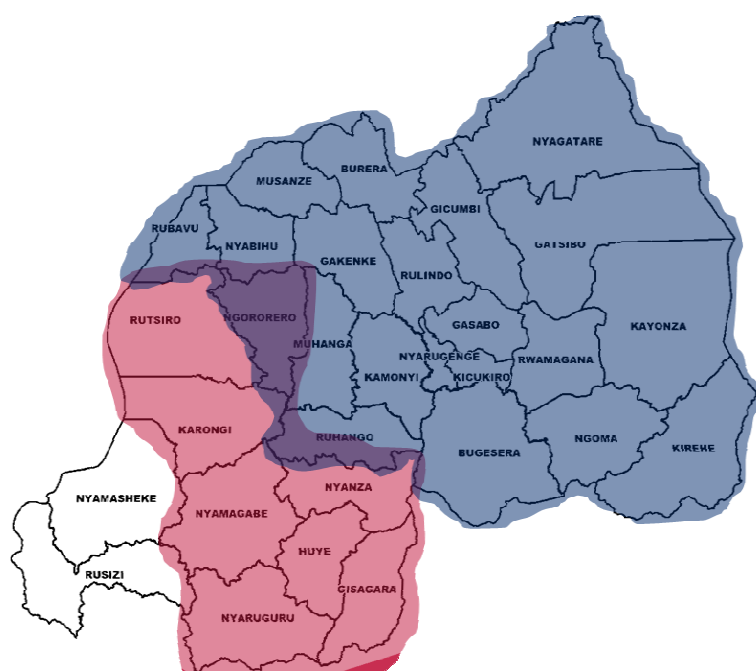


Figure overlays the results of these two prioritization methods: the districts in greatest need compared against those with greatest coverage. The results are striking and unambiguous. Northern

and eastern Rwanda seem well served by existing activities and demonstrate less need according to the two assessments. Western and southern Rwanda, on the other hand, were identified as high priorities yet have relatively less coverage from existing activities. Nyamasheke and Rusizi are the two outlying districts: they have low coverage but were not identified as high priorities. Following this exercise, USAID/Rwanda should clearly focus on the Western and Southern provinces, specifically including: Rutsiro, Karongi, Nyamagabe, Nyanza, Huye, Nyaruguru, and Gisagara—with possible consideration for Ngororero.

This geographic focus is attractive from an operational perspective. Contiguous districts permit a concentration of resources, allow for efficient management structures, and facilitate incremental expansion. While further research and consultations are necessary (to identify entry points, confirm operating costs, and consider a sequenced expansion strategy), this geographic scope provides an adequate and important foundation for program planning.

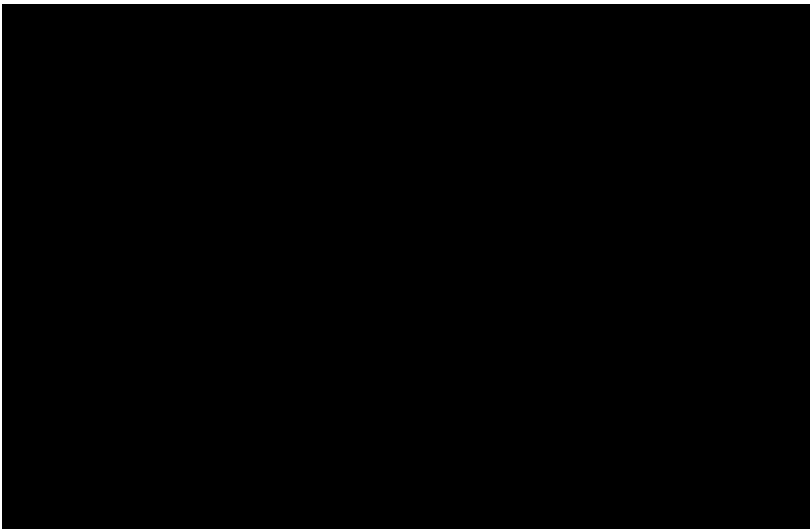
FIGURE 3. OVERLAYING NEED AND COVERAGE BY DISTRICT



DESIGN RECOMMENDATIONS

PROBLEM STATEMENT

Despite considerable progress since the 1994 civil war, Rwanda continues to face an undercapitalized agricultural sector with a growing population and a financial sector that is not currently able to address the needs of the growing country as a whole and particularly financial service needs in rural areas. To address these issues there is a need to focus on activities that help to expanded economic opportunities in rural areas. The table below provides the 2006 Poverty Headcount (share of population and number) and shows that there is a distinct increase in poverty found within rural communities.



A 2006 survey that was conducted by the World Food Programme, in collaboration with the National Institute of Statistic of Rwanda, found 28% of the rural populations to be food-insecure and that as much as 24% of the rural population was highly vulnerable to food insecurity¹⁵. Agricultural-led growth helps to reduce extreme hunger and poverty, helping to increase and improve economic opportunities and household food security in rural areas. Agricultural-led growth is primarily achieved through improvements in agricultural productivity, expanded markets and trade (internationally and domestically) and through increasing economic resilience in vulnerable communities.

Deep poverty means that households cannot afford to meet food needs and other basic necessities: the ultra-poor cannot meet even 60% of these needs.¹⁶ While market access and purchasing power contribute significantly to food insecurity,¹⁷ other problems include crop production constraints and inability of small, poor farm households to obtain adequate margins on the sale of their products or participate in farming higher value cash crops. However, current government and donor approaches for expanding economic opportunities in rural areas are not creating (and cannot create) enough rural economic opportunities and increased income at the household level to adequately address the problem that already exists, much less plan appropriate action to meet future needs.

¹⁵ Rural Poverty Portal. Rural Poverty in Rwanda. Accessed 14 May 2010. IFAD. www.ruralpovertyportal.org/web/guest/country/home/tags/rwanda#

¹⁶ GAV Baseline Study 2006 SETSAN

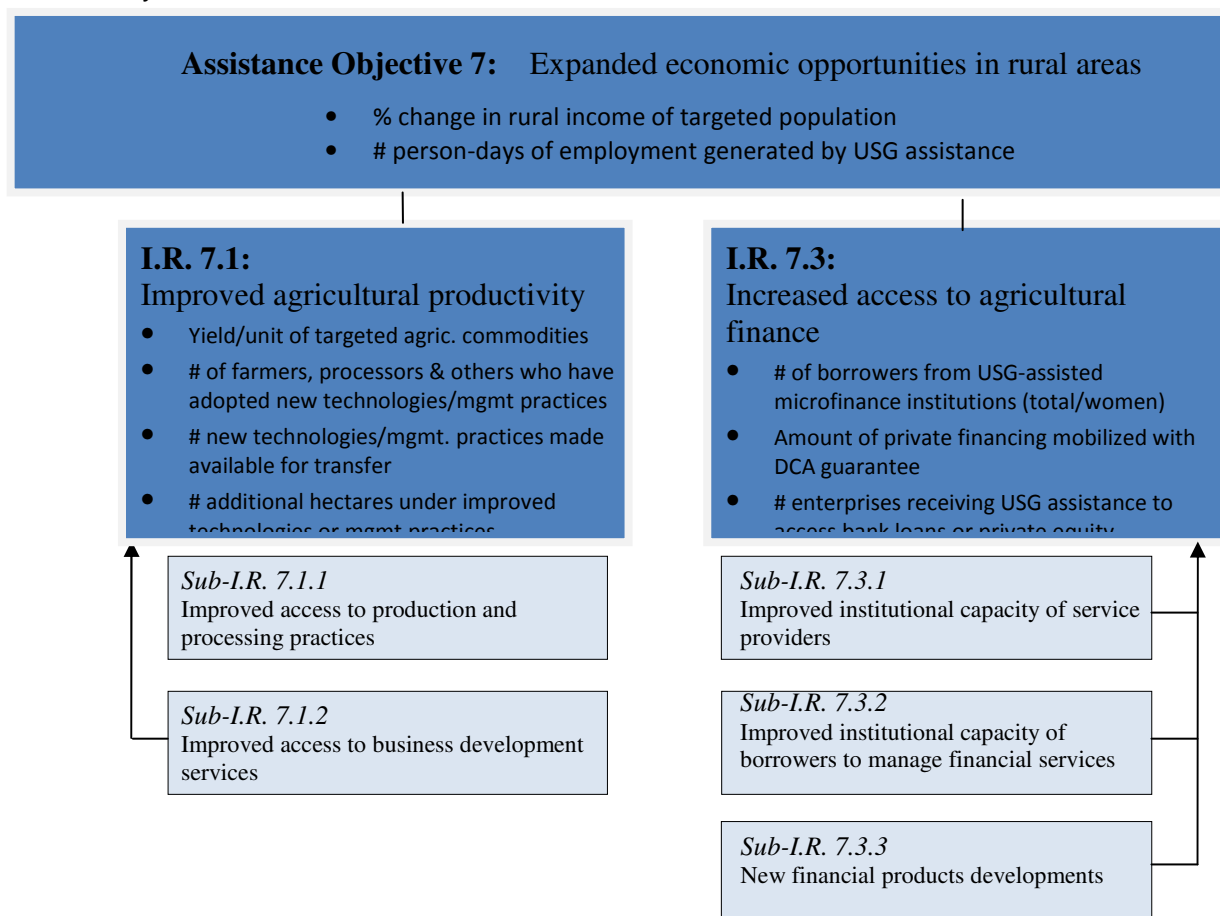
¹⁷ Chaiken, M.S. *Wealth, Inequality, Vulnerability and Coping Strategies: Conditions of Hunger and Food Security in Nampula Province*, 2007.

OBJECTIVE AND INTERMEDIATE RESULTS

Decreasing rural poverty would be impossible in Rwanda without concurrently working to increase access to finance and financial services. With such a large portion of the rural population of Rwanda unbanked, this program will work to both increase economic opportunities and responsible and appropriate access to finance. Therefore, the objective of a new integrated microfinance program is to expand rural economic opportunities. This will be accomplished through increasing economic opportunities in agricultural as well as non-agricultural areas while concurrently increasing access to rural finance. This two-pronged approach will address identified constraints in both the demand and supply of financial services in the targeted geographical area. This will be accomplished by developing the capacity of VSL members through literacy/numeracy, financial literacy and micro-entrepreneurship skills building and improved farm practices on one hand and targeted MFI support for product development and services delivery appropriate to the rural very poor on the other.

There will be two different intermediate results (IR) in this project (diagrammed in Figure 4 below). The first intermediate result will be improved agricultural productivity achieved through transmitting skills for improved production practices and processing for upgrading via appropriate VSL engagement. It is also through these groups that business development and extension services could be embedded. The second intermediate result will be increased access to rural finance, particularly as regards agricultural finance. Underpinning this result will be the development of appropriate products (particularly agricultural) and training in product development and improved pro-poor service provision as well as increased capacity on the demand side to absorb, access and best use financial services.

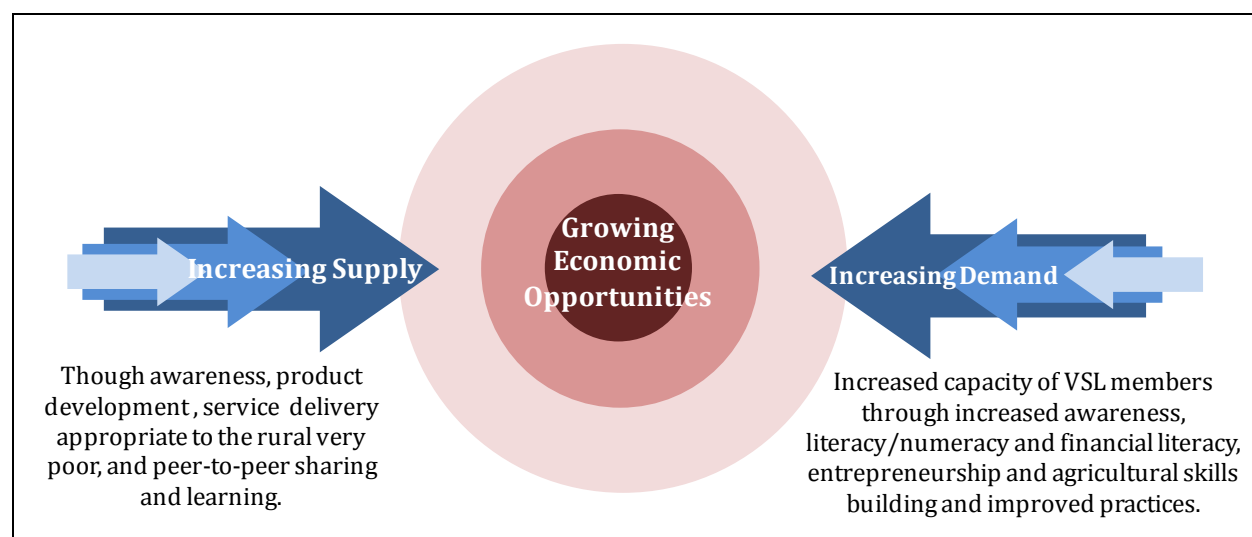
FIGURE 4. OBJECTIVE AND INTERMEDIATE RESULTS



CONCEPTS – A MENU OF OPTIONS

The FIELD-Support assessment team agrees with USAID/Rwanda’s initial analysis of increasing demand for financial services by building upon the foundation of VSLs. Through the VSLs, the program will provide a village based savings and loans facility through which to support on- and off-farm economic activities for improved rural incomes. A FIELD-Support designed program would also work within the financial services value chain to improve services accessibility to the rural poor in the targeted geographical area, increasing capacity of MFIs and SACCOs in management and product development. Besides designing interventions to bring the supply and demand sides together (as depicted below in Figure 5), the program will stimulate increased economic opportunities amongst the rural poor and could provide an innovative social-behavior change campaign, creating knowledge of safe savings and investment practices for the very poor while raising awareness amongst providers of the poor as viable and reachable clients. Finally, the program can be designed applying new participatory monitoring and evaluation techniques, proven to generate greater community buy-in and ownership—and resulting in a greater likelihood of sustainable interventions.

FIGURE 5. CONCEPTUAL DEPICTION



Behavior Change and Social Marketing Campaign

In line with IMP’s goals of increasing demand and in addressing the gaps in both awareness and understanding of available financial services, the IMP will employ proven behavior change methodologies to systematically progress communities along the stages of change continuum (see Figure 4) in order to ensure lasting, positive impact. This will include conducting a preliminary baseline survey to better understand where targeted beneficiaries may be along the continuum. This survey will serve design/prioritization of interventions, inform the the monitoring and evaluation plan, and serve as the foundation for the design of the behavior change campaign.

Behavior change theory tells us that key to affecting new or different practices is the use of simplified messages about a small number of changes that are repeated often. To that end, the behavior change campaign will aim to complement the proposed interventions to improve the supply of financial services by addressing the demand by:

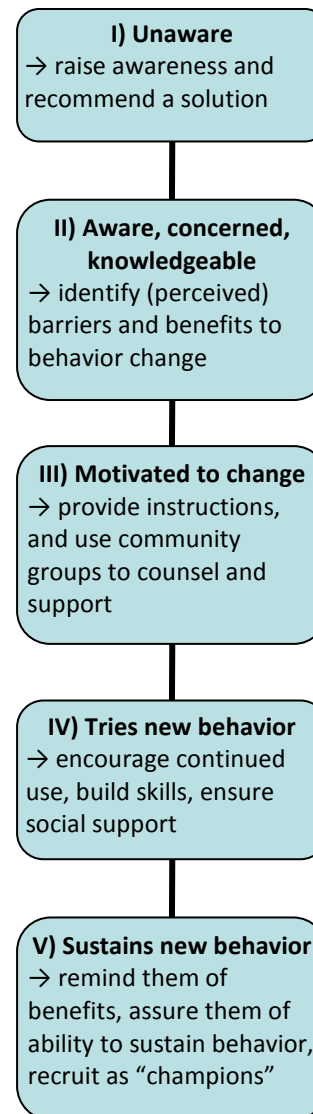
- First identifying and segmenting target groups based on their level of awareness, willingness and motivation to change, and perceptions of associated risks/costs or benefits/value of the desired behaviors (for example participating in savings groups or accessing BDS);
- Designing and presenting messages that resonate with the segments identified, address the risks they perceive, and are compatible with each group's values, past experiences, and perceptions of their ability (in Rwanda this may include awareness but absence of trust of MFIs, physical barriers such as distance or gender discrimination, unaffordable costs, lack of know-how about agricultural practices, or social taboos, etc.);
- Disseminating the messages through a range of appropriate forums, including billboards/banners, radio dramas, text messaging, village forums, and community leaders/social influencers, as well as MFIs and BDS providers through their marketing and outreach initiatives; and
- Introducing messages in phases, recognizing that different segments may be at different stages of the continuum at different times. Phasing the roll out will also help a larger number of beneficiaries adopt and sustain new practices by, for example, allowing the more risk-averse members to follow early adopters later on after having seen demonstrated success. These early adopters can also be recruited as “champions” or role models in order to support and sustain the campaign.

In addition, IMP will track progress of the campaign by conducting a mid-line and end-line survey to measure the change in knowledge, attitudes, and practices of the target beneficiaries regarding use and access to financial services. In line with IMP's goals of increasing demand and in addressing the gaps in both awareness and understanding of available financial services, the IMP will employ proven behavior change methodologies to systematically progress communities along the stages of change continuum (see Figure 4) in order to ensure lasting, positive impact. This will include conducting a preliminary baseline survey to better understand where targeted beneficiaries may be along the continuum. This survey will serve design/prioritization of interventions, inform the the monitoring and evaluation plan, and serve as the foundation for the design of the behavior change campaign.

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FIGURE 6 STAGES OF BEHAVIOR CHANGE CONTINUUM



barriers such as distance or gender discrimination, unaffordable costs, lack of know-how about agricultural practices, or social taboos, etc.);

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Social marketing is the utilization of marketing theories and techniques to influence behavior in order to achieve a social goal. It is similar to commercial marketing, except that its goal is not to maximize profits or sales; the goal is a change in behavior that will benefit society and, specifically, in the end help to increase economic opportunities in rural areas. At the core of social marketing are the 4 Ps common to a good marketing mix—product, price, place and promotion. Social marketing uniquely leverages customer insights, behavioral science and marketing to create, communicate and deliver conditions that make the target behaviors easier and more rewarding for the target audience to perform. To motivate people to take an action, one must understand the world from their perspective—what do they want, struggle with, care about, dislike?

The FIELD-Support program design can use the bases of social marketing to identify what the rural poor of the program truly view as a benefit and what as a barrier as regards use of financial services. Social marketing, more successfully than commercial marketing, can be used to effectively address the need for savings behavior change and increased responsible and safe access to finance by the very poor and risk adverse. An effective design incorporating social behavior change will apply a customer-based social marketing approach to effectively connect poor customers who want financial services with appropriate, accessible and affordable products and services in a manner that increases trusts and builds. A SM/BC campaign would target the demand side and the supply side of the financial literacy with increased access equation to catalyze behavior change and thereby increase appropriate use of the services. We will assist microfinance institutions to identify and address key barriers—real and perceived—that poor people face in utilizing currently available financial services while increasing their awareness of the very poor as reachable and viable clients. We also will develop and execute tailored, integrated marketing strategies that promote the availability, security and benefits of saving with participating formal financial institutions. An innovation proven in other sectors effective could be rural radio programming including a weekly serial drama with follow-on Q&E of savings, credit, micro-insurance, etc.

Demand side

Voluntary Savings and Lending Groups – The foundation

Through creating new VSLs or working with informal financial groups in the community that have potential and interest in being VSLs, the project will provide participants with a mechanism for asset building, income generation and risk mitigation. Believing that dependence is not empowering, the program will not capitalize the savings groups in any way by providing outside funds, but instead

serve as a catalyst for their formation. The self-selected, community-based and independently managed VSL groups will enable participants to save money from agriculture sales and other income generating activities, borrow or share-out accumulated savings at critical periods (for example, to purchase inputs seeds, fertilizers and in some cases labor for future agriculture cycles) and enhance social capital networks to support them through economic shocks. VSL members will be able to purchase more or better foods, invest in better income earning strategies and/or enter into and expand participation in agriculture value chains that increase their earning potential. The VSL groups will fill the gap in financial services currently existing in rural Rwanda; the VSLs will also support the delivery of appropriate training on income earning options and use of financial services as part of the VSL group activities. When mature¹⁸, the groups can also provide a platform through which messages on social issues such as education agendas, health and nutrition and gender balance can be shared.¹⁹

Literacy, Numeracy and Financial Literacy

It has consistently been observed that adult literacy programs, particularly those servicing the very poor, have higher levels of participation and lower drop-out rates when embedded with a program of high cross-sectoral value to participants and when structured around real-life application and participant-/self-identified learning needs. This is even more the case for poor and very poor women, whose opportunity costs for time invested in learning or developing basic reading and numeracy skills is exceptionally high and participation often at the expense of compromising family responsibilities and care for children. This being the case, a FIELD-Support designed program will provide literacy and numeracy learning opportunities through the VSLs and with application of pro-poor approaches to minimize burdens to the participants. The curriculum will have relevancy to the targeted groups through appropriate topics—building both the capacity to read and the capacity to understand agricultural best practices and microenterprise principles with simple math applications—as well as increase the capacity of the group to self-manage. As the groups mature as informal financial institutions and as readers, literature will continue to stimulate participant literacy/numeracy skills while embedding explicit financial literacy messages with applied understanding of agricultural and microenterprise management.

Several of the FIELD-Support consortium members as well as many identified staff have experience in adult informal literacy and numeracy provision and have the capacity to ensure the application of best practices. Additionally, literacy programs have been successfully embedded in various group-based programs. CARE recently completed a successful literacy and basic rights program in Rwanda, there are several financial literacy and entrepreneurship skills building models established (including EDC's Rwanda youth livelihoods program), and USAID funded the development of Pact's combined VSL-literacy/numeracy-enterprise development curriculum. All of these sources and models as well as others (and best practices learnt in their development and implementation) will be drawn upon and leveraged in contextualizing curriculum in this program.

Increased Access to Economic Opportunities

Development of entrepreneurship skills: Complementary business training will be provided to the VSL groups to help members consider choices in investing in income streams, using their assets and

¹⁸ It generally takes 18 months for a VSL to reach “maturity”—having completed one full pay-out cycle and VSL governance/management training.

¹⁹ Observation has shown, however, that groups being used for multi-intervention messaging still must be receiving some cohesive group and/or personal value for the group stability and sustainability to remain intact. Additional interventions create additional transaction costs for the group members and must be offset by real or perceived personal and/or group benefits.

participating in value chain opportunities. there is no need for another value chain assessment on crops that have value-added potential. Value chain research has already been completed by PHHS and CHF and these reports will be sought for input in a full program design process as well as to guide “investment” decisions within the VSLs. In some cases, the participants will be able to enter higher value agriculture crop production or sales for the first time and the collective support of the group and information gathered there will support their financial investment. An analysis of the employment and poverty scenario in Rwanda reveals that a significant majority of the people are engaged in agriculture sector and that they also happen to be amongst the poorest segment (after the category of agricultural labor). Thus, economic development of these people would involve twin-pronged approaches of :

- For those directly in agriculture production: Focus on enhancing agricultural productivity and economic returns from agriculture by encouraging credit supply, extension services and better market access. IMP will have to work in close coordination with the departments of agriculture and animal husbandry to take advantage of their extension programs and facilitate extension services for the program participants (see below). The program will also need to work with value chain participants, like seed and fertilizer suppliers, traders etc to enhance supply of these inputs closer to rural areas and with credit streams usable by the farmers. Not only will these assist the producers use these inputs more effectively, it will also create many enterprise opportunities.
- For those who would like to move out of or supplement agriculture income: Given the limited land-holding of majority of people, agricultural incomes could be enhanced only to a limited extent, which may not be adequate to move many out of poverty. Therefore, entrepreneurship opportunities for livelihoods diversification is necessary; this will also increase household security with multiple income streams. Entrepreneurship development will have to focus on all aspects, like enterprise identification and selection, establishment and enterprise management as well as to work on enhancing access to credit and markets. Many of the enterprise opportunities are likely to be in sectors related to agriculture. For example, GOR has a ‘one cow per family’ program. This will give a good boost to the dairy and animal husbandry sector, and the program could explore and encourage economic opportunities related to this development, like increased trading of milk and dairy products, running milk collection centers and chilling plants, processing enterprises, transportation, trading of fodder and cattle-feed etc.

There is a strong correlation between increased degrees of poverty and increased risk aversion. Therefore for a successful integrated microfinance program, it will be important to first focus on enterprises that have some link to the existing or primary livelihood sources of people, instead of moving people into something completely new, because the risks involved in doing something completely new may not be understood well by the people and they also may not understand the market dynamics in new product areas;. Agro-based or animal husbandry based enterprises on the other hand have a readymade local market and local production base, and it would be relatively easier to encourage movement into such enterprises.

Business Development and Extension Services: Development of entrepreneurship will also need to be further supported by provision of Business Development Services. Given the IMP will be at least partially involved in value chain development around the agriculture sector, taking the route of embedded BDS service provision may be most effective, since that will not only help the enterprises receive the most critical business development services, they will also help in strengthening the business ties between the primary producers and other value chain actors and lead to development of a more market-driven provision of BDS services.

In its recent assessment, the OTF Group recognized the need but narrowly focused its analytical efforts on business development services (defined, essentially, as training and consulting services) and extension services. They found weak markets for these services but did not seek out complementary services or alternative models that might meet household needs more effectively. Training is a service that few households – regardless of poverty levels – find sufficient value in to pay for. Markets for consulting services are generally only found in industries demonstrating high or prolonged growth (or, it should be added, substantial public subsidies). Traditional models of public extension services suffer from similar challenges (if they are fee-for-service) or a host of financial and management problems (if they are publicly funded).

But alternatives do exist and should be seriously considered by USAID/Rwanda for any effort targeting economic opportunities for low-income women and the very poor. The two major options are:

- Deliver necessary training and support services directly. As a complement to promoting informal savings and lending groups, a project can provide a mix of business training, extension, market literacy, mentoring, and market facilitation services to group members based on their demand and preliminary market analyses.
- Facilitate the development of embedded services. A project can work with existing service providers (such as input suppliers) and possibly lead firms (such as traders, processors, or wholesalers) to deliver requisite training and support services. For the service provider or buyer, providing such services represents good customer service and helps to build trust and loyalty. For the poor household, there is no explicit charge for the service as it is built into the cost structure of products they are buying (in the case of inputs) or deducted from the purchase price of their production (in the case of buyers).

Each of these approaches offers concrete advantages and disadvantages. Direct service delivery can ensure greater relevance and quality of training, quick startup, and focused on impact on target populations. However, it is also unsustainable and features high costs of delivery – although there may be situations where it is justifiable to compromise on these drawbacks if viable exit strategies exist. By contrast, facilitating embedded services is inherently sustainable and scalable but may exhibit weaknesses where direct service delivery is stronger. Moreover, embedded services only have potential where service providers operate, and current and potential coverage is currently unknown for the target geographic area.

A highly innovative model operating in western Rwanda is instructive for understanding how an embedded service model might work. The One Acre Fund (known locally as Tubura) has developed an integrated model for embedding the cost of providing extension services and farmer training into its input supply services. Moreover, One Acre Fund has a structured model for enrolling communities in the program, identifying community-based trainers, orienting and building their capacity in a continuous fashion, and managing and troubleshooting their activities. The end results are both substantial input sales to loyal farmers but also dramatic increases in farmer productivity, sales, and profitability. While this model is centered on One Acre Fund, a not-for-profit “social enterprise,” experience with a similar model in Zambia shows that it is equally appropriate for local private-sector operators.

Programmatic Recommendations: As regards delivery of extension and input supply services, the tradeoffs between direct service delivery and facilitating embedded services tend to favor the latter in any program design concerned with commercial sustainability and achieving scale in a cost-effective manner. An approach meeting this need through private or local organizations is much preferred by the FIELD-Support team and USAID/Rwanda. Where direct service provision is the only option, to ensure sustainability a model will be used in which interested communities or other private partners would provide extension services and commercialization of necessary input for

agriculture/livestock after sessions of practical training, demonstration and mentoring. However, given the uncertain existence of lead firms with which a project can collaborate in the target areas, it is prudent to follow a two-pronged strategy maximizing the use of both approaches.

Year 1: Study, experiment, and pilot to determine optimal strategy for the rest of the project

- Pilot direct training activities with mature VSLs in the target areas focusing on: (1) basic market literacy relevant for agriculture, (2) basic business skills and planning relevant for agriculture, (3) basic agricultural skills, and (4) so-called “resource mapping” where group members identify important business/farming problems and map out who they might go to for assistance, advice, services, or products.
- Undertake rapid value chain assessments for the target area specifically to identify: (1) growing markets/value chains that would be accessible to large numbers of target households, (2) needs for upgrading among target households, (3) prospective service providers, member organizations, and/or buyers that could provide embedded services (on a commercial or cost-recovery basis) to target households.
- Ascertain the prospects for embedded services among lead firms/organizations identified in the value chain assessment and develop a pilot effort with 2-5 firms/organizations to explore the feasibility.
- At the conclusion of both pilots, make a strategic decision about future strategy leveraging successes, challenges, and lessons learned from both pilots. The strategy may still include a mix of direct service delivery and embedded services for maximum outreach and impact. If direct service delivery is part of the strategy, develop appropriate exit strategies to minimize dependency on the project and/or project subsidies.

In subsequent years, the project should closely monitor the progress of its strategy and undertake additional pilots and adjustments as challenges and opportunities arise. Expansion into new geographic areas may also prompt a reconsideration of the strategy most appropriate for the new project area. A model observed as appropriate and successful by USAID/Rwanda and implemented by Land O'Larks is the Dairy Sector Competitiveness project with the PLWHV.²⁰ This model as well as other innovative options merit further consideration and piloting. Additionally, A FIELD-Support team will prefer strategies developing women as agricultural extension agents. Agriculture is critical to livelihoods in Tanzania and will remain a leading driver of food and income security for some time, with women (particularly female-headed households) are critical drivers of agricultural activities, often involved in land preparation, planting, weeding, and harvesting activities.to drive income-earning opportunities—a scheme encouraging women extensionist will both increase income opportunities for women as well as ensure a gender balance and perspective in service provision.

Supply side

In the geographic region, the program will identify financial service partners who have expressed a desire to target VSL clients and showing a commitment to manage accordingly. Potential MFIs, SACOOs and even possibly bank partners' management system, accounting and internal controls, human resources, etc. will be assessed as to their capacity to manage a program serving the targeted

²⁰ “LOL’s sub-grantee, ABS/TCM, trained farmers in feed production for their cows. The farmers got a small quantity of seeds and feeds for testing in their own plots and farms. Once the testing revealed good results (i.e., increased milk production), the project supported micro grants to start up input supply businesses with the project-trained pioneer farmers, who now provide regular training to farmers on the use of inputs.” *Fina Kayisanabo – June 2, 2010*

rural poor. The program will also assess alignments of mission of the organizations, goals for the partnership, governance and board commitment to the partnership to ensure the potential formal institution partner is managing in the best interest of the poor client. Chosen financial service partners will be used to create linkages with the VSLs as well as a partners in the development and offering of new services designed to target the agricultural sector.

Linkages

A FIELD-Support program will develop sustainable linkages with formal financial institutions to ensure that VSLs can access savings, lending, insurance, and other services targeted to their needs; special emphasis will be placed to ensure the linkages increase women participation and meet the specific needs of agriculturalist in each market. Designed activities will focus on integrating the poor into formal systems on a demand-driven basis and will encourages formal systems to view the extremely poor as potential markets. This intervention will take a transformative approach to poverty reduction by linking savings-led groups with formal financial services and innovations to make those services more accessible and affordable for the poor. A group's decision to pursue linkage will likely be based on its ability to take up economic opportunities, as demand for credit exceeds internal group supply. These linkages will give access to VSL clients to higher level financial services, including greater loan amounts to groups' members, insurance and a more secure place to save their money. VSLs will be evaluated for "graduation" into the linkages program based upon their savings rate, repayment and bad-debt rates, savings use rate and level of investment in economic activities. Groups will be required to have completed micro-enterprise/agricultural practices and financial literacy training in order to be linked as well, to ensure that they are able to make sound investments with the increased funds.

CARE's existing experience of linkage between VSLs and Bank (BPR) in Rwanda amply demonstrates that once VSLs and the members achieve a degree of financial literacy, they not only demand for financial services from the commercial institutions, they also represent good clients, because of their good financial planning and management and adherence to group principles and group records. The emphasis on savings and relationship between loan and savings is also a prudent way of impart financial literacy principles.

Formal Institution Product Development and Technical Assistance

Based upon the key findings in this assessment, the program will also work with formal financial service partners (MFIs, SACCOs, and socially missioned banks) to develop products and services that are appropriate for VSL groups and members and will market them to VSL groups on a commercial rather than subsidized basis. Product development and product development trainings will be done in a manner designed to impart the highest level of capacity to the participating institutions and with input from the SBC market research, grounded in pro-poor approaches. Products will be specifically designed to meet the unique needs of the target population (poor and very poor, women, agricultural) but structured so as to best fit in the servicing institution's portfolio in a sustainable manner. Trainings will be as much as possible cohort based so as to leverage peer-to-peer sharing, learning, and accountability with one-on-one consultation for specificity. Participating institutions will be required to take an active role in the development of products to ensure the capacitating of management and staff. Additionally, the financial literacy curriculum of participating institutions will be reviewed (and strengthened if found weak) as well be their financial literacy program. The assessment revealed that several institutions had a required financial literacy pre-loan requirement but few implemented it consistently or well.

Mechanisms for Engaging Supply Side Partners

A FIELD-Support designed program would explore supporting product and curriculum development and technical assistance to these formal financial institution partners through various funding structures to deliver the greatest impact. In-kind technical assistance only awards or benchmarked FOGs (fixed obligation grants) with participant shared costs and contributions are effective in ensuring recipient commitment to institutional behavior. Additionally, peer-to-peer reporting and participating in ‘lessons learned’ sessions with cohorts as well as mini-conferences and industry sharing events are ways to stimulate positive competitiveness and achieve wider impact for increased and improved product delivery to the target financial client.

Health and Nutrition

AED as well as several other FIELD-Support partners have substantial experience in health and nutrition interventions, as well as food security, having competence to both design . At a minimum, a FIELD-Support designed program would measure nutrition and household food security to distill discernible impacts from increased income levels and agricultural services. Initial thoughts include dietary diversity scores and months of adequate food provisioning. As regards integrating health and nutrition interventions directly into the program, as budgetary support allows²¹, this can be done through add-on trainings with the groups, health/nutrition extension workers who mobilize the groups around campaigns and behavior change, team-tagging of health/nutrition and agricultural extension workers, literacy based health and nutrition materials, self-led group discussions, group cooperative labor schemes wherewith the individual’s efforts are decreased while on-farm productivities increase, and myriad other activities. As previously stated, any program activities channeled through mature groups—while having great potential for easy outreach and impactful change—must be designed and managed with respect to the groups’ mission of existence; in this case, voluntary savings and loans groups.

Monitoring and Evaluation

A new integrated microfinance program will contribute to meeting Assistance Objective 7, expanding economic opportunities in rural areas. The program will implement and manage a process of assessing and reporting that supports reaching the program outcomes while strengthening impact. The program monitoring and evaluation plan will be designed to desegregate by sex, allowing for the full capture of program impact on women. The program will also track nutrition and household food security to distill discernible impacts from increased income levels, agricultural services (extension, best-practice dissemination, improved input supplies and market relationships) and household security.²² A FIELD-Support designed program would use two approaches to monitor and evaluate the program.

During the project start up phase it will be important to define the standard evaluation objectives and questions based on a review of the program’s objectives, design and logistics. Interviews will be conducted with key contacts from relevant stakeholders and organizations (many of whom were contacted for the initial assessment). Baseline assessments will be conducted, as required, to help ensure that all relevant and required data are complete and that all indicators can be presented in a uniform format. The program has identified the regions where the poorest and most vulnerable populations can be found, as well as where access to financial services is scarce. Focus group

²¹ Program engagement in these sectors were not included in the below “Outreach” section per participant costs, with that estimation only including the other financial access/economic opportunities Concept elements.

²² Further research needs to be done to identify the most appropriate of food security measures but dietary diversity scores and months of adequate food provisioning are being considered.

discussions with the relevant financial service providers as well as the potential program beneficiaries should be conducted in each region where the program will focus its implementation. A field evaluation/impact study will be conducted annually. The results will allow for learning-based adjustments to be made in the program and/or for the purpose of adjusting future programming. The timing of the studies will be decided in accordance with USAID, while taking into account the policy environment. It will be important to ensure that evaluation results, if possible and appropriate, are made available in time for important policy related decisions.

The second approach to monitoring and evaluation under the program would be to utilize stakeholder participation in monitoring and evaluation planning and implementation. Rwanda has had great success utilizing stakeholder participation in monitoring and evaluation. It is a concept that has been successfully used by the GOR through the Ubudehe (a traditional practice and culture of collective action to solve community problems) as a core method to fight poverty and utilized it to conduct a 2006 survey for the Rwanda Economic Development and Poverty Reduction Strategy 2008 – 2012. The approach used by the Ubudehe is seen to benefit the poor (the main participants in this program) and it has shown an increase in participation in planning, decision-making and empowering the poor and women (MINECOFIN, 2007a). A FIELD-Support program would build upon the momentum of stakeholder participation in monitoring and evaluation that the Ubudehe and the GOR started in Rwanda. The recognized success of utilizing stakeholders in the monitoring and evaluation process provides the impetus for utilizing this approach in an integrated program.

This approach in monitoring and evaluation will provide a larger sense of ownership of the program, including stakeholders early and often. Participatory monitoring and evaluation have been shown to build a greater sense of ownership and increases the likelihood that the program will have a greater and more sustainable impact in the target communities. The program's success will greatly depend on the information provided and learned from the beneficiaries and the different stakeholders of the program, as they can provide the best source of information on implementation problems (where products are missing, why certain services are not currently being provided, issues involving logistics, etc.) and help shape the program actions and logistics. The FIELD-Support team will identify active participants for the evaluation process by looking at all relevant stakeholders and beneficiaries. The individual roles will be based on the people chosen and can range from being a resource person to participating fully in certain parts or all parts of the monitoring and evaluation process; training and orientation will be provided.

Using the baseline assessments conducted and data collected in the first (traditional) approach to M&E, participatory approaches will be used to analyze and interpret the data to help reach a common understanding of the issues for all stakeholders and beneficiaries. Based on these conclusions, the group of stakeholders as a whole will prepare an action plan with the facilitation and oversight of the FIELD-Support team. This action plan will have been created with relevant stakeholders and beneficiaries who have first-hand lessons learned and a common understanding of the program and its benefits. Through this process a field evaluation/impact study will be conducted annually. The results will allow for adjustments to be made in the ongoing program and/or for the purpose of adjusting future programming.

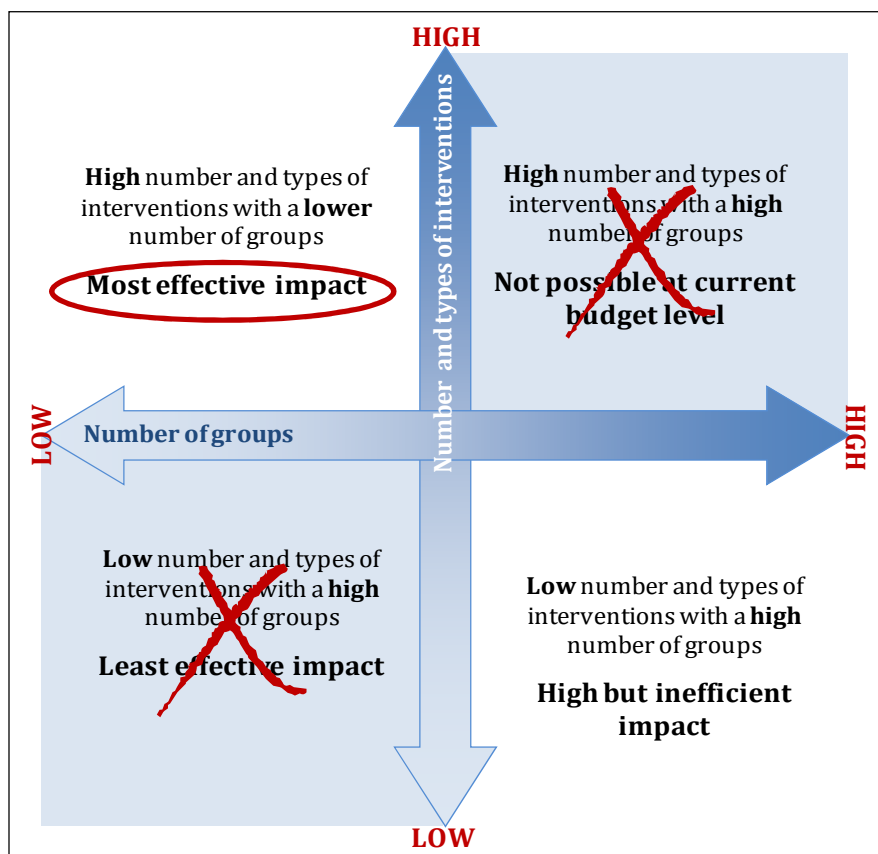
Both of these approaches together will allow for facilitated learning and knowledge management. This project will provide important tools, models, and lessons on providing access to financial services for poor communities based directly upon the Rwanda experience that would be transferrable to other programs—locally and internationally.

Outreach

The below matrix with impact and interventions on perpendicular axis highlights the choices available. A program reaching a low number of participants with very limited interventions would be

inefficient and neither designed nor funded. A program directly engaging a high number of participants through a high number of interventions would be highly impactful and efficient but beyond the proposed funding.

FIGURE 7. MATRIX OF IMPACT/INTERVENTION OPTIONS



A program creating and capacitating VSL groups could reach upwards of 400,000 participants at an average costs of \$30 each²³, reaching a high number of participants with very limited interventions. This minimal approach would train group promoters to mobilize and engage in the communities to form and mentor groups, form groups and provide the technical assistance necessary for their maturity. Mature groups could be linked to formal financial institutions but the prime program emphasis would be on forming and imparting VSL groups. Though the impact would be

high in terms of individuals reached and changes in the household livelihoods security of those individuals, this approach would not address the constraints identified in terms of access to financial services, the appropriateness of those services, or the capacity of formal institutions to provide those services. Financial literacy would be embedded through the process of learning individual and group VSL management, though primarily implied. This approach resides in the southeast quadrant of the matrix, recognized with a high but inefficient impact.

On the other hand it is estimated that a full program intervening across all the concept options explored in the assessment—including demand side interventions (creating VSLs with embedded literacy/numeracy, financial literacy, entrepreneurship skills building and mentoring, BDS and extension services) and supply side interventions (geographically focused financial service providers capacity building, product development, improvement in pro-poor service delivery and linkage activities) as well as an effective social behavior change campaign targeting both the users and providers of financial services—would create and capacitate at least 65,000 direct VSL members, linking mature groups on a demand basis to formal financial institutions, plus create a lasting impact in the management and service offerings of all the participating MFIs/SACCOs through which additional services were provided and to whom linkages made as well as many thousands indirectly

²³ This estimated costs, as well as that following, is garnered from the experiences of CARE, CRS, Pact International, Oxfam, and Save the Children.

through a SBC campaign.²⁴ While this is a fraction of the prior beneficiaries impacted, a program intervening across the spectrum of the rural poor's needs and assuring their economic decision making capacity as well as the capacity of financial service providers is more effective than a program that meets only a very small portion of their needs and does not address long term access. Additionally, a socially marketed behavior change campaign would reach many more indirectly in a measureable manner. This fuller program design resides in the northwest quadrant with high impact for a smaller number of direct participants.

AFR-USAID IMP Engagement

DFID's planned Access to Finance Rwanda (AFR) program will constitute an important new facility investing in economic opportunities for target households. Modeled on similar programs in Kenya and Tanzania, it will have the ability to support a wide array of initiatives under professional management by a specialized service provider guided by an advisory board. With objectives closely aligned to USAID's interests yet a broad mandate whose precise focus cannot be predetermined, USAID needs to carefully consider how best to leverage or synergize with this program.

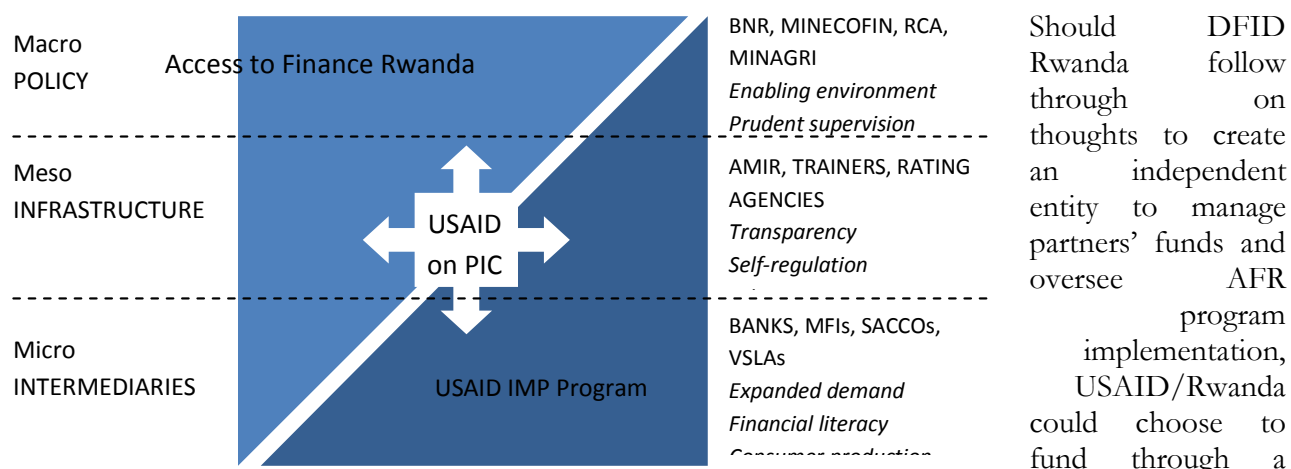
First, USAID should take advantage of the opportunity to co-invest in this program with DFID and other likeminded donors. DFID's analytical efforts underpinning this program are both methodologically sound and solidly executed. Similarly, the model has been tested in two other countries and judiciously refined for Rwanda's unique context. A minimal, one-time contribution of \$1,000,000 is sufficient to secure USAID a place on the advisory board, which will guide AFR's strategic direction and approve all disbursements. USAID could require either a contractor or grantee to direct funding to AFR and claim the advisory board position as part of its substantial involvement.

Secondly, USAID should program activities that will be complementary to AFR's interventions – in ways that strengthen AFR's efforts, represent greater risk than AFR may be willing to take, or address gaps in AFR's strategic or operational focus. Under the influence of its multi-stakeholder advisory board, AFR will likely make investments in areas that represent the broadest consensus. With somewhat limited resources, AFR can also be expected to seek investments with the most systemic or far-reaching impact. Accordingly, AFR support may best target the macro and meso levels of the financial sector. While it will surely invest in micro-level activities as well, there is ample room for multiple donor-supported efforts in this area.

Based upon the understanding of the players and context developed over the course of the assessment as well as publically available information on the upcoming Access to Finance Rwanda program, a program designed by the FIELD-Support team would, while acknowledging the need for interventions at the meso and macro levels, engage only at the micro level. At the micro level this program, unlike the AFR intent, would not aim to reach either small or medium enterprises or to engage with urban populations. Figure 8 represents the levels and prime players as well as the coordinating role that USAID/Rwanda could play across both of these program efforts.

²⁴ Extrapolating from experiences of multi-intervention programs implemented upon a foundation of VSL groups, including their formation and capacitation and revealing an average costs per participant of \$180-230.

FIGURE 8. AFR-USAID IMP COLLABORATION



FIELD-Support Associate Award a subgrant to the established company, enabling USAID Rwanda to participate on the AFR advisory panel and ensure that coordination across the two programs (AFR and USAID's IMP) was ensured and efforts most effectively managed. Details of what these funds were for and the funding mechanism that would make the most sense need to be understood in a conversation with USAID/Rwanda in order to set up the correct funding mechanism within the Associate Award. Alternative scenarios include:

1. **Loan Capital**—AED passes the funds to the AFR entity for loan capital to qualified formal financial institutions. These funds are considered “pass through” and there is no administrative or management costs incurred by AED. AID, through substantial involvement in the prime and subaward, participates on the AFR Advisory Council.
2. **Grant Funds**—AED issues a subgrant to the AFR entity for on-funding of local financial institutions through subgrants. These funds are an administered grant and would bear G&A of 3.86% and would require AED supervision as an AFR entity would not be conversant with USAID regulations, particularly as regards supervising grants funds in compliance to ADS 303. AID would participate on the AFR Advisory Council through the exercising of substantial involvement.
3. **Core Funding**—AED issues a subgrant to the AFR entity to support the entity's core management and operational costs. There would be minimal effort required from AED in administering the subaward and the subaward itself would bear 3.86% G&A. AID would participate on the AFR Advisory Council.

Key Challenges

The deficiencies in the microfinance environment identified during the assessment for the most part are addressable in a program design without creating undue obstructions to success in program management. There are two issues identified that have the potential to negatively impact the program and to be beyond the program's ability to manage. These are lack of capital and the *Umerenge* SACCOs. The former could possibly be addressed through greater access to additional and even non-donor sources of capital. The program's building of capacity of geographically targeted financial institutions as well as any work done by AFR in capacity building and any rating system developed and implemented will also help. The later—*Umerenge* SACCOs—will need to be managed on a case-by-case basis. This is due to the already discernible difference amongst the *Umerenge* SACCOs as regards management and community authority engagement, interference, or capacity to understand best practices. Any program working with informal savings groups is going to have some difficulties in some of the

communities of engagement with *Umerenge* SACCOs. There will be occasions of conflict. At times the *Umerenge* SACCOs will need to be accommodated, at times likely ignored, and frequently relationships will need to be managed and even nurtured to allow the VSLs and *Umerenge* SACCOs to coexist or for the former to exist within the later.

ANNEX A. TERMS OF REFERENCE

A key objective of U.S. assistance in Rwanda is “expanded economic opportunities in rural areas.” To achieve this objective, it is necessary to support “increased access to agricultural finance,” also a key objective of the Government of Rwanda (GOR) Strategic Plan for the Transformation of Agriculture (PSTA II). In Rwanda, it is widely accepted that women carry a proportionally greater burden of responsibility on the farm and in the family. U.S. efforts to increase access to agricultural finance and expand economic opportunities therefore place particular emphasis on supporting women. Furthermore, Rwanda is a focus country for the Administration’s Global Hunger and Food Security Initiative, Feed the Future (GHFSI-FTF), and a key GHFSI-FTF crosscutting priority is “gender equality and expanded opportunity for women and girls.”

USAID/Rwanda recently commissioned an analysis of economic opportunities for low-income women and the very poor, which identified the key factors holding them back and interventions that could increase their participation in the process of economic growth and, thus, improve their wellbeing. The study built on the microfinance demand study recently completed by the GOR with funding from DFID (FinScope I and II), the GOR’s most recent Integrated Living Conditions Survey, and the GOR’s Vision 2020 Umerenge Baseline Survey. It recommended that USAID develop an integrated program to provide target beneficiaries with increased access to financial services, literacy and numeracy training, business development services, and agricultural extension services.

To increase access of the targeted population to agricultural finance, USAID/Rwanda believes it is necessary to address both the supply of and demand for financial services. On the supply side, USAID would like to explore ways in which formal financial institutions might expand their outreach and develop new financial products that meet the needs of targeted beneficiaries. On the demand side, our analysis suggests voluntary savings and lending groups (VSLs) offer a promising means of preparing targeted beneficiaries for eventually accessing the services offered by formal financial institutions.

USAID/Rwanda believes the effectiveness of VSLs can be enhanced by the simultaneous provision of financial literacy training and the development of entrepreneurship skills. Within the targeted population, our analysis suggests the most relevant means of developing entrepreneurship skills will likely be through the provision of business development and agricultural extension services. The provision of basic literacy and numeracy skills, as well as health and nutrition education, would be a logical addition to such a program, not only because VSLs serve as a convenient vehicle for providing such services, but also because better educated and healthier VSL members would likely enhance the groups’ effectiveness.

USAID/Rwanda would like the design team to minimally address the following issues:

- Validation and Design of Integrated Approach: The design team should validate the recommendation to design an integrated program, per the above, and propose a practical approach to integrating the provision of financial services, literacy and numeracy training, business development services, agricultural extension services, and health/nutrition education for the target population. An important element of such an approach is developing a structure for training and education that accounts for beneficiaries’ (mainly women’s) other family and household responsibilities.
- Supply of Financial Services: The design team should explore ways for USAID/Rwanda to support expansion of the supply of financial services to target beneficiaries. In this regard, it is requested that the design team develop options for USAID to collaborate with the DFID-support Access to Finance Rwanda (AFR) program.

- Policy Environment: The design team should examine the extent to which GOR attitudes and policies toward informal financial institutions (savings clubs, tontines supported by CARE and other NGOS, etc.) and the GOR's recent rollout of Savings and Credit Cooperatives (SACCOs) might affect the success of the proposed program.
- Geographic Targeting: Building on USAID/Rwanda's analysis of the very poor, the design team should recommend geographic targets for the program taking into account complementary programs, ongoing programs with similar objectives, etc.

ANNEX B. INDIVIDUALS AND INSTITUTIONS CONSULTED

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ANNEX D. SUMMARY OF FOCUS GROUP DISCUSSION WITH MICROFINANCE PROVIDERS

Focus Group questions for MFI's

01. What do you need in order to better serve the rural poor?
02. What do you need to do to increase usage of the financial Services by your women clients?
03. What existing products do you have to serve the agriculture sector?
04. What do you need to do in order to better serve the Agriculture sector?
05. What economic opportunities have good growth potential in your region?
06. As an MFI, how you can support your clients take advantage of these economic opportunities?
07. How do you approach financial literacy for your clients?
08. What is the role played by informal groups (like VSLA, Tontines etc) in providing access to financial services for the poor?
09. Which of the MFIs present here provides financial services to Cooperatives/ SACCOs or informal groups? Can you please raise your hands?
10. For your MFI, what are the advantages of working with Cooperatives/ SACCOs? What do you look for in a SACCO in order to work with them as a client?
11. For your MFI, what are the advantages of working with informal groups? What do you look for in an informal group in order to work with them as a client?
12. If you are not working with SACCOs or informal groups, why not?
13. Are you facing any challenges with the Umerenge SACCOs? What are these challenges?
14. Why are you not focusing on the Youth and what potential do you see in youth as a specific customer segment?
15. If our interest is to increase economic opportunities to the rural poor and increase their financial services? What districts would you recommend as a priority?

16. If US-AID was supporting a program on access to financial services, what is one thing that US-AID should do and what is one thing that US-AID should NOT do.

Notes for the facilitator:

- i. Ask the participants to be very specific in their responses. Limit the responses to their respective MFIs as far as possible rather than giving general responses.
- ii. Keep a close watch on the time and intervene wherever necessary to maintain focus to specific question asked.

FOCUS GROUP ANSWERS FOR MFI's

Note Taker: Emmanuel Ruterana (UOB).

Moderator: Laurent Habarurema (UOB).

Date : April 30, 2010.

Attended: UOB sa , DUTERIMBER sa \ RIM sa, CAF ISONGA.

Qn no:	Respondent:	Answers:	Observation:
01	All contributed.	Good infrastructure, for example availability of electricity power, good roads, computers / IT soft wares, means of transport is needed, no enough experienced workers, the workers who are already in service have no enough knowledge, no houses for offices, to monitor workers and work itself is not easy as they need follow up and it is far as it is not easy to be reached, no access commercial banks near and not easy to take & bring back money collected from clients in time.	All were attentive.
02	All contributed.	Trainings / mobilization / sensitization so that women may not fear to approach financial institutions for loans, capacity building within women leaders who can later equip others and help them to the capacity level of getting loans. To approach local women authority levels who can help in mobilizing, introducing more products to support women in income generating activities.	Laughed.
03	Duterimbere, CAF Isonga,	Buy agriculture machines by leasing product, giving them fertilizers, supporting in	All were attentive & serious.

	RIM.	production increase, buying seeds for planting, supporting the production of fruits mostly pineapples, sunflowers and the cooperatives engaged in agriculture products are given credit loans for within solidarity group system for both business and agriculture.	
04	All contributed.	To encourage farmers to increase agricultural products depending on their locations for example, in the swampy areas to grow rice, to encourage them to follow governments program like land conservation.	All were attentive.
05.	All contributed.	Agriculture & Business of different kinds. But depending on the area where an MFI's operates.	Few words on it, as they operate in different locations.
06.	All.	MFI's gives them credit funds, we train them to organize actively in project proposals, MFI's train them to select the business which is needed most on the market, MFI's have ancient clients who keep looking for the new markets from time to time, the new clients also come with new business ideas and are accessed to credit funds , as clients keep exploring the new products in business MFI's keep supporting them with access credit funds.	Happily answering.
07.	Duterimbere. RIM. UOB. CAF Isonga.	HIV Education, Entrepreneurship, Micro Project. Project Design & Monitoring. HIV / AIDS Education, BVM / Biblical Value in Market Places / BDS / Business Development Services. Agriculture techniques / methods & Cooperative management.	Very attentive.
08.	All.	They become more active to work fearlessly with Banks / MFI's, they learn more about savings, also they bring their deposits into banks / MFI's and these deposits help banks / MFI's to extend them to other clients hence supporting in operation expansion.	Happily & laughed.
09.	Duterimbere & Rim.	Yes, because they are some potential clients who are supported in form of credit funds to develop their business and develop themselves.	But with few examples.

10.	All.	Our MFI's benefit in such away that the cooperatives are obliged to open accounts where the can deposit their upfront savings in order to be given the credit funds. These savings facilitate the MFI's operations and extension programmes / outreach programmes. MFI request them to be a registered cooperative, have an account with MFI's, and have their leadership organized.	Active in answering.
11.	All.	It increases an MFI's incomes, it also markets an MFI's, it gives an opportunity to access more credit funds within the local level. What we look for capability of each client, business opportunity around, look for their past loan behavior if they have ever got one in any Bank / MFI.	Paused with laughter.
12.	All.	MFI's methodology, Lack of information as we do not know their presence, lack of security of money to be transported to them and loan collection, MFI's fear those cooperatives as they may fail to repay back the loan / credit fund / default.	Attentive.
13.	All.	Yes because Umerenge sacco is collecting member fee of 10,000Rwf from every person in the area, it affects MFI's clients because if a clients takes any loan size, he / she has to deduct ten thousand for Umerenge sacco. Umerenge sacco has not yet started to give out loans, it can not therefore, help any client / member, Umerenge sacco has created a competition with MFI's, local authorities do not want to sign any document from MFI's clients before he / she pays membership fee, resources are divided to both MFIs & Umerenge sacco.	Laughed.

14a.	All.	1. Youth have got their own cooperative / COOJAD responsible for giving out credit funds. 2. Youth is combined with other people in the Groups. 3. Youth is not stable, they do not stay in one particular place, they move from place to place to look for better businesses, so some of them are not trustworthy. 4. Loan Diversion, for example, youth is not engaged in one business activity, have no business ideas even. Potential within youth: 1. Have energy to work. 2. Have long life span. 3. If taught they catch up very quickly and easily. 4. Work and listen very quickly.	Seriously answered.
14b.	„		„ „
15.	All.	1. Bugesera. 2. Nyanza. 3. Nyagatare. 4. Gatsibo. 5. Kirehe. 6. Burera. 7. Rulindo. 8. Rutsiro. 9. Ngororero. 10. Nyamasheke.	The team added that in all districts country wide there's a need of financial services though the priority goes first to ten mentioned.
16a.	All	US –AID should do the following: - Credit fund to be given the existing MFIs in the area and MFIs continue to access it to the community. - To help farmers prepare their swamps / farms in modern way. - Study how MFIs can reach un reached and MFIs to reach where they have not reached. - To give capacity building & training to both MFIs' staff & associations. - To support in technology / softwares to MFIs. - Should give support according the government's development programmes, for example, in supporting agriculture each district has got its agricultural product instructed according to its climate and soil type.	Discussed on it at length.

16b.	All.	US – AID should not do: - should not give cash to the community, instead cash be given to the MFIs. - Should not give grants, but it should give out cash as credit fund through MFIs. - Should not create its own programmes to fight against poverty but should follow govt's programmes.	Attentive.

ANSWERS FROM SQCCOS DISCUSSIONS

30 April 2010

COOPECs / SACCOs and MFIs

Moderator: Marcellin KUBWIMANA

Note taker: Agnes MUJAWAMARIYA, c/o CARE

Date: 30 April 2010

Participants: SACCO :

UNICLECAM WISIGARA: A union of Cooperatives mainly composed of farmers based in North and North West of the country (Ruhengeri and Gisenyi)

UNICLECAM EJOHEZA: A union of cooperatives mainly composed of farmers based in South of the country (Gitarama)

COOJAD: A Sacco of youth based in Kigali city

KOZIBI: Cooperative mainly composed of farmers but also people from other kind of activities, based in the province of East (Rwamagana)

Question Number	Respondent	Answers	Observations
What do you need (i) in order to increase outreach and (ii) better serve your members in the rural area	COOJAD	Lack of capital is the main hindrance to increase of outreach We should advise people to join cooperatives, get more services through organized groups, Sensitize people to the culture of saving, but for poor people, help them form groups	
	CLECAM Wisigara	Increased membership by grouping people, in "zones" with committees of zones.	
	CLECAM	Different groups in cooperative,	

	Ejoheza	mostly women, are not self confident. They need to be “pushed” and showed them that they can cultivate ex: mushrooms, grow poultry; there’s need of follow-up: If production increases, there need to find market, to sensitize people to save; The main problem we have is re-financing: we do not have enough capacity to give loans, so the loan demand is too high The need for increase of membership must be coupled with the increase of capital.	
	KOZIBI	Not enough capacity of travel to reach all members for sensitization; it is noticed that small/poor rice growers borrow from richer people and pay with their rice at a ridiculous price, moreover small rice farmers believe that formal financial services are for rich people. But there is initiative of recruiting many members, there comes a problem of satisfying their needs when they look for loans. As a consequences new members are frustrated and recourse to informal sector	
	COOJAD	New members open an account in sacco in order to get a loan. After 3 months, they immediately apply for loans and when applications are not satisfied, they are frustrated and think that the bank/sacco was deceiving them.	
	CLECAM Ejoheza	We should finance agriculture but when some crops growers like cassava farmers apply, we are reluctant to give loan that is fit to that kind of crop because it takes time to get to the harvest (at least 12 months). We prefer to give ordinary credit that can be given back in short term, unless the applicant accepts to pay monthly installment. This is because long	

		term loan requires enough capital which is still a problem for Saccos.	
<i>Conclusion</i>	- Organize people into groups (could be cooperatives, solidarity group, etc.) - Sensitize people to the culture of savings - Some SACCOS have good approach of reaching remote people, by creating “zones” committees and zone coordinators - Women need to be pushed to have entrepreneurship spirit - Need for markets - Savings mobilization skills - Refinancing is still a problem and impede some saccos in looking many new members while it is difficult to satisfy the existing members’ demands		
02. How do you encourage women to (i) join your SACCO (ii) actively participate in your programs	KOZIBI	Many women are among those who are not satisfied with loans, thus we should try to reach them. They are initially afraid of banks. We have asked them to open individual accounts	
	CLECAM Wisigara	70% of our members are women; due to family charges they try everything productive but we have no capacity of satisfying them because of their number	
	CLECAM Ejoheza	We prefer to work with women: when women are informed, they borrow small loans (10.000 for fertilizer for ex. – 20\$ equivalent) while men are usually better informed but will come asking for 1 million which is beyond their possibilities. Our problem is means for transportation (motorcycles, bicycles) to go to sensitise them. Women’s coopec would work better than men’s	
	KOZIBI	Poor farmers repay well while people with higher standing are those who do not repay	
Take a leadership position in your management	CLECAM Ejoheza	For women to be represented in the decision making structures, we define the percentage of women representation in the regulations and the elections have to conform to these regulations	
	CLECAM Wisigara	For the board members, we fix quotas among women and men	
	KOZIBI	We respect 33% government quotas	
	COOJAD	Sensitize women to be more self confident; Experience in city shows	May be because in towns the mobility of

		little trust among them even though loyal towards banks. Individually they seem well off but lack trust among themselves in groups.	people is high
Conclusion	- Women constitute a great market that is still unexploited and Saccos prefer to work with them for a number of reasons (trustworthiness, better repayment rate, willing to get credit fit for their activities, and are more engaged in rural activities more than men) - There is need to look for women and encourage them to use financial services, as many of them are still trapped in cultural and psychological barriers - As for the representation in decision making bodies, some saccos use regulations and elections conform to the predefined percentage, but others like Coojad rely on sensitizations.		
What existing products do you have to serve the agriculture sector?	KOZIBI	Product for rice growing. Loan to one who has 3 months; in cooperative. Is repaid after harvesting.	
	CLECAM WISIGARA	Prod. For maize and potatoes. Sensitized to save for farming season, then we multiply x times his savings at planting season	
	EJO HEZA	We are setting up products but not yet finished	
Conclusion	- There is no real agriculture product, only ordinary loans - Yet some lending flexibility to comply with crop requirements (Clecama Wisigara) - Evident lack of product development skills		
What do you need to do in order to better serve the Agriculture sector?	CLECAM Ejoheza	Govt has a policy of crop specialization by region and land consolidation. This has boosted production of some crops such as maize and cassava but so far, there is no benefit for the farmer, because now there is no market, neither transformation units. This overproduction has not resolved the problem of food security, poverty	
	CLECAM Wisigara	We abide by the govt's policy of land consolidation; there are industry nearby that takes the product; sector agronomists follows up the agriculture activity; Saccos are encouraged by the government to lend farmers money to buy food to avoid harvesting before time.	

		This policy can lead to overproduction that the immediate market cannot consume and thus spoiling the harvests	
	COOJAD	The general idea is that there is risk in agriculture; stabilization fund necessary for some kinds of crops; other aspect should be to insure in seed and fertilization and in market (to insure en amont et en aval) There should be intermediary cooperatives ex for transport to insure effective pay off of	
Conclusion	- The saccos do not do anything specific, apart from following the policy of the government. The government policy is the consolidation of the lands and specialization of crops. - There is still fear of taking risk in agriculture (for some saccos) as saccos see that the sector is very risky.		
What economic opportunities have good growth potential in your region?	KOZIBI	Good land, good climate, but not well exploited (Rwamagana, Bicumbi). There is so much land that no one Rwandan should starve from hunger	
	CLECAM Ejoheza	Some lands need fertilization but farmers are not used to fertilize or do not have means to get fertilizers. Land is there though not well exploited. Farmers do not understand that they can change methods. Syndicat Ingabo sensitizes them to best practices, show them the importance of joining cooperatives	
	CLECAM Ejoheza	Organisation paysanne BAIR And IMBARAGA sensitize farmers. Some of farmers understand, grow goats or other, when others want to imitate them, they come in big numbers, and Coopec can't satisfy them. Govt should control fraud in fertilizers disseminated, which sometimes do harm to crops	Zone agronomist might be not efficient
Conclusion	- Enough land to cultivate - Fertilizers provisions but some farmers do not yet demand from them - Some service providers provide sensitization to farmers - However, the lack of money hinder the exploitation of these potentials		
How do you	EJO HEZA	Non financial services:	

approach financial literacy for your members?		sensitization, how to create loan groups. We have requested trainers of trainers from an NGO Each cooperative has at least 10 members trained and who can train others.	
	KOZIBI	Took opportunities of local meeting to pass messages. These messages may be addressing ad hoc problem prevailing in cooperatives. Farmers are sensitized to save progressively by themselves	
	CLECAM Wisigara	Sensitization of farmers to initiate income generating activities. Our loans agents help the small farmers to develop their small projects. We need training for many people.	
	COOJAD	We collaborate with National Youth council which helps sensitization. Content : information on COOJAD ; use of savings and loans, standard modules for better use of money; business plans	
	CLECAM Wisigara	Successful farmers are selected and given award in order to give incentives to others to do the same	
	CLECAM Ejoheza	We give messages from Govt concerning the HIV/AIDS, vaccination, etc.	
Conclusion	• Training members to some financial literacy. In some case, NGO help in training the trainers who can train others • Trainings are concerned particularly with the management of small projects, initiating income generating activities to farmers • Not enough emphasis is put to health or other social.		
What is the role played by informal groups (like VSLA, Tontines etc) in providing access to financial services for the poor?	Ejo heza	In Bisizi, ONG supported members, who go to our coopec to take loans. So they grouped themselves or with guidance of an ONG and come to us for loans	
	Kozibi	Tontines open account in our sacco. When we reach them we suggest to inform their members that Coopec rate is better rates	Not supportive
	CLECAM Wisigara	There are seasons when we can't satisfy our clients, they have recourse to tontines. We sensitized them showing them how their rates are high, but when they come to us	Somehow supportive

		and we can't satisfy them, they return to tontine. Other tontine members save to afford a cow to eat at Xmas and New Year. We want to work with them and explain how they can use different products and take advantage of bank services. Tontine is good in the way it teaches members to use financial services such as saving, lending and using a loan.	
Conclusion	- Tontines are the most known informal group among the respondents. VSLAs are not known. - Tontines open account in Saccos but these do not have strategies of working with the tontines to help them get to upper stages. Instead, tontines are viewed sometimes as competitors - However, their importance is admitted as to their ability to educate members to financial services use		
Are you facing any challenges with the Umerenge SACCOs? What are these challenges?	CLECAM Wisigara	The idea was good. At the beginning grass roots authorities were manipulating them for their performance contracts. But now, there has been sensitization and Clecam is working well with them. They have even opened account in their branches.	
	CLECAM Ejoheza	Umerenge Sacco is a good idea in order to educate people to saving. Members of existing saccos are being forced to join these new saccos.	
	Kozibi	SACCO has become an obligation to access services. They are diverting our members savings while they cannot provide them good services	
	WISIGARA	SACCO does not respect rules governing microfinance.	
Conclusion	Umerenge Sacco is perceived as a good idea of extending financial services to more people. Though they can collaborate well with other MFI/Saccos that preexisted, this is being impossible because of bad methods local authorities are using to recruit members.		
If our interest is to increase economic opportunities	EJO HEZA	AMIR or other institution may provide more accurate information	

to the rural poor and increase their financial services? What districts would you recommend as a priority?		on this	
Conclusion	Respondents restrained from specifying a given district, except rural areas. They do not have exact information.		
If US-AID was supporting a program on access to financial services, what is one thing that US-AID should do and what is one thing that US-AID should NOT do.	WISIGARA	After combination of communes, district/sector now is very large, then to develop a given region, there's need of more points of sales. Consultants come with their pre-made solutions and fail to develop local regions because they did not ask the concerned beneficiaries/local providers what was the priority and which parameters may affect proposed solutions	
	EJO HEZA	USAID should involve microfinance institutions/Saccos (peasants would think again that the money was given by the "whites").	Budget should include component of funding and that of operation
	KOZIBI	Work with people and have follow-up how the beneficiary is evolving. Financial aids is to be avoided because it resulted in actual difficulties of people of not repaying	
	COOJAD	Empower management of the MFI/Saccos. Others came funding only or training only. Combine funding and training and follow up, and priorities must be determined jointly. There should be evaluation mechanisms to follow-up the success or the failure of the program.	
Conclusion	<i>USAID should do a number of things</i> • Work directly with the local beneficiary/service providers in order to define joined priorities • Work specifically with Saccos/MFIs • Follow-up of the evolution of the beneficiary • Integrating services (funding, training and follow-up) <i>USAID should avoid</i>		

	• Helping people financially • Fragmented services • Importing pre-made solutions without prior testing the adaptability to local parameters

ANNEX E. SUMMARY OF FOCUS GROUP DISCUSSION WITH SACCO MEMBERS

Clients of Kozibi

They use savings and loans for agriculture. The Kozibi Sacco gives them agriculture loans fit for their agriculture needs. It helps them upgrade the process of production, because they can afford input and planting materials and methods such as irrigation. The farmers in need of money used to sell crops before they are ripe at very low price, but since they joined Kozibi, they are no longer doing this mistake because they get access to the loans easily.

It has to be noted that most of the respondents are small rice growers who are newly recruited but claim to be satisfied of the services they get from Kozibi. It is difficult to know about other farmers who produce other kind of crops.

About the financial literacy, Kozibi loan agent gives them advice on how to take better decision about the loans they receive. But no education on entrepreneurship, no health related information, no numeracy. As for the technical support, different stakeholders have trained members of cooperatives who help other members in the production process at different stages (planting, irrigation, harvesting, etc.). At the sector level, there is an agronomist who also helps them.

Different providers give them inputs (RADA, ACIDI-VOCA, MINAGRI). Some tools are very expensive and the farmers are still receiving them from an agency of the Ministry of Agriculture (MINAGRI), partially funded at 80%, the remainder being paid by the farmers themselves (20%). Farmers are afraid that once they are no longer receiving those tools, it will be difficult for them to afford them as their prices are far beyond their reach. And Kozibi does not have a product of leasing.

About the use of other financial institutions, some respondents use Banque Populaire but it is far from them and does not give them the loans they need (micro-credit). They prefer Kozibi because of its proximity, agriculture loans adapted to their needs, better services (small loans, quick services and friendly staff) and it is easier for them to join (optional membership – paying shares, progressive payment of administration fees, that is payment in several installments).

Some of them are already members of Umerenge sacco: they do not admit that they are forced to join it, but they are “sensitized” to join. The other motivation of joining Umerenge sacco is that they expect to receive loans at much lower interest rates, as this sacco is created by the government for the population. This idea might come from the promises local administration may be giving during sensitization in order to get people joined. To join Umerenge sacco, one has to pay 3.000 and this is difficult for many people to afford.

All the respondents are part of tontines. They love them because of a number of advantages, such as flexibility, facilitation of social cohesion, easy saving and closeness to the people. Some of them may just have a collective account at the bank but no other form of cooperation with the bank.

Though there were no illiterate people in the respondents’ group, Kozibi has got many customers who are illiterate. They would be willing to follow education in literacy, but education for literacy that was initiated in the past did not be successful due to lack of logistic.

In summation, people are taking advantage of services of Kozibi sacco. This sacco gives micro-credit and agriculture loan fit for the needs of farmers, particularly rice growers and this, at their satisfaction. But it is still questionable if non-rice farmers get the product they need. The kind of education given to members/clients is limited to the rational use of loans and is not likely to help the resource poor to access more to financial literacy. On the other hand, tontines are contributing to the instauration of culture of saving but no form of linkage exists between them and the sacco.

Kozibi may have the capacity of reaching the more poor but no evidence that this effort is being done. It is the same for Umerenge sacco and the way it is proceeding is hardly likely to reduce the financial exclusion the poor is suffering from.



USAID
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RWANDA

ASSESSMENT OF POST-HARVEST OPPORTUNITIES IN RWANDA

USAID Post-Harvest Handling and Storage Project (PHHS)

PROJECT # EEM-I-00-07-00006-00, Task Order 09



Bugarama rice paddies



Akanyaru maize cooperative with rudimentary drying and shelling facilities

March 2010

ASSESSMENT OF POST-HARVEST OPPORTUNITIES IN RWANDA

POST-HARVEST HANDLING AND STORAGE PROJECT (PHHS)

PROJECT # EEM-I-00-07-00006-00
Task Order 09

March 2010

This publication was produced for review by the United States Agency for International Development and prepared by CARANA Corporation

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ACRONYMS & ABBREVIATIONS

ACDI/VOCA	Agricultural Cooperatives Development International/Volunteers in Overseas Cooperative Assistance
AGF	Agriculture Guarantee Facility
AMIR	Association of Microfinance Institutions in Rwanda
ASARECA	Association for Strengthening Agricultural Research in Eastern and Central Africa
BAIR	Bureau d'Appui aux Initiatives Rurales
BNR	Banque Nationale du Rwanda
BOT	Build-Operate-Transfer scheme
CAADP	Comprehensive Africa Agricultural Development Program
CAF	Caisse des Affaires Financières
CBS	Center for Business Solution
Centre IWACU	Center of Training and Research Cooperatives
CIP(1)	Cassava Initiative Platform
CIP(2)	Crop Intensification Program
CLECAM	Coopérative Locale d'Épargne et Crédit Agricole Mutuelle
CMV	Cassava Mosaic Virus
COAMV	Coopérative des Agriculteurs des Maïs dans la Zone des Volcans
COGEBANK	Compagnie Générale des Banques
COIMU	Koperative Ibukwa Muhinzi ("Remember the Farmer" Cooperative)
COMICOKA	Coopérative pour la Mise en Commun de Kanama
COMPETE	USAID Competitiveness and Trade Expansion Program
COOPEC	Coopérative d'Épargne et Crédit
COPRORIZ	Coopérative de Producteurs de Riz
CORIMI	Coopérative de riz de Mirenge
CSC UGAMA	Centre de Services aux Coopératives
CODERVAM	Coopérative de Développement Rizicole des Vallées du Mutara
COPROVAB	Coopérative pour la Promotion et la Valorisation du blé
DCA	Development Credit Authority
DERN	Diocese of Ruhengeri Northern Rural Development

DRC	Democratic Republic of Congo
DUHAMIC-ADRI	Duharanira Amajyambere y'Icyaro (Grassroots Integrated Development Action)
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy USADF
FDI	Foreign Direct Investment
FUCORIRWA	Fédération des Unions de Coopératives Rizicoles au Rwanda
GDP	Gross Domestic Product
GoR	Government of Rwanda
ha	Hectare
IFC	International Finance Corporation
IFDC CATALIST	International Center for Soil Fertility and Agricultural Development Catalyze Accelerated Agricultural Intensification for Social and Environmental Stability
IFPRI	International Food Policy Research Institute
IITA	International Institute for Tropical Agriculture
IMF	Institution de Microfinance
IPM	Integrated Pest Management
ISAE	Institut Supérieur d'Agriculture et d'Elevage
ISAR	Institut des Sciences Agronomiques du Rwanda
KOAGIMITA	Koperative y'abahinzi no Gukusanya Imisaruro ya Tare ("Tare Production and Crop Collection Cooperative")
KOARU	Koperative Iharanira Amajyambere Rusange (Cooperative for the Promotion of Community Development)
KIST	Kigali Institute of Science and Technology
LDI	Local Direct Investment
MFI	Microfinance Institution
MIGEPROF	Ministry of Gender and Family Promotion
MINAGRI	Ministry of Agriculture and Animal Resources
MINICOM	Ministry of Commerce
MLI	USAID Market Linkages Initiative
MT	Metric Ton
NEPAD	New Partnership for African Development
NGO	Non-governmental Organization
NUR	National University of Rwanda

NYAMIG	Nyagatare Maize Investment Group
P4P	Purchase for Progress
PASAB	Projet d'Appui a la Sécurité Alimentaire du Bugesera
PASTA II	Plan Stratégique pour la Transformation de l'Agriculture II
PHHS	USAID Post-Harvest Handling and Storage project
PMP	Performance Monitoring Plan
PMP	Performance Monitoring Plan
PSTA	Strategic Plan for Agricultural Transformation
R&D	Research and Development
RADA	Rwanda Agricultural Development Authority
RATIN	Regional Agricultural Trade Network (of the East African Grain Council)
R&D	Research and Development
RDB	Rwanda Development Board
RED	Rwanda Development Investment company
RDO	Rwanda Development Organization
REIC	Rwanda Enterprise Investment Company
RIF2	Rural Investment Facility 2
RIM	Reseau Indiocesain de Microfinance
RIU	Research Into Use
ROPARWA	Reseau des Organisations Paysannes du Rwanda
RSSP	World Bank Rural Sector Support Program
RWF	Rwandan Franc
SOPAV	Société de Production d'Aliments de Végétaux
SWOT	Strengths, Weaknesses, Opportunities and Threats
UCORIBU	Union des Cooperatives Rizicoles de Butare
UNDP	United Nations Development Program
UNR	Université Nationale du Rwanda
USAID	United States Agency for International Development
UVA	Umutara Veterans Association
WFP	World Food Program
WRS	Warehouse Receipt System

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I. Executive Summary

Since starting in September 2009, the USAID Rwanda Post-Harvest Handling and Storage (PHHS) project has focused on an assessment of market linkages, potential for promotion of post-harvest investments, and post-harvest management of the project's seven targeted staple crops: rice, maize, beans, cassava, Irish potato, wheat and soybeans. For each of the seven value chains, the PHHS team assessed current performance and post-harvest potential through interviews with major commodity buyers including large, medium and small-scale processors, traders, storage operators and producer cooperatives and their supporting organizations. The team also held discussions with members of Rwanda's Ministry of Agriculture and Animal Resources (MINAGRI), local and regional partners, and representatives from Rwanda's investment finance community. With this information, the team compiled value chain maps and prioritized opportunities for project intervention.

The objective of the PHHS project is to mobilize private sector resources to address post-harvest inefficiencies upstream in the supply chain for each of the target staple crops. Specifically, the PHHS project will work from the market backward to stimulate investment, construction and management of any post-harvest equipment or warehousing. Key players that will be engaged to meet these objectives include the millers, brewers and other processors, as well as commodity traders that purchase surpluses and are intimately familiar with domestic and regional market requirements. A close link with the banking system is also expected, given the importance of financial intermediaries in stimulating investment. The overall results of the Post-Harvest Handling and Storage project will be (i) a reduction in post harvest losses of selected staple crops in targeted areas, (ii) an increase in the number of storage facilities constructed/purchased in the country, (iii) an increase in the number of Rwandan farmers using storage facilities, (iv) more private sector funds flowing into post-harvest infrastructure projects, and (v) selected higher percentage of staple commodities stored in improved storage facilities.

Priority Value Chains

The first priority value chain, rice, presents the greatest opportunity for benefiting from PHHS project assistance, particularly in partnership with rice unions in southern and northeastern Rwanda, together with affiliated microfinance institutions and milling facilities. There is a strong need for rice conditioning and primary storage facilities at the cooperative level, as well as solid intermediary or longer term storage facilities.

The maize value chain ranked second in terms of priority for PHHS project assistance, due to large production volumes, a high level of organization in some of the cooperatives and supporting institutions, and strong market demand. The Ryabega grain drying and storage facility close to Nyagatare city, funded by the United Nations Development Program (UNDP), is another excellent opportunity for PHHS intervention. Once the facility becomes operational, both quantitative and qualitative losses will decrease in the large volumes of maize produced.

The third priority value chain, beans, is not an organized value chain compared to the other crops. However, demand for beans in Rwanda is high, from large scale buyers such as the World Food Program's Purchase for Progress (WFP P4P) initiative to the village market level. The possibility exists to work with partner projects to organize and strengthen bean producer cooperatives, and facilitate the provision of technical and material assistance to reduce post-harvest losses.

Cassava plays an important role in both farming systems and marketing in some parts of eastern and southern Rwanda. This value chain, ranked fourth, suffers from a lack of adequate processing facilities; providing assistance to renovate abandoned cassava processing facilities and training processors on improved processing techniques could have a great impact on reducing post-harvest losses.

Irish potatoes are important in northern and northwestern Rwanda, but much less so in other parts of the country; assistance to reduce post-harvest losses should be primarily at the capacity building level to improve production and post-harvest handling practices. Potato storage facilities are mainly important for seed tubers, and some material assistance should target the rehabilitation and expansion of seed tuber storage facilities.

The wheat value chain, while warranting some project assistance, was identified as the weakest due to difficulties in producing the quality required by millers. The ex-Gikongoro province offers the greatest potential for PHHS impact in wheat post-harvest activities, for both technical – including training and capacity building – and material – crop conditioning and primary and secondary storage facility training – assistance to reduce post-harvest losses.

Finally, soybean production in Rwanda is small and on the decline. This value chain classified as not warranting project assistance unless a proposed initiative to set up a large scale soybean oil and cake processing plant in Kayonza is realized during the project's lifetime.

Investment Partners

Two banks, the Rwandan Development Bank (Banque Rwandaise du Developpement, BRD) and the Banque Populaire have facilities set aside for financing agricultural initiatives. While these finance initiatives have primarily supported export crops, particularly post-harvest processing of coffee and tea, there is the possibility of accessing bank financing for staple crop post-harvest handling facilities.

The assessment also identified potential project partners in the finance investment sector, with micro-finance institutions (MFIs) offering the greatest potential for addressing the financial and marketing constraints encountered by producers of staple crops. The MFI CAF ISONGA is already very active in supporting the rice and maize sectors, including post-harvest operations, as is COOPEC COMICOKA working with potato, maize, and bean producing cooperatives in northwestern Rwanda.

The project anticipates leveraging private sector investment in post-harvest activities by cost-sharing grants provided by regional partners, including the Market Linkages Initiative (MLI) project and the Competitiveness and Trade Expansion (COMPETE) program, both based in Nairobi.

Implications for PHHS Project

The inception assessment revealed a significant lack of reliable data on 1) the extent of post-harvest losses for staple crops in Rwanda, and 2) existing post-harvest infrastructure in the country. The study therefore concluded that research and development institutions must work to address data collection and regular monitoring needs, most likely to be implemented by MINAGRI in conjunction with the National Institute for Statistics. The inventory of existing post-harvest infrastructure, led by WFP P4P and MINAGRI, will provide an updated needs-assessment that will inform the project in its ongoing identification of highest potential interventions.

However, a number of viable opportunities have been identified as a result of this assessment study, prioritized according to their feasibility on a number of factors discussed in section V. These

POST-HARVEST HANDLING AND STORAGE PROJECT
Inception Assessment

opportunities, as laid out in Tables 5 and 6, will be implemented by the PHHS project in the upcoming two years.

II. Methodology and Strategy

Assessment Goals and Objectives

The first six months of the PHHS program focused on an assessment of the current situation in Rwanda with respect to market linkages, promotion of post-harvest investments and post-harvest management for the targeted staple crops. Given the project's market-led, private sector driven approach, along with its goal of leveraging private sector resources, one of the key activities of this assessment was the identification of existing and potential investors in targeted commodities, such as processors, exporters and traders who could undertake catalytic investments to improve supply chains.

Similarly, the study identified potential partners and financial institutions with resources and interest in lending to viable post-harvest management businesses. The PHHS Team focused on opportunities with the greatest growth and impact potential and actors most likely to achieve success within the project lifetime and beyond.

Value Chain Performance and Post-Harvest Potential: Methodology

For each commodity, the PHHS team conducted a value chain analysis based upon interviews with stakeholders and a review of existing data. Each analysis is found as an Annex in this report. The analysis examines the constraints encountered by all actors in each value chain, and the resulting inefficiencies and losses. The Team started by identifying and interviewing both large, such as the WFP P4P, processing companies such as Bralirwa and Minimex, and small scale buyers. Relevant interviewees/stakeholders included traders, transporters, small to medium processors, any storage operations, and wholesalers.

PHHS visited high production regions and met with producer cooperatives and unions to determine (a) what they perceived to be the largest constraints in terms of marketing, access to credit and post-harvest handling and storage, and (b) which partners showed the greatest growth potential given additional technical and/or financial assistance. The Team also gathered information from intermediaries about their role in the value chain to determine whether or not there are issues related to price fixing, transport monopolies, etc. Throughout the course of the assessment, the PHHS team met with umbrella organizations, service providers and other supporting organizations in order to gather information on supporting marketing, harvest and post-harvest handling, as well as access to finance for producers.

The results of the value chain mapping exercise (see Annex A – Value Chain Assessment) enabled the PHHS team to identify the key marketing distribution channels for each commodity, and served as a basis for value chain actors' selection. Interviews with buyers provided information to determine how PHHS intervention can help producers both meet market requirements, and become more competitive in Rwandan markets. This information, together with information gleaned from other projects in the region (USAID funded COMPETE and Market Linkages Initiative projects, both based in Nairobi) helped the PHHS team identify the high-value channels where actors on both the supply and demand sides of the value chain have the greatest incentives to invest in technologies for reduction of post-harvest losses, and more reliable supply systems, such as “warrantage” schemes supported by micro- and other finance institutions.

This inception assessment also served as the source of baseline data for the Performance Monitoring Plan, which was “To Be Determined” (TBD) for all indicators at the time of the PHHS First Year Work Plan submission. The First-Year Work Plan set many targets based on established partner projects in Rwanda. The Inception Assessment provided PHHS the opportunity to evaluate and tailor those targets to better fit project objectives.

Sources of Data and Information

The PHHS team primarily collected data through interviews with various stakeholders (see Annex F – Questionnaires) including the major buyers of and traders in staple food crops in Rwanda; such as the WFP P4P program, Minimex, traders ENAS Nkubili and PEMBE wheat milling factory, and the staff working for the rice milling company, ICM. The team also met with small to medium-scale processors such as Maïserie de Mukamira, SOSOMA Industries, and the soy processing cooperative ABAHUJE. PHHS visited their facilities to better understand their needs in terms of staple food crop supplies, as well as market and other constraints.

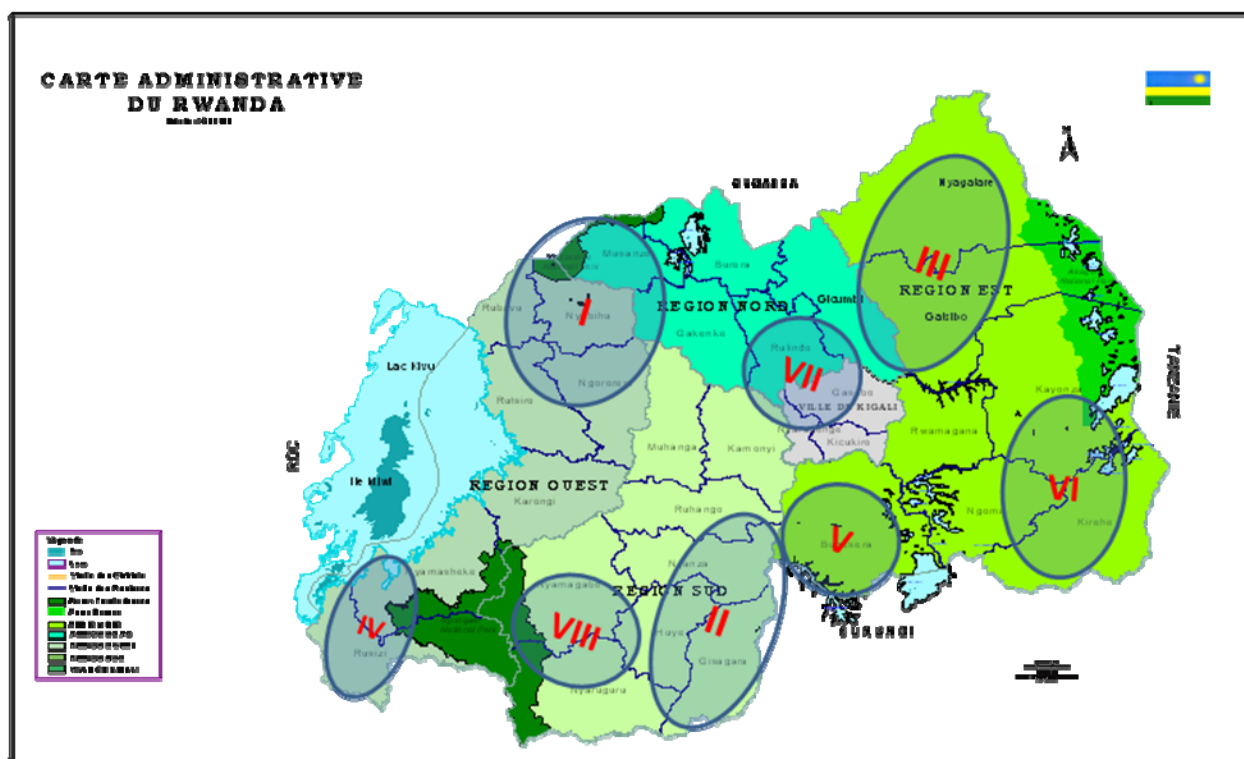
Additionally, the team met with Rwandan umbrella and other support organizations working with producers of the targeted staple crops (national initiatives such as Centre IWACU, Rwandan Development Organization, ROPARWA, and regional organizations such as UGAMA CSC, INGABO, BAIR) as well as staple crop unions (ex. UCORIBU, UNICOOPAGI) and numerous cooperatives. The team interviewed individuals in the Ministry of Agriculture involved in post-harvest activities, as well as staff from the National Agricultural Research Institution (ISAR), international organizations and projects such as HarvestPlus’ bean initiative, IFDC CATALYST project and Rabobank (working in conjunction with the local Banque Populaire).

The assessment also included meetings and discussions with individuals working on regional projects targeting post-harvest, market linkages and investment finance interventions for staple crops, such as the Market Linkages Initiative (MLI) and COMPETE, both funded by USAID. Relevant reports and other sources of secondary data were also reviewed.

III. Background

Figure 1 below shows the major production zones of staple crops in Rwanda, based on the PHHS team's findings. Zone I, the north/northwestern part of Rwanda, is the major site of Irish potato production, and also has significant production of wheat, beans and maize. Zone II, in central-southern Rwanda, is characterized by large volumes of rice, cassava, maize, and a small amount of soybean production. Zone III, in northeastern Rwanda, produces large amounts of maize, cassava and beans. Southwestern Rwanda, Zone IV, has significant rice production, as well as some maize. Zone V, Bugesera, produces maize, cassava and beans, while southeastern Rwanda, Zone VI, produces large amounts of maize and some beans as a rotation. North-central Rwanda, Zone VII, produces Irish potato, beans, wheat and some maize. Finally, the south-central plateau, Zone VIII, produces wheat, beans and some maize.

Figure 1: Major Production Zones of Staple Crops in Rwanda



Overview of Rwanda's Agriculture Sector and Staple Crop Value Chains

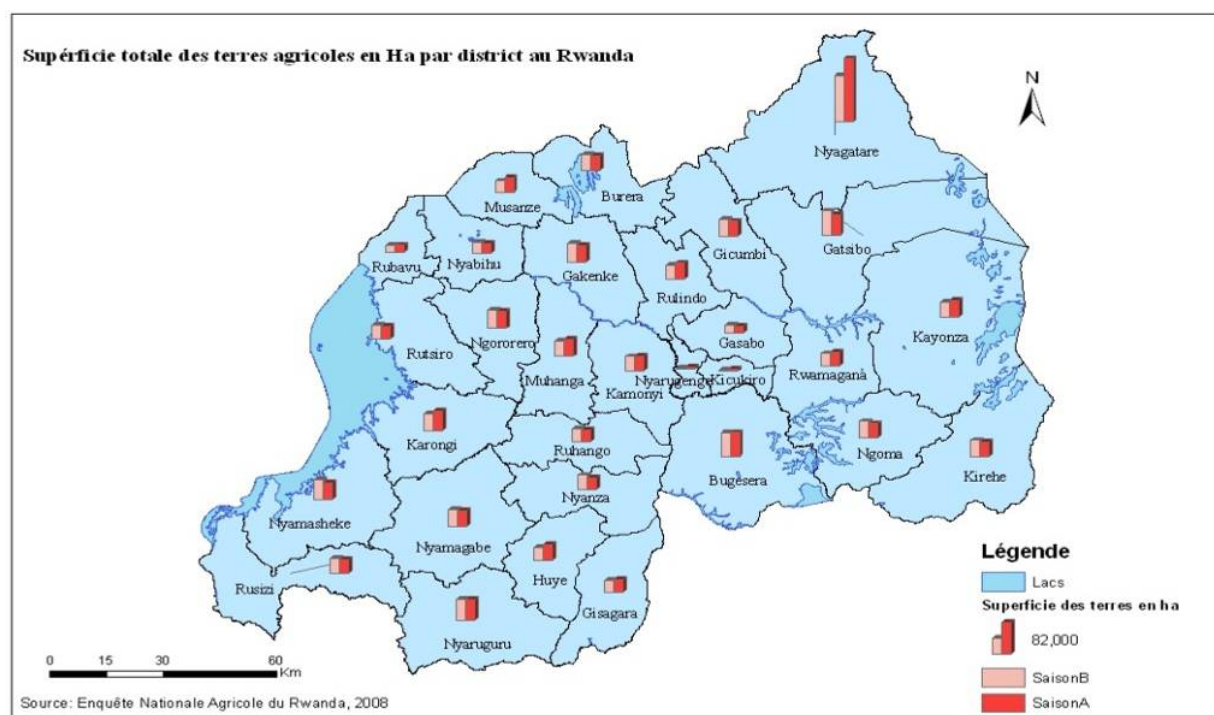
Rwanda's Vision 2020 Strategic Plan targets, among other objectives, 1) a 6% growth in the agriculture sector to the level of production of 2200 kcal/person/day, 2) only 50% of the total population dependent on agricultural production for their livelihood, and 3) utilization of 15 kg of inputs per hectare per year. An agricultural survey conducted in 2008 found that 84% of Rwanda's population depends on agricultural production for a living. One of the consequences of having so many Rwandans dependent on primary agricultural production is the reduction in the size of land area available for cultivation on a per household basis, as is shown in Table I below.

Table 1: Proportion (in %) of Agricultural Land Area Cultivated per Household (in hectares)¹

Surface area (Ha)	Percentage	Cumulative %
<0.20	26.3 %	26.3 %
0.20 – 0.49	30.5 %	56.8 %
0.50 – 0.99	23.2 %	80.0 %
1.0 – 1.99	14.0 %	94.0 %
2.0 – 2.99	3.6 %	97.6 %
3.0 – 3.99	1.2 %	98.8 %
4.0 – 4.99	0.6 %	99.4 %
5.0 – 9.99	0.5 %	99.9 %
10.0 – 19.99	0.1 %	100.0 %
20.0 – 49.99	0.1 %	100.0 %
50.0 – 99	0.1 %	100.0 %
Total	100.0%	

Availability of agricultural land varies significantly from one part of Rwanda to another, as is shown in Figure 2.

Figure 2: Total Agricultural Hectarage Available in Rwanda, 2008



The following solutions have been proposed, along with others, by the GoR to overcome the limited agricultural land available and to increase agricultural productivity:

¹ Source : Enquête Agricole Nationale du Rwanda, 2008 (Tableau 4.2.2.)

- The Crop Intensification Project (CIP) works to increase productivity by increased application of subsidized inputs and promotion of regionalized crop production. Producing a single crop on large land areas is more efficient than the traditional practice of small, intercropped plots. This program also promotes the utilization of improved seeds, particularly hybrid maize.
- Improving land management: land consolidation and radical terraces in order to expand the area under production and provision of land to individuals on a long term lease basis - facilitating farmers' access to finance.
- Large scale rehabilitation of swamplands for crop cultivation, rain water management and protection of water resources.
- Intensified livestock production, particularly via distribution of cows to farming households (called the "One Cow per Family" program), in part to increase the amount of organic fertilizer available for crop production.
- Mobilization of private sector finance, especially for the privatization of agricultural operations previously owned by the GoR. For example, selling rice mills to the Australian company ICM.

These new agricultural initiatives have resulted in an increase in agricultural production, particularly in the PHHS targeted staple crops. Crops such as beans, sweet potato and sorghum may have lost their importance as official priority crops, but are supported by non-governmental programs. Table 2 lists the volumes of crops produced in Rwanda in 2008; it is anticipated that production will be even higher for 2009, particularly for rice, maize and cassava.

Table 2: Crop Volumes Produced in Rwanda, 2008²

Crop	Quantity (MT)			Percentage		
	Season A	Season B	Total	Season A	Season B	Total
Sorghum	25,775	87,371	113,146	22.8%	77.2%	100%
Dry maize (grains)	49,508	29,927	79,435	62.3%	37.7%	100%
Wheat	2,133	6,114	8,247	25.9%	74.1%	100%
Rice	11,854	19,539	31,393	37.8%	62.2%	100%
Sweet cassava (fresh)	94,055	80,316	174,371	53.9%	46.1%	100%
Bitter cassava (fresh)	396,924	407,246	804,170	49.4%	50.6%	100%
Sweet Potato	626,599	507,687	1,134,286	55.2%	44.8%	100%
Irish Potato	301,907	324,602	626,509	48.2%	51.8%	100%
Bush Beans	103,784	81,696	185,480	56.0%	44.0%	100%
Climbing Beans	51,874	44,961	96,835	53.6%	46.4%	100%
Soybean	5,850	5,622	11,472	51.0%	49.0%	100%

Concurrent with the increase in crop production, Rwanda has seen a shift toward more commercial agriculture.

Table 3: Proportion of Crop Sold as a Percentage of Total Production³

Type of Crop	Saison 2008A	Saison 2008B	Total
Cereals	32.06%	58.18%	48.14%
Roots and Tubers	30.56%	29.63%	30.10%

² Source : Enquête Agricole Nationale du Rwanda 2008, (extrait du Tableau 4.3.7.)

³ Source : Enquête Agricole Nationale du Rwanda 2008, (extrait du Tableau 4.3.8.)

Grain Legumes	9.89%	7.74%	8.92%

Prices of agricultural products continue to show large fluctuations, although the overall tendency has been for prices to increase.

Table 4: Crop Prices in Regional Markets of Rwanda, 2009⁴

Crops	Kigali City	East	North	South	West	Rwanda
	Price (RWF/kg)					
Maize	242	205	273	229	234	234
Rice	608	574	579	606	606	594
Wheat	350	--	298	333	318	320
Beans	318	319	337	312	349	329
Soya	370	360	425	328	417	381
Irish potato	191	201	151	188	169	179
Cassava (cossettes)	193	181	234	184	193	191

Evolution of Crop Post-Harvest Activities

The large increases in crop production in Rwanda have resulted in recognition of the urgent need to increase and expand crop post-harvest operations, as the infrastructure developed for the traditional cropping practices is sorely inadequate for the current volumes of production. Post-harvest infrastructure for drying, grading and storing staple crops lags far behind the current needs across Rwanda. Several programs have been launched to address the post-harvest infrastructure deficit, with varying degrees of success:

- Distribution of hermetically sealed grain storage cocoons in the Eastern Province, in general without adequate provision of training, which has resulted in significant storage losses
- Construction of storage silos with donor assistance (ACDI/VOCA, UNDP, WFP, IFAD, etc).
- Rehabilitation of the pre-1994 strategic storage facilities previously under the ownership and management of OPROVIA-GRENARWA

Various value chain actors, including IFDC CATALYST and MINAGRI, have attempted to conduct a census of existing post-harvest infrastructures, but the results are conflicting. Two comprehensive studies were subsequently launched so as to establish a reliable database of existing staple crop post-harvest infrastructure: One study was lead by the WFP (draft report still to be released) and another by MINAGRI, which is to be used to elaborate a National Strategic Storage Plan.

⁴ Source: SNIAR FAO-MINAGRI Bulletin, September 2009

IV. FINDINGS

Post-Harvest Handling Constraints

A common constraint at the producer level for all staple crops included in the PHHS study is the need to improve producers' harvest and post-harvest handling techniques. Many losses could be reduced if farmers were not only trained on better harvesting and post-harvest handling practices, but also shown how much their profits could be increased if they were to follow the recommended techniques. The project is likely to partner with the local Rwanda training firm, DMS, for provision of training on improved post-harvest techniques.

Experience working with Rwandan farmers in the past has shown that they often know they could improve their practices, and in many cases do have access to knowledge on the techniques they should employ. Their failure to adopt such techniques results from a lack of incentive to invest the additional effort required, because they are unaware of how they stand to benefit from applying improved practices. One of the major grain traders met during the course of the inception assessment cited as an example his experience of trying to convince producers of the importance of meeting market requirements in terms of quality standards, including percentage moisture and impurities. Producers felt that he was imposing these standards on them so as to "cheat" them into selling their grain at less profitable prices. The trader said that it would take a neutral party, such as the PHHS project, to show to the producers how their profits would actually be increased by investing the additional effort required to meet market requirements.

Another common constraint for all of the staple crop value chains included in the study is the lack of adequate and appropriate primary processing and storage facilities. For example, maize, rice and wheat all suffer post-harvest losses due to insufficient drying and primary storage facilities. Rwanda's climate is such that rain can fall at any time of the year, including the short and long "dry" seasons, which means that if not provided shelter, harvested products risk being exposed to the elements at all times, with subsequent negative impacts on product quality and useable quantity.

Innovations to address these common constraints need to be extended and/or developed. Institutions such as ISAR, ISAE and KIST have in most cases experimented with development of appropriate technology post-harvest equipment, such as solar dryers, manual threshers and shellers. More effort is needed to test these at the producer and cooperative level, and to refine the design to make the equipment suited to the target beneficiary's needs. There also is a need to replicate the practice and expand dissemination on a large scale.

Cooperative support organizations such as IWACU, BAIR and IMBARAGA need to review their successes and failures with respect to capacity building of producers. They also must use "lessons learned" to develop and expand training programs which have a positive and sustainable impact in the long run.

Based on the value chain mapping exercise (see Annex A), the following technical as well as material constraints in each staple crop need to be addressed to reduce post-harvest losses.

A. Maize

Training on improved drying, shelling, grading and storage techniques. Farmers need to understand how to as well as the importance of drying and shelling maize in a manner which reduces contamination by impurities, as well as bringing the grain down to the required moisture level and grading out clean from infected/infested/contaminated grain prior to putting it into storage. Additional training is needed on good storage techniques such as proper aeration; cleaning facilities between each harvest; preventing insect and disease infestation; and not storing pesticides or other toxic products in the same facilities as the grain.

Provision of adequate as well as appropriate drying, shelling and primary storage infrastructure. The Burera cooperative COAMV has succeeded in providing its members with manual shellers and Nyagatare's maize platform NYAMIG has identified transit storage facilities at the sector level. While both organizations have facilities for further drying, storage and processing of maize post delivery, these are inadequate to meet the volumes produced, and there are losses during transport of moist grain due to rotting.



Bugarama maize drying

B. Rice

Training on improved drying, grading and storage techniques. These include: drying the grain down to the required level; sorting/grading so as to remove impurities; and separating the clean, undamaged paddy from poorer quality paddy prior to storage. Other training on proper storage practices as described above for maize should also be provided.

Appropriate and adequate drying and storage facilities were established at the field level. To reduce losses during threshing and winnowing, appropriate technology equipment should be developed, tested at the producer level and the results monitored so that adjustments needed to make the equipment suited to the producers' needs are made, and the refined models disseminated to a large number of producers/cooperatives.

C. Beans

Training at producer level and targeting women. This includes: improved threshing as well as grading and sorting prior to storage, protective measures to reduce/eliminate weevil infestation in storage, importance of and measures to prevent temperature and relative humidity fluctuation in storage. Grading according to coloration to add value is also advisable.

Provision of drying facilities. In addition, appropriate threshing equipment and storage facilities are also required. The provision of packaging for beans sold on the market is required.

D. Cassava

Training at producer level on processing techniques. Training on proper cleaning, soaking and drying are necessary. For cooperatives involved in production of cassava flour, training is needed on quality control. The PASAB Bugesera cassava processing and storage initiative is an example of good practice.

Provision of washing, soaking and drying facilities, appropriate processing facilities. Take examples from PASAB Bugesera cassava processing and storage initiative.



Old cassava dryer in Gatsibo

E. Irish potato

Training at producer level about disease management. Training is needed at the field-level on sorting clean from disease infected and/or wounded tubers prior to storage in order to reduce post-harvest losses. Techniques to reduce damage to tubers during harvest, packaging and transporting are required. Training of traders/transporters on improved post-harvest handling such as exposure to elements and packing and unloading. Training of managers of tuber storage facilities on importance of disinfection of facilities between lots; monitoring and removing tubers showing signs of disease/rotting; storing tubers in “single layers”; controlling light exposure to reduce “greening” of tubers, provision of adequate aeration to reduce sprouting in storage. Training is needed for wholesalers on the method to achieve value addition with washing, grading and sorting of tubers prior to sale.

Provision of appropriate packaging to reduce damage to tubers during harvesting and transport, such as wooden crates rather than large, polyethylene bags. Producers also need improved storage facilities, especially for seed tubers. More attractive packaging should also be explored.

F. Wheat

Training at producer level. Training in rouging out rust infected wheat plants in the field to reduce the likelihood of rust-induced storage rots, as well as graded out rust infested from clean grains prior to storage.

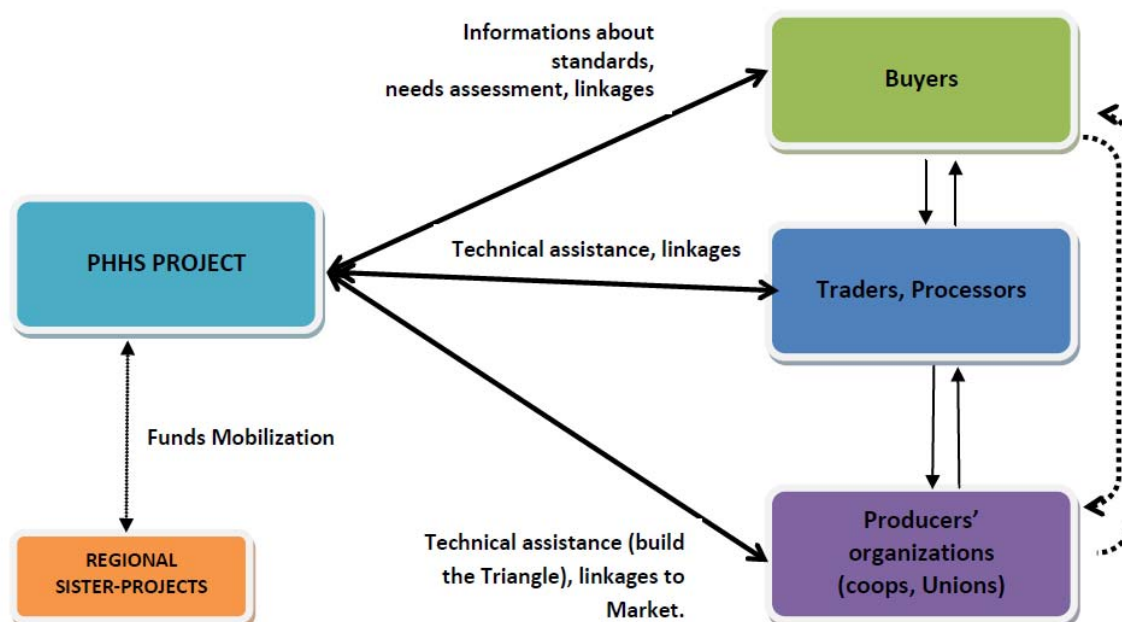
Appropriate and adequate drying and storage facilities established at the field level, similar to infrastructural needs in the rice value-chain.

G. Soybean

Training of producers on techniques to reduce losses arising from pod shattering. In addition, producers require training on improved threshing techniques, and grading and sorting.

V. Opportunities in PHHS Value Chains

Through its Inception Assessment, the PHHS team identified a number of opportunities in the priority value chains to address the technical and material constraints outlined in Section IV. Tables 5 and 6 summarize the main opportunities to be implemented by the PHHS project. The value chains themselves, and the identified opportunities within them, are prioritized based on a number of factors (see Annex A), including 1) the level of organization of cooperatives; 2) production volumes; 3) market demand, 4) links with support institutions, 5) links with buyers, 6) achievable results, and 7) impact on farmers and households.



The study revealed that all instances of successful and sustainable market linkages had the following characteristics:

1. One or more well organized crop-producer cooperative;
2. A supporting organization providing processing and trading services, technical assistance and training
3. A financial partner

This triangle can be very simple, extremely complex or somewhere in between; having all three elements is the key to success. Some examples which were identified during the study include:

- Rice value chain: Cooperative MUKINGURI – Support organization CSC UGAMA – Financial Partner CAF ISONGA
- Maize value chain: Cooperative COAMANYA – Support organization CENTRE IWACU – Financial Partner CAF ISONGA
- Wheat value chain: Cooperative KOAGIMITA – Support organization CARITAS – Financial Partner RIM

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Examples where one of the corners of the triangle is missing, with the result being failed attempts to establish sustainable market linkages, were also identified during the study. One such case is the poorly organized rice cooperatives in Bugarama, with no support or financial partner.

Based upon this methodology, following is a table of identified opportunities in each of the seven targeted staple crops.

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Table 5: Identified Technical and Material Opportunities in PHHS Value Chains, Ranked by Priority

Value Chain		Identified Opportunity	Timing	Justification
No. 1 : Rice	1	UCORIBU: Drying and primary storage infrastructure for the union's cooperatives, along with acquisition of quality control equipment and training in improved post-harvest handling	Immediate: Before the 2010B harvest (starts in June 2010), duration TBD	UCORIBU is extremely well organized and has put in place an excellent working relationship between its member cooperative and the ICM Ginkonko rice milling factory; financial partnerships with CAF Isonga and the Banque Populaire
	2	UCORIVAM: Drying and primary storage infrastructure for the union's cooperatives, along with training in improved post-harvest handling. Assistance with acquisition of a new rice milling factory with a much larger processing capacity	Short to medium term : Activities to commence some time in 2010	Rice production is high and on the increase in the Nyagatare District (18,000 MT/year at present and will increase when an additional 1500 ha are ready for rice production in just over one year). The union is fairly organized, but the District has only one rice milling factory which is extremely old and has a very low processing capacity. A business plan has already been developed by the union, and construction of a new factory, with COMPETE assistance, would increase profits of all rice VC actors in the region.
	3	BUGARAMA: Drying and primary storage infrastructure for the union's cooperatives, along with training in improved post-harvest handling.	Medium to long term : some time in 2011	The cooperatives are not organized into a union and their negotiations with the rice miller ICM appear to be complicated. The lessons learned from the example of UCORIBU could be used to help improved the cooperatives structure into a union, and the reported installation of a new rice milling facility in Bugarama by the company SOPAV would provide an alternative buyer for the rice producers, and stimulate healthy competition. Collaboration with the support organization Center IWACU is possible as they are already active in the region.
No. 2 : Maize	1	NYAMIG: Assistance with the completion of the Ryabega drying and storage facilities so that they can become operational; setting up quality control measures and a management team for the facilities. Drying and primary storage infrastructure for the Initiative's cooperatives, along with training in improved post-harvest handling.	Immediate: April 2010	A semi-completed site, containing a dryer with a 12 MT/hour capacity (not yet operational) and long term storage of 3,000 MT exists but cannot be put into use until the remaining works are completed. An estimated \$50,000 is needed to complete the works, and the facility would serve as an important means of adding value to the large volume of maize produced in the district. MLI has indicated an interest in supporting this

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				initiative.
	2	3 Cooperatives in the Akanyaru River Valley with large maize production are in need of drying, shelling and storage infrastructure as well as training in post-harvest handling and cooperative capacity building	Immediate : infrastructure should be in place and training provided before the 2010 Season B harvest (June), duration TBD	The volume of maize produced by the cooperatives is large, their needs for drying and storage facilities far from met and an initial study just completed by a PHHS consultant recommends that immediate action be taken to ensure infrastructure is in place and training provided before the next harvest.
No. 3 : Beans	1	Cooperatives working in partnership with WFP for bean (as well as maize) supplies for the P4P program need improved drying, threshing and storage facilities as well as training in improved post-harvest handling of beans.	Immediate to long term: before the 2010B harvest in June if possible, later if not (duration TBD)	The WFP has identified cooperatives in the Eastern Province who have the greatest potential for supplying their P4P program with beans, and have requested PHHS assistance with provision of post-harvest infrastructure and training in post-harvest techniques and storage management.
	2	Cooperatives working in partnership with IMBARAGA and HarvestPlus in the Northern Province need drying/threshing/storage infrastructure and capacity building	Immediate: before the 2010B harvest in June (duration TBD)	The bean value chain is not yet organized into any sort of structure. Several farmer groups are participating in HarvestPlus' research and development project on iron-rich beans. The PHHS project could link up with this initiative and assist with the formation of viable bean cooperatives and the provision of post-harvest infrastructure and training so as to turn the research project into a long-term self sustaining activity. Collaboration with Urugaga IMBARAGA would facilitate the activity.
	3	In the NYAMIG intervention zone, promote the bean-maize intercropping and/or rotation	Medium term : during Season 2011A preparatory activities (September 2010)	Nyagatare has become an established zone of intensive maize production. Nevertheless, to sustain maize production, soil fertility management must be applied, and inter- or rotation cropping maize with beans (or soybeans) would boost soil fertility through the nitrogen added via nitrogen fixation which occurs from the symbiotic relationship between beans and the bacterium <i>Rhizium</i> which hosts itself in the roots of beans, and converts atmospheric nitrogen into a form useable by plants. The technical production aspects would be under the mandate of RDO/RDI, with PHHS assisting with training in post-harvest handling and provision of post-harvest infrastructure to discourage producers from selling beans (at a low price) immediately after harvest.

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No. 4 : Cassava	1	Gatsibo Cassava Innovation Platform (CIP) : Assistance with rehabilitation and re-starting operations in the abandoned Rugarama cassava processing factory, including elaboration of a business plan for CIP	Immediate : before June 2010, duration TBD	A cassava processing factory was built in the Rugarama Sector, Gatsibo District, with USAID funding in 2005. It has since been abandoned but still contains most of its equipment, and with the assistance of CIP (to whom the District has handed over the management of the facility), the facility could be renovated and resume operations, which would provide a much needed market for the abundant cassava produced in the district. Partners would include CIP and the Banque Populaire de Rwanda.
	2	Cooperatives already in partnership with the Syndicat INGABO : provision of technical assistance in the production of dry cassava chips and good, consistent quality cassava flour with long shelf lives	Short to medium term : between June - August 2010, duration TBD	The central plateau of Rwanda (Kamonyi, Muhanga and Rhango Districts) is the largest producer of fresh cassava roots. Several initiatives have already been launched for the production of different cassava products (both artisanal and industrial processing plants), but the technologies applied remain rudimentary and their products of poor quality with a short shelf life. PHHS could provide training of technicians (both staff working in processing plants and agronomists affiliated with cooperatives) on improved post-harvest handling and processing techniques to enable to achieve higher quality cassava products. Partners would include INGABO and CAF Isonga
No. 5 : Irish Potato	1	Cooperatives working with BAIR, as well as those formerly assisted by ACDI/VOCA : provision of training on integrated pest management to reduce losses of tubers in storage, improved harvest and post-harvest handling to reduce injury-related losses and improve value, provision of post-harvest collection and storage infrastructure	Immediate : before the next harvest (June-July 2010), duration TBD	The potato value chain is well established in northern/northwestern Rwanda. Cooperatives, however, have always found it difficult to negotiate a favorable selling price due to the relative perishability of tubers, especially when not properly handled during harvesting and post-harvest operations. ACDI/VOCA had begun a program to build potato storage facilities (especially for seed tubers), but were unable to meet all the needs. Training of local technicians on improved harvest and post-harvest handling of potatoes was not included with the provision of storage facilities. Potential partners could include BAIR, CLECAM
	2	IMBARAGA and its partnering cooperatives :technical assistance and market linkages development to strengthen and build up their program for value	Immediate : before the next harvest (June – July 2010), duration	The Rwandan NGO IMBARAGA initiated a project to add value to potatoes by washing, grading, sorting and selling in improved packaging before selling, and

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		addition to marketed potatoes (cleaning, grading, sorting and improved packaging, targeting high end markets)	TBD	targeting the high-end supermarkets. This value addition exercise (particularly important given the perishable nature of potatoes) resulted in a three-fold price increase, but to date is on a very limited scale due to lack of infrastructure as well as technology (all operations are performed by hand). PHHS assistance could enable the initiative to grow so as to benefit from economies of scale. Potential partners could include IMBARAGA, BPR, CLECAM
No. 6: Wheat	I	UNICOOPAGI/UNICOBLE/ KOAGIMITA (and other partnering cooperatives): provision of drying and primary storage infrastructure, technical assistance (capacity building and strengthening of market linkages), training in improved threshing, winnowing and drying techniques along with grading/cleaning and improved storage techniques.	Immediate : before next harvest (June 2010), duration TBD	The wheat value chain in Nyamagabe and Nyaruguru Districts (ex-Gikongoro) is just starting to become organized, but remains handicapped by the fact that the local wheat mill (Nyungwe Wheat Miller) operates on an irregular basis and does not offer a profitable price to producers. Relations between the miller and wheat cooperatives could be improved by improving the drying/grading/primary storage infrastructure for wheat in order that higher quality wheat is delivered to the miller. Capacity building of the different actors is also needed for this value chain to become more strongly organized. Potential partners could include UNICOOPAGI, Microfinance TWIZIGAMIRE, RIM

Table 6: Identified Investment and Finance Opportunities

Entity Identified	Opportunity Identified	Timing	Justification	Type of Institution
COOPEC COMICOKA	COOPEC is actively involved in assisting cooperatives to identify post harvest activities financing. PHHS will assist the MFI with its grant application with MLI to establish a credit facility and credit guarantee to help in post harvest financing for the staple crops under PHHS study producing in the Northwest region	Immediate duration TBD	An extremely well organized MFI with already established contacts with farmer base organizations. It is willing to assist farmer base organization access financing for post harvest infrastructures investment.	MFI
CAF ISONGA	CAF is currently providing warehouse base lending to a major rice farmer base organization (COPRORIZ MUKUNGURI). Access to Credit enhancements will help CAF and its members mitigate the storage constraints. PHHS will assist the MFI with its application with MLI to establish a credit facility and credit guarantee to help in post harvest financing for maize and rice	Immediate Duration: TBD	CAF is a MFI that has substantial experience developing the “warrantage” scheme with farmer base organization. The availability of credit enhancement for the construction of storage infrastructures will allow more farmer base organizations to participate in the scheme and reduce post harvest losses.	MFI
CLECAM WISIGARA	Wisigara is currently seeking a financing solution that will permit the construction of storage facilities for the farmer base organizations seeking to contract with local processors in the Gysenyi district. The PHHS project will assist the MFI with its grant application with MLI to establish a credit facility and credit guarantee to help in post harvest financing for the staple crops under PHHS study producing in the Northwest region	Immediate Duration: TBD	Wisigara is active in developing new distribution network for its members. The availability of storage facilities will assist farmer base organizations to access new market outlets and decrease post harvest losses.	MFI
Ecobank	The PHHS project will work with Ecobank to identify viable projects by introducing suitable farmer base organizations and enterprises seeking post harvest financing	Immediate Duration: TBD	Ecobank is seeking to increase its participation to the RIF2 and AGF program. It is therefore seeking viable post harvest activities to finance	Bank
BRD	The PHHS project will work with BRD to identify viable projects by introducing suitable farmer base organization and enterprises seeking post harvest financing	Immediate Duration: TBD	BRD is a government agency mandated to promote investment in the agriculture sector. It is one of two leading financial institutions with substantial expertise in agriculture financing.	Bank
Banque Populaire du	The PHHS project will partner with BPR to develop business plans for the farming groups seeking post	Immediate Duration: TBD	The bank is currently working with the RSSP program in the Akanyaru region and	Bank

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Rwanda	harvest financing in the Akanyuaru region and rice cooperatives supplying Gikonko Rice mill		rice cooperatives supplying Gikonko Rice	
MLI	The PHHS project will identify viable grant candidates meeting the MLI grant funding requirements	Immediate Duration: TBD	The MLI grant is a source of funding for post harvest projects in the staple crops sector, i.e. funding for storage facility improvement and for capacity building of producers in storage conditioning to ensure quality and minimize storage losses.	USAID-funded partner
COMPETE	The PHHS project will identify and assist with preparation of grant applications for agricultural organizations that qualify for funding under the Partnership Fund	Immediate Duration: TBD	COMPETE, via its Partnership Fund grant of \$24.6 million, awards grants to cereal grower associations to help promote food security by focusing on creating post harvest infrastructure for farmer base organizations.	USAID-funded partner
CBS	The PHHS project will work with CBS to provide training in post harvest investment, sales and marketing to entrepreneurs and heads of farmer base organizations.	Medium to Long Term: Once the PHHS project has identified enough training participants	CBS is a business solution center, created by the World Bank, to provide business trainings.	Service Provider

VI. ANALYSIS OF VALUE CHAINS

For each of the targeted PHHS crops, the team conducted a value chain assessment; the analysis has identified promising opportunities that will have a major impact on priority value chains.

1. Rice

In terms of both the strong degree of organization and the existing as well as future volumes of production, the rice value chain offers the greatest potential for benefitting from PHHS assistance. In particular, the rice union UCORIBU which has a solid working relationship with the ICM rice mill, Gikonko Rice, was identified as the priority target for PHHS project assistance in the near future.

UCORIBU has already prepared a list of their needs in terms of drying and storage post-harvest infrastructure, and if funding is availed through the MLI grants mechanism, a combination of training in improved post-harvest handling as well as provision of post-harvest infrastructure would most likely bring about a significant improvement in both quantity and quality of rice produced by the union.

Other initiatives which have strong potential for impact in the rice value chain include the Nyagatare rice union UCORIVAM, which is also in need of expansion of its primary drying and storage facilities. The existing rice mill in the district ideally should be replaced, possibly with funds from the COMPETE project. Both needs will become particularly acute when the additional 1500 ha in the valley are put into rice production in one year's time. A third opportunity in the rice value chain may be to provide the Bugarama rice producing cooperatives with drying and primary storage infrastructure. This, however, would only be recommended in the rice mill planned to be installed by SOPAV in the district does indeed materialize, and the cooperatives are provided technical support, including in strengthening their organization.

2. Maize

The maize value chain also offers great potential for benefitting from PHHS project assistance, particularly in light of the increased volumes of maize being produced in Rwanda, and the large demand for maize (WFP P4P, MINAGRI, Minimex). The maize platform, NYAMIG, based in Nyagatare is well organized, and the volume of maize produced in the District is large. An extremely useful intervention would be for the PHHS project to assist NYAMIG to develop a business plan for the management of as well as provision of financial and technical assistance to complete the drying and storage facilities at Ryabega. The cost would be around \$50,000, which is well below the maximum set by the MLI grants program, and would provide long term storage as well as drying for 3000MT of grain. NYAMIG's maize producing cooperatives would also benefit from provision of primary drying and storage facilities, as well as training in improved harvesting and post-harvest handling techniques.



NYAMIG RDO-RDI clean maize storage

Three maize cooperatives in the Akanyaru River Valley would also benefit from immediate PHHS project assistance, as confirmed by a study conducted by a PHHS project sponsored consultant in

February 2010. The volumes of maize produced by the cooperatives are large, yet they lack solid storage facilities, as well as drying and shelling facilities. The post-harvest infrastructure, funded by the MLI grants program, should be in place before the 2011-A maize harvest, and the cooperative members provided training in improved harvesting and post-harvest handling.

3. Beans

The value chain ranked third in terms of offering potential for PHHS project intervention is beans; there is a large demand for beans from the WFP P4P, as well as future demand for strategic storage by MINAGRI. However, little in the way of improved threshing, drying and storage of beans exists in Rwanda. Cooperatives who are likely to be providing the WFP P4P program with beans are already organized, and the WFP is eager to have PHHS project assistance in terms of training in improved threshing, drying and storage techniques as well as provision of post-harvest infrastructure either from COMPETE or with MLI grants funding.



Maize and bean intercrop in Nyagatare

Another bean initiative which would benefit from PHHS project intervention is the HarvestPlus/IMBARAGA iron-rich beans program; cooperatives have been organized by this joint venture, and provision of both training (including capacity building and post-harvest infrastructure) could have a significant impact.

Another possibility in the bean value chain would be to provide training and some post-harvest infrastructure for the cooperatives grouped under NYAMIG; inter-cropping or rotating maize with beans is highly recommended, and if the cooperatives are to be targeted for assistance in the maize value chain, incorporation of bean post-harvest activities would be relatively easy to implement.

4. Cassava

Cassava is the staple crop value chain ranked fourth in terms of potential for benefitting from PHHS assistance, and the initiative most likely to have immediate impact (with assistance) is the Cassava Initiative Platform (CIP) in the Gatsibo District. Cassava processing facilities exist, which could be renovated with MLI grants funds, and the PHHS project could work with CIP to develop a business plan for the group to ensure that the initiative is well grounded and financially viable. A second target for assistance in the cassava value chain is the syndicate INGABO and cassava producing cooperatives already working in conjunction with same. Production of cassava chips and flour is already undertaken by the syndicate, however the quality and shelf life of both are poor. Provision of training in improved cassava processing techniques could enable INGABO and its affiliated cooperatives to achieve higher quality cassava products.

5. Irish Potato

The value chain ranked fifth from the PHHS project assessment is Irish potato, which is only of significant importance in northern and northwestern Rwanda. The cooperatives in northern and northwestern Rwanda which are working with the support organization BAIR, as well as those previously assisted by ACDI/VOCA, are well organized and could benefit greatly from training in both improved production practices as well as harvesting and post-harvest handling techniques which can reduce post-harvest losses. These cooperatives would also benefit from provision of post-harvest collection infrastructure, as well as renovation or expansion of post-harvest storage infrastructure. A

second initiative of interest to the PHHS project is the local NGO IMBARAGA and its partnering potato cooperatives who have started to add value to the potatoes they market via washing, grading and packing the tubers in bamboo baskets. Provision of technical assistance as well as market linkages would enable the initiative to grow so that more potato producers benefit from selling a higher value product.

6. *Wheat*

The wheat value chain was ranked sixth by the PHHS project assessment, due to its relatively lower volumes of production and limited market potential. The wheat initiative most likely to benefit from PHHS project assistance is the combined wheat unions (UNICOOPAGI and UNICOBLE) working in conjunction with KOAGIMITA and other partnering wheat cooperatives. Provision of PHHS project assistance to improve the drying, grading, and primary storage infrastructure for wheat so that higher quality grain is delivered to the miller (Nyungwe Mill), as well as strengthening the market linkages and capacity building of all actors in the wheat value chain in the ex-Gikongoro province could build upon the efforts already invested in wheat in the region by ACDI/VOCA and other organizations. Additionally, since the PHHS project will be working with the cooperatives supported by BAIR (North-West), and many of these produce wheat as well as Irish potato, it would be easy to incorporate training in improved wheat production, harvest and post-harvest handling practices, and, where possible, assist the cooperatives to procure appropriate technology threshing and winnowing equipment as well as storage facilities.

7. *Soybean*

Soybean is not included as a value chain with potential for the PHHS project to have any impact at present. This is due to the small and declining levels of production in Rwanda, which are further constrained by the lack of the *Rhizobium* inoculum with which the seed must be sown in order for good crop growth and yield. Should new initiatives come into being such as the proposed CATALYST/COMPETE assisted soybean oil and cake processing plant at Kayonza, the PHHS project will reconsider what interventions the project can undertake to address post-harvest constraints which may arise in the soybean value chain.

Value Chain Illustrations

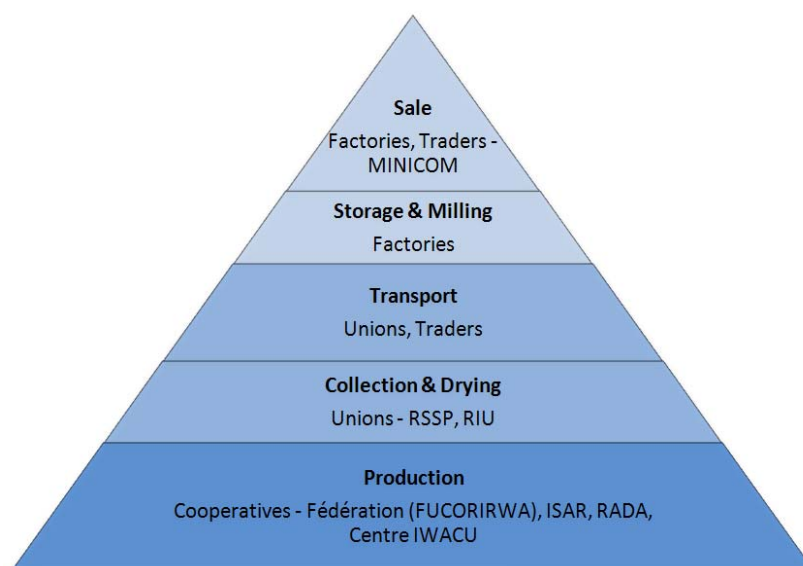
Vertical and horizontal integration within the targeted value chains are integral to ensure properly functioning market linkages. Improving integration within the value chain can be achieved in a number of ways; past strategies in Rwanda have included both top-down and bottom-up approaches that have not always been successful.

In a top-down approach, principal buyers such as the WFP, Minimex, grain millers or cassava processing factories attempt to guarantee supplies of raw materials by signing contracts directly with producers for the purchase of their crop at harvest time. However, producers often do not respect these contracts by claiming they were never consulted when setting the buying price. The study identified situations where this sort of conflict was avoided through an advance three-way negotiation of the selling price. For example, in the wheat producing area of Nyamagabe, each season all partners – wheat producer cooperatives, the wheat union, the support organization, the financial partner and the District authorities – convene a meeting to discuss and fix the terms and conditions for the price of wheat.

In a bottom-up approach, producers attempt to reduce the number of transactions in their distribution chain in order to cut costs and increase their profit margin. The main constraints in this situation are the lack of adequate post-harvest infrastructure and financial means for producers to justify long storage periods that would increase the selling price of their crop.

Figures 3 through 9 outline the various levels of integration, along with the strengths, weaknesses, opportunities and threats identified for each PHHS value chain.

Figure 3: Rice Value Chain



Strengths

- Abundant rice production
- Potential for high quality finished product
- Strong, well organized rice unions and cooperatives
- At least one good working relationship between union of rice producers and millers (UCORIBU and ICM – Gikonko Rice)
- Linkages between rice cooperatives and microfinance institutions enables producers to store rice after harvest until prices are high

Weaknesses

- Lack of adequate drying and storage facilities at the field level, resulting in losses in quality and quantity of paddy rice
- High labor requirements for harvest and post-harvest handling and hired labor very expensive
- Long distances between production and milling sites, leading to high transport costs, reducing price paid to producers
- Old mills which result in poor quality finished product, inadequate capacity to process paddy in timely manner and possibly losses during milling
- Lack of trust between producers and millers in some instances (e.g. Bugarama rice producers and ICM, Rwamagana rice producers and ICM)

Opportunities

- Installation of new rice milling facilities to increase quality of finished product as well as offer producers a choice for example increased competition for paddy, higher price paid to producer – in planning stages in Nyagatare, beginning implementation in Bugarama
- Increasing post-harvest infrastructure at field level such as simple drying and storage facilities could reduce losses in quantity as well as quality
- Cooperatives well organized, geographically clustered in same area and can be easily reached for technical assistance. Examples include training in improved harvest/post-harvest handling, training in business skills.
- Rabobank/Banque Populaire's interest in providing financial and capacity building assistance to rice cooperatives supplying to ICM/Gikonko Rice mill
- Symbiotic relationship between rice cooperatives and MFI could be replicated across more sites in Rwanda
- Possibility for regional trade of rice, especially if "branded". An example is the superior quality Bugarama rice.
- Development and use of threshing and winnowing equipment to reduce quantitative as well as qualitative losses.

Threats

- Lack of improvements to marshlands results in inadequate water for production at times, flooding at others – GoR slow to respond to requests for assistance
- Less expensive imports from Asian countries – could resume on large scale, implying need to make Rwandan rice more competitive
- Failure to resolve disputes between rice producers and millers could result in breakdown of rice value chain
- Risk of cross border export of paddy for processing into and re-importation of white rice if milling capacity not increased

Figure 4: Maize Value Chain



Strengths

- Demand in Rwanda far exceeds supply
- GoR assistance (RADA provision of subsidized inputs) strong, resulting in high yields at present
- Strong maize organizations exist in parts of Rwanda (e.g. NYAMIG, BAIR and Centre IWACU assisted cooperatives, Kirehe WFP P4P cooperatives)

Weaknesses

- Inadequate and insufficient drying and storing facilities – losses in value and quantity
- Price of Rwandan maize not competitive with that from Uganda and Tanzania
- Good market for fresh maize makes it difficult to convince farmers to wait for harvest of dry product, especially in high altitude areas where period from sowing to harvest is extremely long, and drying of maize is difficult
- Drought in eastern Rwanda can seriously reduce production, with resulting impacts on buyers, processors and farmers
- Production and drying at high altitude locations hindered by (1) extremely long period between sowing and harvest (6 – 8 months) and (2) difficulty of drying down to required moisture level under cool temperatures and high relative humidity
- Poor road infrastructure reduces price received by producer because transport costs are high

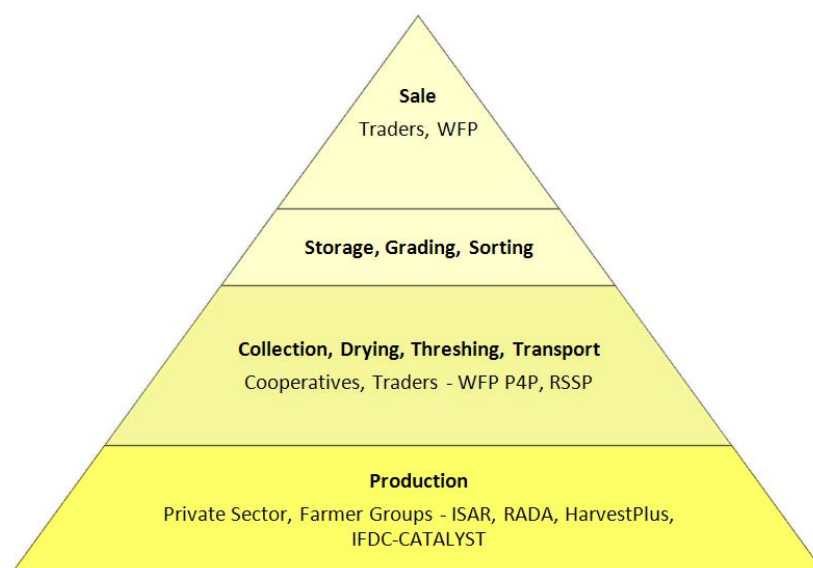
Opportunities

- WFP P4P potential collaborative activity with COMPETE and PHHS for construction of maize post-harvest infrastructure in Kirehe, training in harvest and post-harvest handling and linkages with buyers
- NYAMIG linkage with and use of Ryabega drying and storage facilities (if ownership issue resolved) – significant trade opportunity with Uganda as well as WFP P4P
- Akanyaru cooperatives
- MINAGRI's plan to re-establish strategic grain storage facilities; for Season 2010 A harvest, total of 7,000MT maize, eventually plan construction of two silos of 25,000MT each

Threats

- Lower priced maize available from neighboring countries
- Lack of trust between producer organizations and buyers
- Farmers in high altitude zones discouraged by long period from sowing to harvest
- Drought (esp. in east) and flooding (in swamplands needing further improvement)
- Increased production enhances likelihood of pest and disease outbreaks which could seriously reduce yields/supplies
- Slowness of GoR to respond to requests for assistance/intervention (e.g. failure of Nyagatare District to submit proposals from NYAMIG and other organizations to RSSP, Ryabega facility completion delayed yet farmers counting on use of same for Season 2010A harvest)

Figure 5: Bean Value Chain



Strengths

- Cultivated by large majority of Rwandan farmers, who have long tradition of and strong expertise in bean cultivation
- Large per capita bean consumption in Rwanda: 20.47 kg/person/year
- Excellent rotation crop for other staples: same cooperatives producing maize and potato also produce beans.

Weaknesses

- No organization of bean producers into cooperatives/associations
- Little/no input or extension support from GoR
- No organization of seed production and distribution
- No formal marketing except for WFP P4P initiative
- No improved post-harvest techniques or infrastructure – current shelling techniques lead to losses
- High losses in storage can occur due to weevil infestation if not protected
- Not included in most recent GoR PSTA, indicating its low ranking within the Ministry of Agriculture

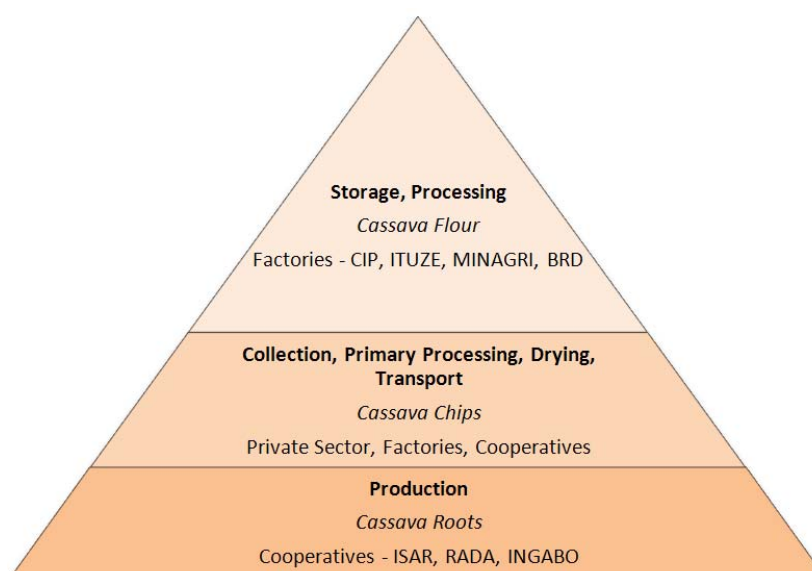
Opportunities

- In demand by large scale buyers such as WFP P4P, UNICEF, Murenzi Supply
- Important source of protein and micronutrients, especially for rural population – nutritional importance recognized by GoR
- HarvestPlus program to promote iron rich beans, including adding a price premium with “branding”
- Possibility of improving market value by grading and selling as single variety
- Number of research institutions and programs are targeting the crop – ISAR, RIU, CIAT, HarvestPlus – and developing new varieties

Threats

- Replacement by soybean if large soybean processing factory established in Kayonza
- Pests and disease outbreaks if single-variety and mono-cropping production encouraged

Figure 6: Cassava Value Chain



Strengths

- Drought resistant crop which can be stored a long time in soil before harvesting
- Abundant production of roots in south and eastern Rwanda

Weaknesses

- Rapid physiological deterioration of roots once harvested if not processed
- Need for both clean water and protected drying facilities for production of chips with long shelf life not susceptible to rapid rotting
- Processing is labor intensive; mastery of artisanal production of flour with good, consistent quality characteristics is difficult

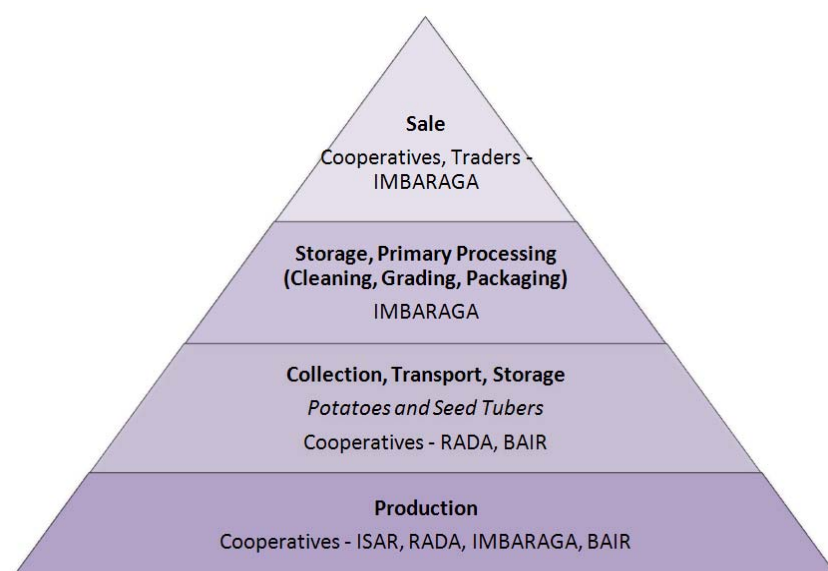
Opportunities

- Renovation of the Gatsibo processing facilities in conjunction with the Cassava Initiative Platform would enable production of high quality flour in district
- Possible products from dried cassava:
 - **Ethanol:** Cassava chips are an alternative source of raw material for producing liquor as well as medical and industrial alcohol.
 - **Livestock feed:** Cassava roots can be processed into chips and pellets which can be used in compounding animal feed for cattle, sheep, goats, pigs, poultry, and farmed fish. The cassava leaves are also a good source of feed for livestock if from “non-bitter” (low cyanide) varieties.
 - **Food:** Cassava is used widely in Africa, including Rwanda (ubugali in Rwanda, gari in Nigeria and other West African countries, fufu in Ghana). It is also eaten raw or roasted as a snack. Cassava flour is widely used in a number of bakery products. Modified cassava starch or starch derivatives have been applied for thickening, binding, texturing and stabilizing a range of food products such as canned foods, frozen foods, salad dressings, sauces, and infant foods.
 - **Confectionery:** Modified cassava starch or starch derivatives are used in confectionery for different purposes such as thickening and glazing. Cassava starches are widely used in sweets such as jellies and gums.
 - **Monosodium glutamate:** Cassava starch is a common source for making monosodium glutamate in Asia. It is used to enhance flavor in food, e.g., Ajinomoto.
 - **Sweeteners:** Glucose and fructose made from cassava starch are used as substitutes for sucrose in jams and canned fruits. Cassava-based sweeteners are preferred in beverage formulations for their improved processing characteristics and product enhancing properties.
 - **Pharmacy products:** Native and modified cassava starches are used as binders, fillers, and disintegrating agents for tablet production.

Threats

- Outbreak of Brown Streak Virus (exists already in neighboring DRC and Uganda) for which no varieties with proven resistance have yet been developed

Figure 7: Irish Potato Value Chain



Strengths

- Large production volumes of Irish potato
- Favorable climate, soils and long tradition of cultivation give Rwanda a competitive advantage in trade of this crop
- Potato production cooperatives are strong, well organized and well supported

Weaknesses

- Existing production, harvest and post-harvest handling practices result in high post-harvest losses
- Potato bulkiness and perishability is high relative to grains and legumes, adding to greater transport and storage costs
- Need for two week in-field suberization period post vine cutting, plus high value, renders crop susceptible to theft

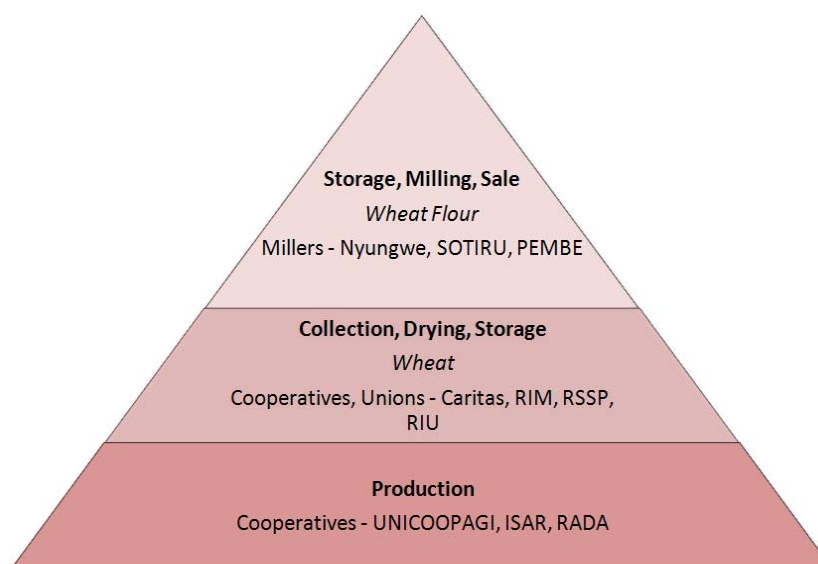
Opportunities

- Significant reduction in post-harvest losses could be achieved through provision and adoption of improved production, harvest and post-harvest handling techniques
- Improvement of existing post-harvest storage facilities as well as establishment of new, improved ones could reduce post-harvest losses
- Improved marketing infrastructure (e.g. Kigali Fresh Produce Market) could reduce post-harvest losses at market level
- Value addition through washing and selling tubers in improved packaging to high-end markets such as supermarkets and hotels

Threats

- Disease pressure is increasing due to failure to respect an adequate rotation period (one crop every two years), failure to follow other good IPM practices
- SOPYRWA (pyrethrum processing) factory in Ruhengeri could resume operations on a large scale and reduce Irish potato production in northern Rwanda by offering greater profits for pyrethrum production

Figure 8: Wheat Value Chain



Strengths

- Demand in Rwanda far exceeds supply
- Some cooperatives are well organized and have storage facilities
- Milling facilities exist in country

Weaknesses

- Very low volumes of Rwandan wheat production
- Inability to dry down to required moisture level (14%) in most production locations; machine dried wheat considered to be of lower quality by millers
- Quality further compromised by high content of impurities incurred during threshing, winnowing and drying
- Price offered by two of the major millers lower than what is paid on the market
- Most cooperatives lack adequate drying and storage facilities
- Threshing and winnowing mostly manual

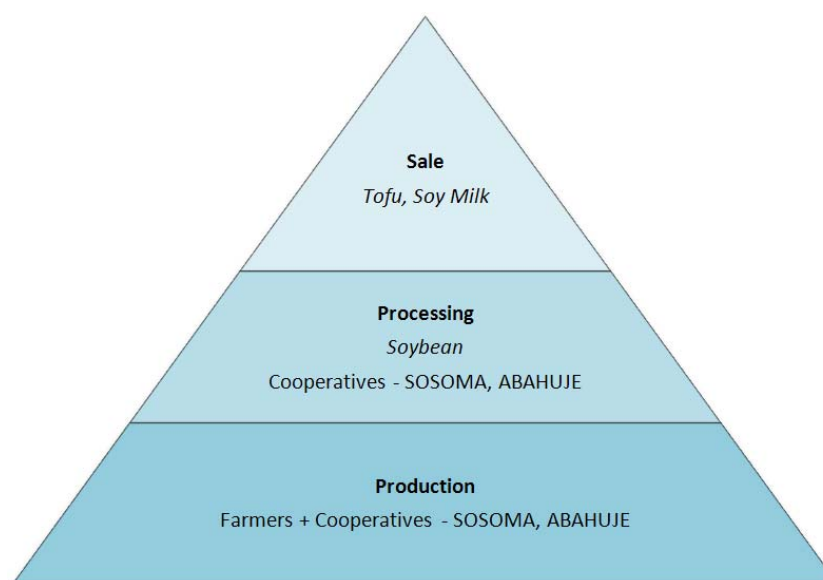
Opportunities

- Training of wheat producers in integrated pest management of wheat rust could reduce losses
- Appropriate technology threshers and winnowers could improve quality
- Other uses of wheat, such as porridge, could be promoted to mitigate problem of high moisture level rendering Rwandan wheat unsuitable for flour

Threats

- Imported wheat of better quality and available in quantities required by flour mills
- Poor relationships between producers and millers discourages wheat production
- Strong assistance to cooperatives provided by ACDI/VOCA has ended – production likely to suffer as a result of drop in technical and financial assistance for cooperatives

Figure 9: Soybean Value Chain



Strengths

- Large demand for cooking oil in Rwanda
- GoR program of “one cow per family” will see increased need for livestock feed

Weaknesses

- Lack of *Rhizobium* which is needed at sowing to ensure nitrogen fixation since production unit at ISAR-Rubona ceased operations; difficulty of production and dissemination serves as obstacle to any other organization or entrepreneur undertaking this activity, unless a large commercial demand were to develop
- Small-scale farmers have limited experience producing crop on commercial scale – will need substantial training

Opportunities

- Large demand will be created if Kayonza factory is established and proves to be a viable venture

Threats

- Intensification of production increases risk of outbreak of devastating levels of soybean rust disease

VII. NEXT STEPS

Through its Inception Assessment, the PHHS team has identified a number of promising opportunities for the project to implement in the upcoming two years.

Next Steps:

- Share results of Inception Assessment with key partners and stakeholders
- Continue partnerships with regional entities, including MLI and COMPETE, to identify grants to finance targeted opportunities
- Continue to identify key opportunities to improve post-harvest handling
- Solidify partnerships with financial intermediaries to harness private sector investment
- Engage with partners to leverage shared resources for post-harvest handling training and capacity-building
- Identify lead firms and processors who will provide incentives for farmers to improve their post-harvest handling practices

VIII. ANNEXES

- A. Value Chain Assessment**
- B. Finance and Investment**
- C. Revised Performance Monitoring Plan**
- D. List of Interviews and Stakeholders Met**
- E. Inventory of Existing Storage Facilities**
- F. Questionnaires**
- G. References Cited**

Annex A – Value Chain Assessment

Through a survey of the major production zones of staple crops in Rwanda, the PHHS project assessed current practices in each of the seven targeted value chains – rice, maize, beans, cassava, Irish potatoes, wheat and soybeans. For each value chain, the PHHS team surveyed a) market trends, b) cultivation practices, c) collection and trade practices, d) processing and storage capacity, e) price formation, f) market, technology and investment opportunities, g) post-harvest losses and h) targeted partners.

1. Rice

A. Introduction and Overview of Market Trends

Rwanda's climatic conditions provide an ideal environment for rice production. There is abundant rainfall during the rainy seasons leading to rivers with additional supply water and a warm, dry season which facilitates harvesting and drying rice. Annual rice production is currently around 65,000 MT, but this does not meet the market demand, and more than 30% of rice consumed in Rwanda is imported from Asia and Tanzania. The rice value chain is perhaps the best organized amongst all staple crop value chains in Rwanda, being vertically integrated from the lowest level - swamplands cultivated by rice cooperatives, known as "COPRORIZ" - up to the national level -FUCORIRWA, the national umbrella organization for rice producers. FUCORIRWA is comprised of six rice unions which in turn contain a total of 52 rice cooperatives (COPRORIZ) and other rice producing groups. In total, there are around 62,000 rice producers under the FUCORIRWA umbrella.



Bugarama rice paddies

B. Cultivation

According to the GoR's plan for the swamplands of Rwanda (2003), there are 66,904 ha of swampland that are suitable for rice production in the country. At present, 14,911 ha are cultivated each year, of which only 9,708 ha are used for rice production during both rainy seasons. The remaining 5,204 ha are used during one season due to lack of sufficient water or risk of flooding.

Average yields of rice are between 5 – 7 MT/ha, although it is possible to achieve 8 MT/ha by adopting improved production practices. In addition, research on rice production in Rwanda has intensified over the past few years. Major constraints to rice production in Rwanda are improved water management to reduce risk of flooding or drought, and lack of availability of well trained technicians. Additionally, rice is a crop that requires intensive utilization of labor, and labor costs are high (700 RWF/day); this is an impediment to suitable harvesting and post-harvest handling, as the operations must be carried out rapidly and producers do not have adequate funds to hire external labor.

C. Collection and Trade

The rice harvest occurs twice per year, in January-February (Season A) and June-July (Season B). Rice cooperatives are responsible for collecting and transporting the paddy rice to the rice milling factories, a process significantly hindered by the poorly maintained rural roads.

With respect to trade opportunities, it is worth noting that at least four zones of rice production in Rwanda – Nyagatare, Gisagara, Bugesera and Bugarama – are located in areas bordering neighboring countries including Uganda, Burundi and the DRC, which could catalyze cross border trade. At present, this would not work in Rwandan producers’ favor due to insufficient milling facilities in-country, which could result in the export of paddy and re-import of white rice. Several projects are under study, for example in Nyagatare, or in the process of being implemented, for example in Bugarama, in order to strengthen local rice milling capacity. This enhances the likelihood of boosting Rwanda’s production and possible regional exports of white rice.



COPRORI cooperative drying rice

D. Processing and Storage

Each rice swamp land has drying areas, generally concrete slabs, and some primary storage facilities ranging from hangar type shelters to closed buildings. However, both the drying and storage facilities are severely inadequate and in need of renovation. As a result, rice delivered to the mills is generally poor quality with a high moisture content and a high percentage of impurities. No rice cooperative uses mechanical equipment for post-harvest handling. A few trials were conducted with machinery in Rwamagana at Union Twibumbe and Gikonko (UCORIBU) in collaboration with RADA, but these were inconclusive and the machines were taken back after adoption rates were found to be low.

Before privatization, all the major rice milling factories belonged to the Government of Rwanda and were utilized in a collaborative manner with development partners: Chinese Cooperation (Bugarama, Rwamagana, Kabuye), Canadian assistance (CODERVAM) and French assistance (Gikonko). Around 2005-2007, all factories were privatized, with four out of five acquired by the multinational Australian company ICM.. Some other investors, however, are becoming interested in setting up rice milling factories, for example SOPAV in Bugarama. The small, privately-owned rice mills that were widely used in the past were banned by GoR authorities in the course of restructuring the rice value chain.

The current rice milling facilities in Rwanda and their milling capacities are as follows:

Table 7: Major Actors in the Rice Value Chain in Rwanda

Facility	Milling Capacity
ICM-Rwamagana	2-3 MT paddy/hour
ICM Kabuye	0.5 MT paddy/hour
ICM Gikonko	2-3 MT paddy/hour
ICM Bugarama	2-3 MT paddy/hour
CODERVAM-Nyagatare	0.8 MT paddy/hour

No comprehensive list of rice storage facilities could be established, as they range from very small and rudimentary units to relatively larger storages associated with the rice mills; a number of cooperatives have received support from RSSP for rice (combined with maize) storage facilities, but specific volumes allocated to rice are unknown.

E. Price Formation

The rice unions and rice mills in each region hold negotiating meetings every season to determine the selling price for paddy rice. In situations where the unions have established a clear and collaborative relationship with the milling factory, this procedure is more easily carried out, and the negotiations are much more amiable than in locations where the rice cooperatives conduct the negotiations in a dispersed manner. For the 2010 Season A harvest, the price of paddy delivered to factories varied between 240 RWF/kg for short grain rice and 260 RWF/kg for long grain rice. Transporting rice from the site of collection and primary storage to the factories costs an average of 20 RWF/kg – this is paid to the union or cooperative, which in turn decreases the price paid to producers to between 220-240 RWF/kg paddy, according to the variety produced. For certain cooperatives located at great distances from factories, the transport cost can be very high and weigh heavily upon the producers, as the factory purchasing price remains the same.

F. Markets, Investments, Technologies and Potential Trading Opportunities

Despite Rwanda's impressive rice production, access to finance for investments in the rice sector is very limited. The large investments needed such as improving swamplands and renovating mills remain inaccessible due to lack of guarantees, as the swamplands are still the property of the Government of Rwanda. The specific investments needed are:

- With only five milling factories possessing a total capacity of only 10 MT paddy/hour, the need for increased milling capacity is significant, especially for the zones of Nyagatare and Bugarama. Plans are underway to establish a new factory in Bugarama with a capacity of 2 MT paddy/hour, and operations are expected to begin in the third quarter of 2010.
- Post-harvest equipment (for harvesting, threshing, or winnowing) is very scarce in Rwanda, and with the expansion of rice production and increasing yields, it is becoming evident that human labor alone will not be capable of handling all the work, and/or will produce a paddy of inferior quality.
- The drying and storage infrastructures at the cooperative level are similarly insufficient in terms of quantity and quality, yet means of accessing credit to address these constraints are not available to cooperatives.

Some development initiatives in different areas are being undertaken to facilitate access to credit for various actors in Rwanda's rice value chain:

- The District of Gisagara has promised UCORIBU, a rice union working in conjunction with ICM Ginkonko rice mill, to cede the management of the swamplands to the cooperatives, which will provide them an ability to access credit from banks
- The World Bank's RSSP Program continues to serve as a source of finance for large projects, however the administrative process required to tap into this source takes time
- Microfinance Institutions such as CAF Isonga and RIM have become interested in the rice value chain and are implementing innovative activities (the "warrantage" system, finance for producers for production activities, finance for cooperatives to purchase paddy at harvest, etc.)

G. Post-Harvest Loss Summary

Similar to what was encountered in the maize value chain study, no reliable figures could be found on post-harvest losses of rice in Rwanda. Measuring such losses is complicated by the different types of losses, as previously discussed. Discussions with different actors in the rice value chain did reveal the most important causes of rice post-harvest losses, which are:

- Insufficient and inappropriate drying and storage facilities at the field level lead to quality, especially percentage moisture, but also impurities and insect infestation losses; at times significant quantity losses can arise from unprotected rice grains germinating when exposed to high levels of rainfall. Field level drying and storage facilities range from a) non-existent, necessitating transport of paddy to distant locations for drying, b) old and in need of renovation, or c) new but inadequate surface area/volume for quantities of paddy harvested.
- Manual threshing and winnowing results in quantitative as well as qualitative losses.
- Most milling facilities are old, resulting in a reduction in the quality of milled rice as well as quantitative losses during the milling process. Conversion of paddy to white rice ranges from as low as 68% at Bugarama to 75% at other facilities.
- Old mills cannot handle volumes of paddy delivered in a timely manner; consequently, there are likely to be losses in paddy stored for a long time prior to milling.
- Long distances between production and milling sites reduce the price paid to producers due to high transport costs.



ICM Rwamagana - rice delivered above required moisture content

H. Targeted Rice Value Chain and Post-Harvest Partners

The most likely partners to be targeted by PHHS with respect to the rice value chain are:

Rice producers	FUCORIRWA, UCORIBU, UCORIVAM (union of rice producers affiliated with CODERVAM-Nyagatare)
Processors	ICM, SOPAV (if initiative succeeds in Bugarama)
Support organizations	Centre IWACU, CAF Isonga, Rabobank/Bank Populaire
Regional partners	MLI, COMPETE

2. Maize

A. Introduction and Overview of Market Trends

Maize, as a dried grain, is not a common traditional crop in Rwanda, having been grown in the past more for consumption of fresh maize cobs, and the stalks fed to livestock. As a crop with the “C4” system of photosynthesis, maize grows better under higher temperature regimes than are found in parts of Rwanda’s (high altitude zones). Following the “Plan Stratégique pour la Transformation de l’Agriculture II” (PSTA II), and the launch of the Ministry of Agriculture and Livestock’s Crop Intensification Program

(CIP), maize production in Rwanda was strongly promoted and supported, and yields as well as volumes of maize produced in country have sharply risen over recent years. Despite this boost in production, supplies of maize from Rwandan producers are insufficient and do not meet quality standards required by the major buyers, as moisture content and impurities are both too high. As a result, much of the maize purchased and processed in Rwanda is imported from neighboring countries, where the grain is lower in price, and reportedly of better quality in terms of moisture content.

B. Cultivation

Much of Rwanda's maize production is concentrated in valley areas, many of which have been recently drained for crop production purposes. However, some maize is also grown on hillsides, usually with poorer results. The best production areas in terms of climate are found in eastern Rwanda, where temperatures are higher and there is a longer dry season for drying the thick grain. Production in valley areas is greater during Rainy Season A, due to the risk of flooding in Rainy Season B, whereas hillside production predominates in the heavier Rainy Season B. Some valley areas with adequate moisture are used for maize production in the long dry season, Season C. Rainy season A falls from mid to late September to mid to late December, with maize harvest taking place in February-March; rainy season B falls from late February-early March to early June, with harvest taking place during Season C which is late June to early September.

As mentioned above, maize is not adapted to production at high elevations in Rwanda, where it is reported to require 6 to 8 months from sowing to the harvest of dry grain, as opposed to 4 months in warmer regions; it is also difficult to dry the grain down to required levels in high altitude sites. The long growing cycle and difficulties with drying at high elevations often result in farmers in these zones opting to harvest the fresh maize for sale, although the GoR has passed regulations forbidding the harvest and sale of fresh maize.

The Rwandan Agricultural Development Agency (RADA) has provided strong support to and promotion of maize production, supplying hybrid seed imported from southern Africa and to some extent Kenya at a subsidized price of 600 RWF/kg, as opposed to the real cost of 1320 RWF/kg. The sustainability of this practice, however, remains open to question.

RADA and other MINAGRI institutions have promoted land consolidation and monocropped maize production; some producers still continue to intercrop maize with legumes, which is a sound practice from both a risk reduction and agronomic perspective, as legumes fix nitrogen, of which maize is a heavy consumer. More intercropping of maize with legumes would reduce cash flow problems, as beans mature in three months, as well as producers' reliance on the higher priced beans found in the market.

C. Collection and Trade

At present, there are different modalities of maize collection; some maize producing cooperatives have no viable storage facilities, are located far from main roads and have to pay high prices for transporters to take their product to markets.⁵ Other cooperatives, including COAMV in Burera, COIMU in Nyabihu have storage facilities where the grain can be further dried post-delivery, as well as stored at the facilities.

⁵ This is notably the case for maize cooperatives in Akanyaru River Valley, as well as some in Nyagatare District.

One maize processor located in northern Rwanda, the Maïserie de Mukamira, has proposed the establishment of collection centers in areas of high production, but considers their support to be restricted to the development of social organization, and is unwilling to invest in the construction of drying and storage facilities. In the Nyagatare District, the NGO Research Into Use (RIU) has constructed some collective drying facilities, and the district maize platform NYAMIG has identified some transit storage facilities at the sector level (14 sectors in the district in total).



Bugarama maize collection

These will not be sufficient, however, as the 2010 Season A harvest for the district is expected to be 60,000 T; moreover, the UNDP-funded drying and storage facility in Ryabega, close to Nyagatare city, upon which many producers were counting for the 2010 A maize harvest, has not been completed and made operational.

No company has yet become specialized in maize transport; traders either have their own trucks or use general goods transporters from within the region – Rwanda, Uganda and Tanzania. As mentioned above, much of the maize consumed in Rwanda is imported from neighboring countries including Uganda and Tanzania. Rwandan maize processors complain that local supplies are insufficient and poor quality, and selling fresh maize cobs further decreases local supplies.

D. Processing and Storage

During the course of the Inception Assessment, the PHHS team met with the major and medium-scale buyers and processors of maize, and gathered data on their processing and storage capacity (see Table I below).

The largest of all is Minimex, a company with one facility near Kigali which has a processing capacity of 144 MT maize/day and a storage capacity of 5000 MT. The company has a second facility near Rwamagana to the east, comprised of a dryer and primary silo with a capacity for 2000 MT of grain; the facility, which is not yet operational, will have a storage capacity of 20,000 MT when completed.

Minimex attempted to procure maize on contract from Rwandan cooperatives, but abandoned the initiative when producers failed to deliver maize at harvest. The company, which is processing mainly imported maize, is establishing its own commercial maize farm in southern Rwanda. A second important buyer of maize in Rwanda, the World Food Program's Purchase for Progress (WFP P4P) is only beginning to source maize from Rwanda cooperatives with the 2010 A harvest; they have some storage facilities of approximately 3.5 MT each in Nyagatare, Bugesera and Kirehe Districts.



Akanyaru maize cooperative
with poor storage facility

POST-HARVEST HANDLING AND STORAGE PROJECT
Inception Assessment

Table 8: Major Actors in the Maize Value Chain in Rwanda

Actor	Facilities	Processing Capacity	Storage Capacity
Minimex – Kigali		144 MT maize/day	5000 MT
Minimex – Rwamagana	Dryer and primary silo. <i>Not yet operational</i>	2000 MT grain	20,000 MT (in progress)
WFP P4P – Byagatare, Bugeresha, Kirehe	Storage	NA	3.5 MT each
Murenzi Supply Company – Kigali	Storage	NA	6000 MT
ENAS Nkubili – Kigali	Hangars; access to the ex-RWANDEX (former coffee) drying facilities; pilot project for construction and utilization of 5 MT silos at village level to facilitate his procurement of grain (rather than having traders buy up all product from farmers at harvest)	NA	2000 MT
Mwizerwa Ignace (grain trader) – Kigali	combination hangars and cocoons	NA	1950 MT
Mwizerwa Ignace (grain trader) – Nyagatare	combination hangars and cocoons	NA	1500 MT
SOSOMA Industries – Kigali	maize flour, sorghum/soya/maize combined food for children) capacity of 1300 MT/Year	700 MT maize/year	350 MT (grain); 200 MT (flour)
Maïserie de Mukamira – Northwestern Rwanda	<i>Operating at only a fraction of capacity</i>	12 MT maize grain/day	3000 MT
COAMV, Burera District – Northern Rwanda	Storage and drying facilities (insufficient); maize milling facilities; also provide members with maize shellers (both manual and electric)	15 MT grain/day	500 MT
Akanyaru River Valley cooperatives	<i>No appropriate storage facilities</i> (members store much in their own homes, resulting in reduced volumes for the coops to sell), artisanal drying of cobs on racks in open air, manual shelling and further drying on tarpaulins, very weak “central” storage facilities made of wooden frame loosely covered with sheeting, unprotected dirt floor	8500 MT maize/yr	None
Nyagatare Rwanda Development Organization/Rwanda Development Investment company project	Storage and milling capacity	15 MT/day	1000 MT grain (in bags on pallets, concrete floor)
UNDP – Ryabega (close to Nyagatare town)	Drying and storage facilities – <i>not yet completed</i> . Electric-powered dryer with capacity of 12 MT/grain per hour	NA	platforms for and acquisition of 50 cocoons of 60 MT grain each
MINAGRI – Kigali and TBD	Plan to renovate five of the former strategic reserve facilities with total capacity of 10,000 MT for storage of 7,000 MT maize (and 3,000 MT beans) by end of March 2010 (to be	NA	50,000 MT (in progress)

	managed by the GoR); They eventually plan to build two new silos of 25,000 MT capacity each (one in Kigali, the other site TBD) to replace old strategic storage facilities (latter will be ceded to cooperatives/private sector for management)		

There are additional storage facilities, both those of the former Strategic Grain Storage initiative and several cooperatives which have received assistance from the World Bank Rural Sector Support Project (RSSP) for construction of maize and rice storage facilities.

E. Price formation

Some umbrella organizations and NGOs supporting rural development – BAIR in western Rwanda, Centre IWACU country-wide, and RDO in selected districts – have provided training to cooperatives to enable them to calculate their production costs and expected profit margins. However, these practices were reportedly not adopted. Some cooperatives, notably those in the Akanyaru River Valley, set the price at which they will purchase maize from members without first conducting a market analysis, leaving themselves in the difficult position of having purchased at a price considerably above market rates. No other price formation exists in the maize value chain.

F. Markets, Investments, Technologies and Potential Trading Partners

The Rwandan market for maize can be classified into four different types:

1. The World Food Program and other international organizations, that purchase large quantities, in general via a contract with grain traders
2. The industrial scale processing factories (Minimex, Maïserie de Mukamira, COAMV, RDO Nyagatare) and semi-industrial to artisanal. Several small milling facilities exist in Kigali and other cities in Rwanda.
3. RADA and other institutions that support the agriculture sector are involved in the multiplication and distribution of seeds, which are purchased from farmers specialized in multiplication and sold to cooperatives/farmers at a subsidized price. MINAGRI will be purchasing substantial quantities of maize for their strategic storage facilities, beginning with the 2010 Season A harvest, via traders as well as producers.
4. The direct consumers of maize, either in the form of the grain, or flour (prisons, schools, military camps). These entities generally announce “calls for offer” on a quarterly or annual basis, to which the traders reply. Maize can be sourced from Rwanda or within the region, without distinction.

From the perspective of physical points of sale, the major outlets are:

- The large grain market at Nyabugogo in Kigali City where traders from large to small-scale conduct their commerce
- The depots of the large buyers including ENAS and Murenzi Supply Company.
- The regional depots within Rwanda belonging to cooperatives or support-organizations in the zones of large production. These include COAMV, RDI, COAMANYA and others. These depots serve as intermediary storage facilities between cooperatives and the market including traders or the WFP, as well as strategic storage facilities, especially for seeds
- Collection centers or primary storage facilities. While the collection centers are underdeveloped, they are in high demand by all actors in the value chain who were met during the study including Maïserie de Mukamira and cooperatives in the Akanyaru River Valley. These

centers would make it possible to ensure improved post-harvest handling including drying, sorting, and grading prior to sale.

Apart from a few initiatives such as COAMV's manual shellers, no specific post-harvest technology is employed in the maize value chain, with almost all first-level post-harvest activities conducted by hand. This not only slows the pace of operations, but negatively impacts the quality and quantity of maize put onto the market place. RADA and other support institutions such as the agricultural training college, ISAE Rubulizi, Kigali Institute of Science and Technology or KIST, are undertaking initiatives to design and produce appropriate-technology post-harvest equipment. PHHS staff also learned that some international companies including Balton CP, and BrazAfric beginning to show interest in providing post-harvest infrastructure for Rwanda's maize value chain.

G. Post-Harvest Loss Summary

Despite considerable efforts, no reliable data could be found on post-harvest losses of maize in Rwanda. Moreover, the complexity of how this parameter is defined makes it extremely difficult – even if data were available – to attach any figure to post-harvest grain losses. To begin with, there are different types of losses:

- (1) **Loss in value** arising from inadequate and inappropriate drying facilities such as cobs/grain dried in open air and subject to wetting when it rains due to lack of shelter; cool temperatures in high altitude zones make it impossible to bring moisture level down to 13% without facilitated drying. Also losses arise from contamination of maize with soil, insects and other impurities during drying, especially when grain is simply spread on tarpaulins on the bare ground, or old, dirty concrete slabs.
- (2) **Quantitative losses** due to insect damage. Storage facilities are not insect proof; there is inappropriate/poor use of pesticides; and opening of cocoons during storage period allows oxygen to rise to levels which insects can tolerate. There are also losses due to rots provoked by grain wetting during drying and storage and rodent damage due to unprotected storage.
- (3) **Quantitative “losses”** when (a) producers harvest and sell fresh maize which reduces supply available to buyers and processors, as well as quantity, cooperatives can bulk sell, reducing attractiveness of their offer; and (b) members of coops sell maize on side, rather than selling to coop or buyer (in case of contracts between buyers and farmers, e.g. Minimex);
- (4) **Quantitative losses** due to theft.

While actors in the maize value chain interviewed during the study had little foundation for their estimates, they seemed to agree that maize post-harvest losses in Rwanda vary from 20-30%, citing lack of drying facilities as the greatest cause of losses. Other areas where losses may be occurring, but which were not mentioned by any of the interviewees, are as follows: losses during transport, losses during shelling, losses during milling, and losses of maize flour due to insect infestation, rotting, and leakages in packaging.



Akanyaru maize cooperative with rudimentary drying and shelling facilities

H. Targeted Maize Value Chain and Post-Harvest Partners

The PHHS project is likely to be working with the following actors in the maize value chain in the second half of the first year of operations:

Buyers/Traders	WFP P4P, ENAS Nkubili, Maïserie de Mukamira
Support Organizations	NYAMIG (maize platform in Nyagatare District) which is affiliated with RDO/RDI in conjunction with DUTERIMBERE IMF, BAIR (umbrella organization working with producers of maize, wheat and potatoes in north and western Rwanda), Centre IWACU, ROPARWA, Urugaga IMBARAGA and ISAE Rubilizi (for appropriate technology post-harvest equipment)
Rwanda maize cooperatives	Akanyaru River Valley cooperatives, NYAMIG and BAIR assisted cooperatives, COAMV (Burera), Kirehe cooperatives supplying WFP P4P
Regional partners	CATALIST, Market Linkages Initiative (MLI), COMPETE

3. Beans

A. Introduction and Overview of Market Trends

Beans, both bush and climbing, are the most important traded crop in rural areas of Rwanda, and third most important in urban areas in terms of value.⁶ Although bean production and consumption declined in 2004-2005, there have been significant increases in production and consumption in recent years. However, despite the importance of beans in Rwanda, their production and trade do not have any organized structure as compared to almost all other staple crop value chains in Rwanda.

More attention has been devoted to the bean value chain in recent years. The Rwandan Agricultural Research Institute (ISAR) in collaboration with the International Center for Tropical Agriculture (CIAT), developed 15 new varieties that are expected to have greater yields (3-4 MT/ha) and be resistant to legume diseases such as anthracnose, root rot. ISAR began formally distributing these new varieties to farmers on 15 January 2010. The joint CIAT-International Food Policy and Research Institute's (IFPRI) HarvestPlus program has also commenced work on the development and promotion of iron-rich beans.



Field of pole beans in Northern Rwanda

B. Cultivation

Beans are cultivated by approximately 95% of Rwandan farmers, and occupy about 30% of all cultivated land; bean production in Rwanda is conducted primarily by women.⁷ Beans are cropped twice per year, with an average annual production of approximately 238,000 MT.⁸ Production increased following a decline in 2004-2005, with the area under bean cultivation increasing to 360,000 ha in 2007. The most significant increase in production occurred in the eastern districts of Rwanda.⁹

⁶ Ferris et al., 2002

⁷ Ferris et al., 2002

⁸ Based on most recent available data (2000-2007).

⁹ FAOSTAT 2009, Rwanda Beans Profile

Bush bean yields range from 0.8 to 2 MT/ha, while climbing bean varieties have much higher yields of around 5 MT/ha. About 5-10% of harvested bean seed is saved for the next crop, with other seed needs met by purchasing from primary traders; there is no commercial bean seed production in Rwanda.¹⁰

As mentioned previously, HarvestPlus has initiated a research program on iron-rich beans in Rwanda. The first commercial production of these varieties is planned to take place during the 2011A rainy season. Research and production are organized in partnership with local NGO Urugaga IMBARAGA and partner cooperatives, the Ministry of Health, Rwanda's National Agricultural Research Institute (ISAR), and the National University of Rwanda's Faculty of Medicine, School of Public Health, and National Laboratory.¹¹ The HarvestPlus program hopes to organize farmers into bean producer cooperatives in three districts in northern and northwestern Rwanda.

C. Collection and Trade

In Rwanda, self-consumption of beans in rural areas accounts for 49% of total rural production. The Beans are traded by a large number of primary traders and a small number of wholesalers, such as the WFP P4P and Murenzi Supply Company. The primary traders purchase beans directly from farmers and keep a stock to be sold locally, including stock that will be resold as seeds for the next cropping season. Wholesalers are based in and around Kigali and receive their supplies from a network of traders. Typically, retailers will collect beans from the wholesalers, but they may also collect them directly from primary traders.

None of the bean value chain actors have a large degree of control over production, storage, transport and trade, and the level of vertical integration in the value chain is very low. The cost of marketing beans from rural areas to urban consumers is relatively high because of poor access to stores.¹² Bean production takes place on farms which are usually distant from markets, and rural roads are in poor condition. Within the rural communities distances are covered on foot or by bicycle.

In the past, there were significant imports of beans into Rwanda from the Democratic Republic of Congo (DRC), estimated at about 28% of total consumption.¹³

D. Processing and Storage

In Rwanda, beans rarely undergo any processing until reaching the final consumer. A bean plant was once established in Butare, but food safety procedures were not followed, resulting in several cases of food poisoning and eventually closure of the plant.

At present no large commercial or storage stocks exist, although WFP P4P and MINAGRI would like to establish

some facilities. Most beans are stored at household level in unprotected conditions, leaving them vulnerable to insects, temperature and humidity changes. Some of the larger



Abandoned and unused former strategic grain storage facility

¹⁰ H. Hendrickx, personal communication

¹¹ Source: <http://www.harvestplus.org/content/iron-beans-rwanda>

¹² Loveridge et al., 2007

¹³ CIAT 2002

traders, for example ENAS Nkubili and Murenzi Supply Company, have their own storage facilities, but these are not specialized for bean storage, and the product only remains at their premises for a very short time.

MINAGRI has plans to renovate five of the former strategic reserve facilities with a total capacity of 10,000 MT for storage of 3,000 MT beans and 7,000 MT maize by the end of March 2010. Beans will be purchased from the major traders, and the facilities are to be managed by GoR. They eventually plan to build two new silos of 25,000 MT capacity each. Plans are for one silo in Kigali, the other site to be determined. These new storage facilities will replace old strategic storage facilities, which they plan to cede to cooperatives or private sector entities for management.

E. Price Formation

According to the East African Grain Council's Regional Agricultural Trade Network (RATIN), bean market prices in Kigali remained fairly stable at US\$200 to US\$250/ton between 2000 and 2004. Since then, prices have increased and varied between US\$358 and US\$617/per ton - equivalent to 200 to 347 RWF per kg - in 2009. The breakdown for locally produced unsorted beans traded in Kigali is as follows:¹⁴

Farm Gate Price	180 – 200 RWF
Primary Trader	200 – 220 RWF
Wholesale	220 – 250 RWF
Retail	270 – 300 RWF

F. Markets, Investments, Technologies and Potential Trading Opportunities

As mentioned above, beans are the most important traded crop in terms of value in rural areas, and the third most important crop in urban areas.¹⁵ The main market for beans is found in Nyabugogo, Kigali. Beans are rarely graded or selected, nor packaged or branded, although there is potential to increase selling price by grading according to appearance so as to sell “single variety” beans, as occurs in neighboring Kenya.

The largest buyers of beans in Rwanda include WFP P4P, MINAGRI, prisons, boarding schools and other school feeding programs.

In terms of post-harvest technologies which would reduce losses in the bean value chain, the most important is the need to insect proof and insulate seed storage facilities to maintain seed viability.



Current practice for drying beans in Rwanda

¹⁴ RATIN 2009 – www.ratin.net

¹⁵ Loveridge et al., 2007

G. Post-Harvest Loss Summary

As was the case for the other staple crop value chains, no reliable data could be found on the extent of bean post-harvest losses in Rwanda. Interviews and review of secondary data indicated that quantitative losses of beans in storage are caused mainly by weevil and other insect infestations. Another phenomenon known as “hard-shell-hard-to-cook,” which renders the beans unusable, is brought about by lack of control of relative humidity and temperatures in storage. Quantitative losses also occur due to damage during transport and loss of seed arising from the rudimentary threshing techniques. Qualitative losses include discoloration, physical damage during shelling, and aflatoxin build up.

H. Targeted Bean Value Chain and Post-Harvest Partners

The most likely partners to be targeted by the PHHS project with respect to the bean value chain are:

Producers	Cooperatives selling to the WFP P4P, producer organizations supported by the HarvestPlus iron-rich bean program and CATALYST cooperatives who produce beans as a rotation crop with maize
Buyers	WFP P4P, Murenzi Supply Company and perhaps MINAGRI
Support organizations	HarvestPlus, CATALYST, the Banque Populaire
Regional partners	MLI, COMPETE

4. Cassava

A. Introduction and Overview of Market Trends

Cassava production in Rwanda declined over the period of 2002 – 2005 due to the Cassava Mosaic Virus (CMV) epidemic. Introduction of CMV resistant varieties, which contain some cyanide, in 2006-2007 has reversed this decline, but has resulted in almost all of Rwanda’s consumption of cassava flour products. With the exception of the PEARL/SPREAD/ACDI-VOCA assisted cooperative COVEPAR, almost all cassava flour production is at the artisanal level and for local markets only. Some cassava may be exported to the DRC, where it is a popular staple food. Urban consumption was about 21 kg per capita in 2000/2001, while rural consumption is roughly estimated at 30 kg per person and per annum, but differs strongly according to ecology and farming system. In recent years, cassava has become a preferred food of urban middle and low-income citizens as it is inexpensive and easy to prepare.

B. Cultivation

The southern province including the Muhanga, Ruhango and Kamonyi Districts and the eastern province including Gatsibo and Kirehe are zones of high cassava production in Rwanda. Cassava production is best at mid to lower altitudes, and the crop is usually grown in rotation with a wide range of other staple crops, such as beans, maize, and sorghum. The production cycle lasts 12-15 months from planting of cuttings to harvesting. Cassava roots deteriorate rapidly once removed from the ground, and are left in the soil until needed for sale, consumption, or processing.

C. Collection and Trade

Cassava marketing chains in Rwanda are dominated by small-scale informal intermediaries, including: farmers, rural assemblers and traders, transporters, urban wholesalers and retail traders. Some

intermediaries combine different functions. Farmers sell their produce in the field, along the road, at the farm gate on a daily, weekly and biweekly basis. The transaction volume is small, and prices are negotiated at the time and place of sale on the basis of bargaining power between the buyer and seller.

Transport from the farm to market places is a major problem for this staple crop. A strong tradition of rural farmer groups, cooperatives and associations exists, who bulk their produce in rural areas and organize transport to urban markets in order to obtain a better price. There are at least four to five seasonal wholesale markets in each cassava growing province. In Kigali, wholesale trade is organized through a large number of informal wholesale markets. These wholesale markets specialize in all perishable items including banana, vegetables, fruits, and roots and tubers, including cassava). Most vendors are women or transporters, and their clients are retailers and urban consumers.

D. Processing and Storage

Over the past two years, cassava has become a high priority crop for the GoR; at least ten semi-industrial processing facilities were constructed across the country, with a concentration in Bugesera with some facilities in Southern Province Districts including Kamonyi, Muhanga, Ruhango, and Nyanza. A big industrial plant is being launched in Ruhango District. It will be managed by the Banque Rwandaise de Developpement (BRD) and later transferred to the private sector through the Build-Operate-Transfer (BOT) scheme. Other cassava processing facilities include:

- Abandoned CSC UGAMA processing facility in Gatsibo
This facility may become operational if (a) District cedes the facility to the Cassava Initiative Platform (CIP) and (b) CIP receives technical and financial assistance needed to renovate facilities and undertake processing
- PASAB (CARITAS/Catholic Church supported) facilities in Bugesera
- COVEPAR: cassava flour initiative targeting Africans living in France and other EU countries, and developed with strong assistance from the PEAR/SPREAD-projects and ACIDI/VOCA, both using USAID financing.



Abandoned cassava processing facility in Gatsibo

E. Price Formation

The price of quality cassava flour ranges from 300 RWF/kg in local markets to 900 RWF/kg in Kigali supermarkets. Prices are calculated differently for traditionally-made flour and the modern, stabilized flour. Roughly, the pricing chain is as follows:

Cassava fresh roots	40-60 RWF/kg
Cassava chips	150-250 RWF/kg (depending on quality and type of processing)
Milling (as service)	10-20 RWF/kg
Flour	300-900 RWF/kg

F. Markets, Investments, Technologies and Potential Trading Partners

The major outlets for cassava are local markets for flour and potentially DRC markets. Numerous products, not yet manufactured in Rwanda, can be produced from cassava roots. These include livestock feed, for which demand is anticipated to grow due to the GoR's "One Cow per Family" program.

G. Post-Harvest Loss Summary

As with other staple crops, no reliable estimates of cassava post-harvest losses were found during the assessment study; both from interviews and secondary data, the types of losses which occur are:

- Qualitative and quantitative losses brought about by physiological deterioration of the root as soon as it is harvested
- Quantitative and qualitative losses in processing: lack of clean water for soaking peeled roots, lack of adequate drying facilities, both of which result in cassava “chips” which rot quickly if not processed
- Qualitative losses due to artisanal flour production techniques which result in flour with inconsistent quality

H. Targeted Cassava Value Chain and Post-Harvest Partners

The most likely partners to be targeted by PHHS with respect to the cassava value chain are:

Umbrella organizations	INGABO and affiliated cassava cooperatives in the southern province, Cassava Initiative Platform and affiliated members
Research organizations	International Institute of Tropical Agriculture (IITA) in Uganda and Tanzania and the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA)

5. Irish Potato

A. Introduction and Overview of Market Trends

Irish potato has a long history of cultivation and consumption in Rwanda, which dates back to the colonial era. Despite its small size, the country is in fact the largest producer of Irish potato in the East African Community. Most of Rwanda’s potato production occurs in the north and northwest regions, with the harvested tubers transported mainly to markets in Kigali, with some exports to Burundi and Tanzania. The average price for potatoes on local markets has increased steadily since 2002.

B. Cultivation

Irish potato is cultivated in all four provinces of Rwanda, as well as in Kigali city. Rainy Season A (September – February) yields a greater production of tubers than Rainy Season B (March – August); however, there are higher incidences of post-harvest rots in the Season A harvest. The zones of greatest production are the Northern and Western Provinces, which alone account for 90% of Irish potato production in Rwanda, particularly the former provinces of Gisenyi and Ruhengeri which yield approximately 64% of the national production. High yields are achieved in these regions due to the fertile volcanic soils and high altitude.



Chief of Party Anne Turner points out a *Pseudomonas* infected potato plant

Most potato producers grow one crop per year in rotation with maize, beans and peas, while the best practice is actually to grow one crop every two to three years to reduce disease pressure. Similarly, the

production of seed tubers is supposed to be separated from the production of tubers destined for consumption, mainly to avoid carryover of diseases from the field into seed tubers and therefore subsequent crops. However, this is not always carefully monitored and controlled.

Although seed tuber production should only come from cooperatives and producers certified by RADA, visits to fields of certified seed tuber producers revealed a significant lack of adequate disease control measures, with resulting high levels of disease-infected tubers, especially the bacterial disease *Pseudomonas*. Since most farmers do not follow a good potato “Integrated Pest Management” (IPM) production program, which emphasizes disease prevention, they instead apply large amounts of fungicides to control Late Blight and other fungal diseases.

Bacterial wilt, a disease not controlled by fungicides, was the most serious post-harvest disease problem observed, as no bacterial control agents are available or used in potato production in Rwanda. The failure of most farmers to follow IPM programs results in high levels of bacterial wilt infected tubers at harvest. These tubers (a) are prone to rot in storage, and (b) if planted, further disseminate the disease. Potato tubers need to be left in the ground for two weeks after vine cutting to ensure the skin matures, extending the storage life of tubers. Many producers who were interviewed complained that there is a serious problem of theft of tubers over this period, which discourages many from following this practice.

Rwanda’s potato producers are, for the most part, grouped into strong cooperatives, which are supported by both local and international NGOs including BAIR, CECMA/Imbaraga, and ACDI/VOCA.

C. Collection and Trade

Rwanda’s potato producing cooperatives have established collection centers in zones of high production. Some cooperatives, with support from their partners (BAIR, ACDI/VOCA, IMBARAGA), own storage infrastructure that is generally used for storage of seed potatoes. Collectors purchase potatoes from producers at the collection centers, which they sell to transporters and traders. Traders transport and sell the tubers in nearby markets, Kigali city and in neighboring countries including Burundi, Uganda and Tanzania. Some of the large cooperatives have formed organizations to avoid price speculation: for example, CECMA takes charge of transporting the tubers and marketing them in Kigali in order to have stronger bargaining power.

A local NGO, Urugaga IMBARAGA, which is very involved in the potato value chain, has started a project for grading and cleaning potatoes prior to selling them to large supermarkets in Kigali such as Nakumatt and Simba. Prices paid for cleaned, graded potatoes sold in bamboo baskets are over three times the regular market price for tubers.

Major consumers of Irish potatoes are households, hotels, restaurants, and educational institutions, who often purchase from traders or retailers.

D. Processing and Storage

The majority of potato storage facilities in Rwanda are utilized for seed tubers only. Tubers destined for consumption are not stored for any significant period of time, in part due to their high perishability. The seed tuber storage facilities identified during the inception assessment are almost exclusively in northern and northwestern Rwanda, and are in different



New seed potato storage facility

conditions ranging from well built, new facilities to older facilities in need of renovation. The best example is that of the COAMV seed potato storage facility in northern Rwanda, which is newly built, provides solid protection and is kept clean.

The only Irish potato “processing” in Rwanda is the IMBARAGA initiative which washes, grades and packs tubers in bamboo baskets, targeting the high end supermarkets for their sale. There is no production of frozen or dried potato products in Rwanda.

E. Price formation

As is the case with all perishable products, potato prices fluctuate significantly, changing from one season to another and even from one point of sale to another. Price variations arise as a result of changing volumes of production.

Potato production cooperatives and support organizations have started to train producers on how to calculate their profit margin and improve storage of tubers so as to stabilize prices by controlling supplies. However, available post-harvest infrastructure is insufficient, and the lack of application of standards on potatoes sold on the market place results in significant risk of post-harvest losses. Rather than risk these losses, producers seek to sell their potatoes as soon as possible after harvest, regardless of the price. The general price distribution is as follows: if the selling price is 100 RWF, the producer receives approximately 40 RWF, the remaining being split between the collector (20 RWF), the transporter (20 RWF) and the wholesaler (20 RWF). For potatoes which are washed, graded and sold in bamboo baskets, the selling price includes the services provided by the support organization (IMBARAGA) and the costs of the bamboo baskets. Potato producer organizations struggle to 1) reduce the number of steps in the distribution chain and 2) increase their share of the profits.

F. Markets, Investments, Technologies and Potential Trading Partners

The value of potato tubers sold on the market place could be significantly increased, and post-harvest losses reduced, with the simple application of more careful harvest and post-harvest handling techniques – ensuring the tubers are not damaged by harvesting tools, placing rather than throwing containers into trucks and storage facilities, and not leaving the tubers unprotected from the elements while waiting for collection. Improved transportation practices, such as the use of enhanced containers to reduce bruising, less overloading of trucks, and slower driving speeds, would also result in a more attractive, and therefore higher value, product arriving at the market. As mentioned above, more value can also be added by cleaning and grading tubers and placing them in improved packaging for sale to supermarkets, as in the IMBARAGA initiative.



Typical means of potato transport: overloaded sacks stacked on top of one another result in significant bruising to tubers, leading to post-harvest losses

G. Post-Harvest Loss Summary

No data was found on the extent of post-harvest losses of Irish potatoes destined for consumption. Some seed producing cooperatives did have estimations of losses of seed tubers in storage. These are believed to be significant, arising primarily from the storage of disease infected tubers rather than (a) reducing the incidence of disease by following a strict IPM program and (b) rigorously grading out all tubers with signs of disease or injury prior

to storage, as well as periodic inspection and removal of affected tubers during storage. Cleaning storage facilities with a simple disinfectant such as chlorine prior to each new storage cycle would also help to reduce losses. Based on interviews with cooperatives certified by RADA to produce seed tubers, there is an estimated 30% to 50% loss in stored tubers over a 3-4 month period.

Other potato post-harvest losses, none of which are quantified, were found to include the following:

- Premature tuber harvesting resulting in injury and moisture loss
- Damage to tubers during harvest including wounds and bruises. These not only render the product less attractive, but serve as entry points for pathogens
- Damage to tubers during packaging and transport
- Lack of protection of tubers during storage and marketing from high temperature and sunlight
- Unattractive packaging resulting in lower prices

H. Targeted Irish Potato Value Chain and Post-Harvest Partners

Potential partners in the potato value chain include, but are not limited to:

Cooperatives	Those assisted by the soon to end ACDI/VOCA program, supported by the umbrella organization BAIR, based in Gisenyi, supported by IMBARAGA and the Burera based cooperative COAMV
Support Organizations	BAIR, IMBARAGA, CECMA, DERN
Regional Partners	MLI, COMPETE, the International Potato Center (CIP)
The Kigali Fresh Produce Market Facility	If/when it becomes operational

6. Wheat

A. Introduction and Overview of Market Trends

Similar to the situation encountered with maize, wheat supplies from Rwandan producers are both insufficient and do not meet quality standards. Moisture is a serious problem given that all wheat is grown in high altitude zones, and the cool temperatures prevailing make it even more difficult to dry the grain down to required moisture levels of less than 14%. Wheat millers also complain that Rwandan wheat producers grow the “wrong” variety, and that the grain delivered to factories contains a high level of impurities. The director of PEMBE wheat factory in Byumba, one of the largest wheat processors in Rwanda, said that almost all of their wheat flour is produced from imported grain from Argentina, Russia, Brazil, and Australia. This is because local production was not only very small, but reached the factory at a very high moisture content of 17-18%, as opposed to 13-14% for imported wheat.

B. Cultivation

In Rwanda, wheat is almost exclusively produced in high altitude zones. The crop is produced in both rainy season A and B, but a greater percentage of production takes place in season B.

Although small, the wheat value chain has strong support from cooperatives and unions through the provision of inputs, agronomists/training and post-harvest assistance.

C. Collection and Trade

Some of Rwanda's wheat cooperatives provide trucks to collect their members' grain from the production sites to their storage facilities or processing factories (e.g. COPROVAB in Ruhengeri, KOAGIMITA near Gikongoro); some also have collection centers to facilitate this activity (e.g. COPROVAB, UNICOBLE near Gikongoro). Additionally, some of the wheat cooperatives/unions assist their members with marketing of their grain (COPROVAB, UNICOOPAGI, UNICOBLE). Because the prices offered by the wheat millers are often considered to be low compared to market prices, many producers end up selling their wheat on the markets. PEMBE, on the other hand, considers it to be a "waste of time" to work with Rwandan wheat producers, and relies almost entirely on wheat imports, as mentioned above.

D. Processing and Storage

The processing and storage facilities available to wheat cooperatives/unions are largely small and rudimentary. COPROVAB has a small, unsheltered concrete slab for drying wheat and a storage capacity of 100 MT grain. Two of the BAIR-assisted cooperatives have together a total of 70 MT storage facilities which are in poor condition and need renovating, and UNICOOPAGI has a small 50-60 MT wheat storage facility. Only KOAGIMITA, thanks to support from Caritas and the Irish NGO TROCAIRE, has adequate storage facilities comprised of two well constructed buildings with 100 MT capacity each, replete with pallets, a reception area and office.

With respect to wheat processors, the SOTIRU flour mill has basically ceased operations, and is in dialogue with foreign investors to seek support to improve their capacity. The Nyungwe Flour Mill is old, and in need of renovation; only the PEMBE flour mill has profitable operations in Rwanda at present, with a capacity of processing 200 MT of wheat per day, and with plans to increase to 400 MT per day in 2011.

E. Price Formation

With the exception of the Nyungwe flour mill, wheat prices are set by the processors. PEMBE will not accept grain with moisture content above 14%, for which it offers a price of 250 RWF/kg of grain, and before ceasing operations, SOTIRU offered a maximum price of 230 RWF/kg, compared to a market price of 250-300 RWF/kg. For purchase of wheat by the Nyungwe flour mill, a meeting is convened each season between the wheat producers, the processors and the District to negotiate the selling price.

F. Markets, Investments, Technologies and Potential Trading Opportunities

Rwanda's wheat value chain was found to offer the least amount of opportunity in new markets or investments.

G. Post-Harvest Loss Summary

A similar situation was encountered with respect to gathering information on post-harvest losses of wheat in Rwanda, namely that no reliable data exists. Causes of post-harvest losses, without any ranking, were cited to be the following:

- Quantitative losses during transport of stalks, threshing and winnowing
- Rotting caused by storage of moist grain (quantitative)

- Rotting in storage caused by (1) not roguing out rust infected plants in field and (2) not grading out rust infected grain from clean grain prior to storage, resulting in the disease spreading from infected to clean grain Qualitative loss due to impurities (stones, other foreign matter mixed with grain during threshing, winnowing and drying using rudimentary facilities)
- Losses during milling

H. Targeted Wheat Value Chain and Post-Harvest Partners

Potential partners in the wheat value chain include:

Wheat Cooperatives	COPROVAB, cooperatives assisted by BAIR, UNICOOPAGI, UNICOBLE and Caritas-assisted KOAGMITA
Support Organizations	BAIR, UNICOOPAGI, UNICOBLE, CARITAS/RIM, ROPARWA
ISAE	For development of appropriate technology equipment for wheat post-harvest handling
Regional Partners	MLI, COMPETE

7. Soybean

A. Introduction and Overview of Market Trends

Soybean production in Rwanda has never existed on a large scale, and has declined over recent years due to the fact that the Rwandan Agricultural Research Institute (ISAR) has ceased producing the inoculation material needed for nitrogen fixation by the soybean plant (the bacterium *Rhizobium*). At present, only small-scale production and processing of soybean takes place: maize-soy-sorghum blend (SOSOMA), tofu and soy milk (Cooperative ABAHUJE) and production for utilization at the household level in porridge, sauces and snacks.

B. Cultivation

Soybean production in Rwanda generally takes four months from sowing to harvest. The crop is cultivated during both Season A and Season B, in rotation with maize, rice, or other staple crops. Yields are around 500 kg/ha, although demonstration plots where all inputs and improved production practices are applied reported achieving 1800 kg/ha. Soybean is mainly produced by small-scale farmers, and production is not organized into cooperatives with the exception of those producing with DUHAMIC ADRI assistance for the SOSOMA factory, and three cooperatives producing for the ABAHUJE soy milk and tofu factory in Ruhango. As mentioned above, soybean production has been seriously reduced by the cessation of supplies of *Rhizobium*, the bacterium) which must be used to inoculate the seed prior to sowing in order for nitrogen fixation, and therefore good crop growth and productivity, to take place.

While it is a distant and uncertain initiative, plans are reportedly underway for a joint COMPETE/IFDC-CATALIST project to (1) organize a 700 ha soybean farm near Akagera, and (2) contract 7,000 small-scale farmers for soybean production, both towards the goal of supplying an oil and cake processing factory to be established in Kayonza

C. Collection and Trade

The very small volumes of soybeans currently produced result in negligible trade in Rwanda. The only significant commerce is between the ABAHUJE soy processing facility and three cooperatives which

process soybean with their (and IFDC) assistance, and the soybean producing cooperatives affiliated with SOSOMA Industries.

D. Processing and Storage

The company SOSOMA Industries, located in Kigali, processes a small amount of soybeans (300 MT/year) for blending with maize and sorghum to produce a nutritious porridge for children. The only other soy processing operation in Rwanda at present is the ABAHUJE soy milk and tofu factory in Ruhango, which processes 1.5 MT soybeans per year. The facility has got a storage capacity of 10 MT, and is anticipating “modern” equipment before the end of 2010 for production of both tofu and soybean oil, to be provided as a donation from the Association UMUBANO in conjunction with the Friends of the Rwandan Association of Belgian Residents.



Soybean plot adjacent to ABAHUJE soy processing facility

E. Price Formation

The selling price for soybeans in Rwanda varies from 150 RWF/kg for product destined for consumption, to 250 RWF/kg for selected soybean seed. Soybean flour sells for 450-700 RWF/kg, depending on its quality. Tofu, produced by ABAHUJE, sells for 800-1000 RWF/kg.

F. Markets, Investments, Technologies and Potential Trading Opportunities

The outlook for soybeans in Rwanda is fairly bleak at present, with the only potential opportunity being that of the aforementioned plan for a soybean oil and cake processing plant in Kayonza. According to most recent correspondence, this initiative is far from being implemented and in need of significant financial and technical support if it is to be realized.

G. Post-Harvest Loss Summary

Information on soybean post-harvest losses is minimal. The only cause of post-harvest losses cited was shattering of pods in the field, prior to harvest, with no estimation of the percentage lost due to this problem.

H. Targeted Soybean Value Chain and Post-Harvest Partners

If any work is undertaken on soybean under the PHHS project, it will most likely be in partnership with the combined operations of DUHAMIC/ADRI and SOSOMA Industries. Should the Kayonza processing facility come into being within the first year of the project, other partners would include the regional partners CATALYST, MLI and COMPETE together with the soybean producers supplying the factory.

Annex B – Financing and Investment

Overview

Rwanda has taken steps substantial strides in recent years to improve the country's investment landscape and attract private investment. The GoR has made private investment one of its top priorities, eliminating all policies that previously barred foreign investors from directly investing in sensitive market sectors and from owning an unlimited percentage of equity. Regulations have been implemented to simplify the processes of starting a business and registering property – the country is now ranked 11th globally in terms of ease of starting a business.¹⁶ Other attractive investment incentives include simple taxation, such as 100% write offs on Research and Development (R&D) costs, and legal protection of free repatriation of capital and profits.¹⁷

In 2008, Rwanda's Parliament passed legislation to create the Rwanda Development Board (RDB), a one stop shop for all investors and a key resource to improve the effectiveness of the Rwandan government with respect to potential business investors. The RDB merges eight government ministries that bear responsibility for registering and starting a business in the country; its board members include the ministries of finance, commerce, infrastructure and agriculture. It has global expertise and is modeled on other successfully recognized international best practices. For all its efforts, Rwanda has been voted the "world top business reformer" by the World Bank's 2010 Doing Business Report.

Recent macroeconomic data from the World Bank shows that the country's \$4.2 billion economy grew at a respectable rate of approximately 8.5% in 2008, from the previous year's 7.9%.¹⁸ Strong agriculture performances are helping elevate average real GDP growth rates, after a considerable slowdown of 5.6% over the period 2003-2007 that was preceded by a remarkable increase of 10.5% sustained during the first 7 years following the conflict. Data from the Rwandan Development Board, the government agency tasked with promoting Rwanda's business opportunity to the local and foreign direct investments, shows that Gross Domestic Product grew at a rate of 8%, placing it as the highest among the East African Countries members.

Rwanda's geographical location makes it a potentially strategic center for Eastern Africa regional commerce. It is surrounded by Uganda, Burundi, Tanzania and the Democratic Republic of Congo; all countries, along with Rwanda, are members of the East African Community (EAC), a large regional economic bloc that has a combined population and GDP of 125 million and \$60 billion respectively. As an EAC member, Rwanda shares a customs union with the other members, benefiting from duty free importation for all products produced within the EAC and, a common external tariff which translates to 0% on raw materials and capital equipment, 15% on intermediate goods and 25% on finished goods.¹⁹ Additionally, the prospect of an expected common market union, created in 2010, further enlarges Rwanda investment potential.

¹⁶ World Bank. *Doing Business 2010*.

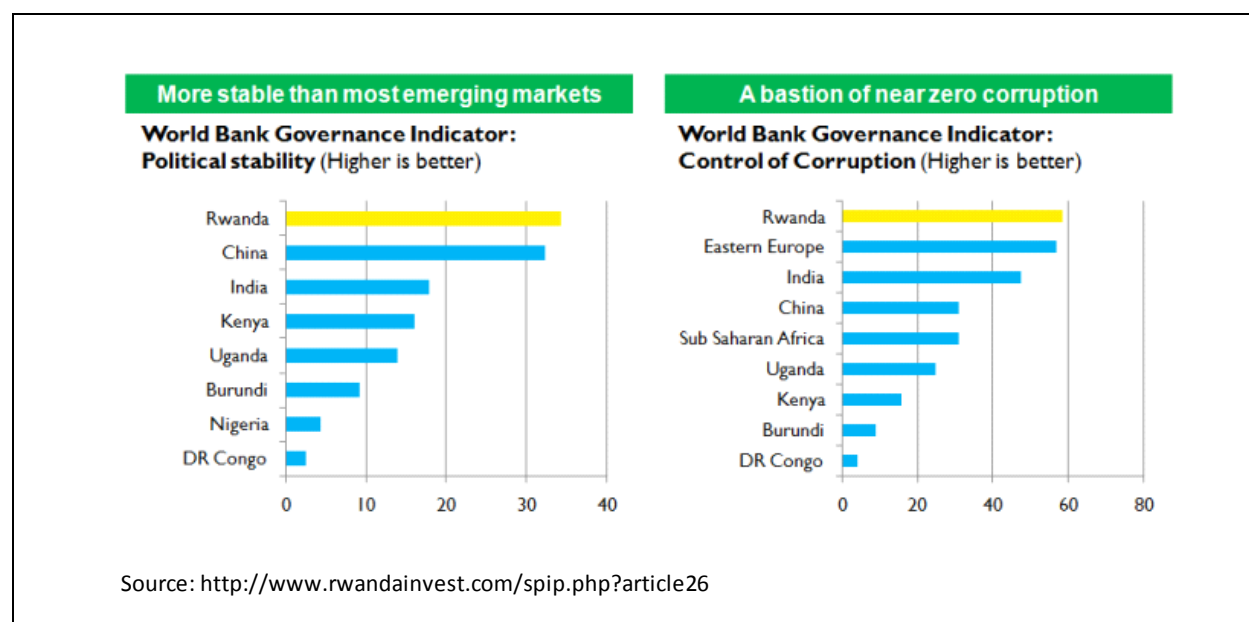
¹⁷ <http://www.rwandainvest.com/spip.php?article52>

¹⁸ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/RWANDAEXTN/0,,menuPK:368714~pagePK:141132~piPK:141107~theSitePK:368651,00.html>

¹⁹ <http://www.rwandainvest.com/spip.php?article52>

The country has had a stable political and governance climate, with a low level of crime. The government, led by President Kagame has made fighting corruption its top priority.

Figure 10: Political Stability and Control of Corruption, Rwanda



Foreign Direct Investment (FDI) data compiled by the National Bank further reinforces the PHHS study's findings that Rwanda's agriculture sector in general, and activities related to post-harvest handling, storage and processing of staple crops in particular receive a relatively low share of investment finance. While figures show (

) a constant increase of foreign investment from 2005 to 2009, the agriculture sector has had limited benefits from this surge. Growth has only occurred twice, in 2007 with the acquisition of one of Rwanda's wheat flour mills by Pembe Flours Mills (a multinational wheat processing company) and few rice mills by foreign investors, including ICM, a leading Australian private agribusiness, representing only 4.86% of FDI that year; and, in 2008 with the 30% equity ownership of Rabobank in Banque Populaire du Rwanda²⁰, representing less than 10% of a total of \$103.35 million for the entire year.

²⁰ <http://www.highbeam.com/doc/1G1-180237240.html>

Table 9: Foreign Direct Investment in Rwanda, 2005 – 2009²¹

Period	2005	2006	2007	2008	2009
FDI (Million USD)	14.24	30.57	82.28	103.35	118.67
FDI in Agriculture Sector (Million USD)	2.3	1.5	4	10.1	0
FDI Growth Trend (Million USD)		16.33	51.71	21.07	15.32
Growth Trend of FDI in Agriculture Sector (Million USD)		-0.8	2.5	6.1	-10.1
FDI Growth Trend (%)		1.15	1.69	0.26	0.15
Growth Trend of FDI in Agriculture Sector (%)		-0.35	1.67	1.53	-1.00
Share of Agriculture in FDI (%)	0.16	0.05	0.05	0.10	0.00

The introduction of credit enhancements products (please refer to the Investment and Financing Potential section below), developed by the GoR, to boost Local Direct Investment (LDI) in the agriculture sector, has had mixed results, highly benefiting the export sector and limiting post-harvest financing in the local grain markets to the purchase of harvested commodities by middlemen contracted by the World Food Program and/or local processing mills.

Rwanda has the resources, as well as the public and private sector capabilities, to facilitate strong, sound investments in its agriculture sector. PHHS will work with all parties to develop investment practices and initiatives which benefit all players in the related agriculture and business sectors.

Summary of Interviews and Consultation of Secondary Data

Interviews conducted with the local financial community revealed that limited funds are allocated to support staple crop post-harvest activities. Few reputable private enterprises, contracting with the World Food Program and major processors, have access to financing for the purchase of commercially viable crops such as maize and rice.

The existing government initiated credit enhancement programs are mostly used to promote pre harvest activities and/or the post-harvest activities of the cash crop sector, of which coffee receives a substantial portion. Financing for infrastructure is made available for the construction of coffee washing stations, adding value for the country's coffee exports which generates more revenues in line with the government's Vision 2020 goals.

Commercial banks have also stressed the lack of existing bankable projects to review. The private sector lacks experienced entrepreneurs capable of clearly conveying manner information about their agriculture projects.

The level of guarantee required to finance a construction investment can be as much as 150% of the value, and the interest rate as much as 19%. These requirements are sometimes cumbersome for the private sector and out of reach for farming groups.

²¹ Source: National Bank of Rwanda, Department of Statistics

Microfinance institutions visited during the study showed an interest in post-harvest financing, but lack the necessary capital and adequate banking products to finance these activities. Additionally, staff trainings are needed to reinforce their capability to make sound decisions in regards viable projects to identify and fund.

Agriculture Financing and Investment Initiatives

I. Government Initiatives

Rwanda is fortunate in that several government-sponsored initiatives exist to facilitate access to finance for inputs and technical assistance to promote the development of the agricultural sector. While none are specifically dedicated to staple crop post-harvest activities, some do have sufficiently broad scopes to enable the provision of both finance and technical support to staple crop post-harvest operations.

A. Guarantee Funds managed by the National Bank of Rwanda (BNR)

As part of its economic policy development and poverty reduction strategy, the Government of Rwanda has developed different credit enhancement vehicles, such as guarantee funds and credit facilities that serve as financial instruments to stimulate investments in priority sectors, the agriculture sector included, to eradicate poverty among Rwandans. These facilities are managed by the BNR and used by interested local commercial banks and MFIs.

These enhancement vehicles are:

- The Rural Investment Facility, Phase 2 (RIF 2)
- The Agriculture Guarantee Facility (AGF)
- The Women's Guarantee Fund.

I. Rural Investment Facility, Phase 2 (RIF 2)

The Rural Investment Facility Phase 2 is designed to favor rural development projects. The facility is structured as a grant financed by IDA, the International Development Agency of the World Bank. It is a funding program that comprises 3 phases, each spreading over 5 years. The BNR is now administrating the second phase with \$10 million, covering up to 25% of any projects dedicated to the GoR's poverty reduction program.

Three main categories of investments are eligible for **RIF 2** funds:

- **Category I: Primary Agricultural Production.** Category I includes investments such as machinery, construction of agricultural buildings, land acquisition and improvements, storage facilities, transport facilities. Projects costs can be between RWF 1 – 50 million. Loans up to RWF 10 million receive a grant of 25% of the investment loan, while loans above 10 million receive a grant of 20% of the investment. Forty-five percent of RIF 2 is intended to be used in this category.
- **Category II: Processing of Agricultural products.** Category II includes processing equipment and construction of processing facilities. Project costs can be between RWF 2 – 150 million. Loans up to RWF 50 million receive a grant of 25% of the investment loan, while loans above this receive 20% of the investment. Thirty-five percent of RIF 2 is intended to be used in this category.

- **Category III: Agriculture Support Services.** Category III includes seed chain investments, extension services, and capacity building. Project costs can be between RWF 2 – 150 million. Loans will receive a grant worth 15% of the investment loan. A maximum of 20% of RIF 2 facility is intended to be used in this category

For the RIF 2 program, PHHS-related activities could possibly be financed under Category II. Please refer to the breakdown below for detailed information on the utilization of RIF 2 as of 27th January 2010.

RIF 2 Utilization by Category (through 27 January 2010) ²²		
	Amount (in RWF)	Percentage
Category I	266,716,738	4.703
Category II	5,250,000	0.093
Category III	0	0.00
Total Spent by 1/27/2010	271,966,738	4.8
Total Amount	5,671,120,160	

Given that 20% of RIF 2 is dedicated to the promotion of activities under Category II, the potential for further support of PHHS-related activities by this program remains high, since the utilization shows that only 0.093% of the current total amount have been already disbursed.

2. Agricultural Guarantee Facility (AGF)

The Agricultural Guarantee Facility (AGF) has been developed to increase the participation of commercial banks in financing the activities of the Rwandan agriculture sub-sectors. It has been created to reduce the banks' exposure to risk in agricultural loans and overcome the lack of insufficient guarantees for entrepreneurs wishing to launch viable projects which have the potential generating growth in the agricultural sector. AGF can cover up to 30% of short term loans and as much 50% of long term loans.

Its RWF 2.8 billion initial source of financing originates from a bilateral agreement between the GoR and, the Netherlands Cooperation, via the Netherlands Royal Embassy in Kigali, each contributing 38.45% and 61.55%, respectively. Recent data (see Table 10) show that thus far, 252 projects have been supported, for a total amount of RWF 8.09 billion, with 77% of the distributed funds awarded to export activities. Subsistence crops, apiculture, aviculture and energy make up 11% of funds awarded. During the inception assessment, the PHHS team was not able to obtain any data regarding the percentage of the fund allocated to staple crop activities in general, and post-harvest activities in particular. However, from the information obtained from commercial banks, it seems likely that at least some of the loans awarded under this fund were used to fund the purchase of commercially viable staple crops, such as maize and beans, in conjunction with the WFP P4P initiative.

²² Source: Rural Investment Facility Utilization as of 01/27/2010, Rhoda Rubaiza, MINAGRI

Table 10: Distribution of AGF Financed Projects by Sector

Sector	Amount in Rwf	In %
Coffee	3,771,057,720	47%
Tea	1,323,316,034	16%
Horticulture	1,187,257,016	15%
Cattle Breeding	699,742,660	9%
Macadamia	61,572,615	1%
Fertilisers	166,660,000	2%
Others*	877,551,490	11%
Total	8,087,157,535	100%

*Others: Subsistence crops, Apiculture, Aviculture, Energy

Source: BNR, Financial Market Department

The expectation for further investments for PHHS-related activities from this source of finance can be based on the fact that all agricultural activities are eligible for the AGF Program, including: production, processing, distribution, and all other activities allied to agriculture, including the purchase of inputs. Project proposals, however, must be financial viable/bankable, and the investor must be capable of paying back the loan facility.

3. Women's Guarantee Fund

The Women's Guarantee Fund has been created within the framework of the GoR's poverty reduction strategy. It has been designed to be an investment vehicle dedicated to assist women access credit in a banking system that usually bars women because of lack of guarantees. Funds are derived from the GoR budget allocated to the Ministry of Gender and Family Promotion (MIGEPROF). The initial fund was estimated at RWF 255 million and covers all micro-projects undertaken by women, whether individually, by association or cooperatives. All loans awarded are up to RWF 5 million for individuals, and up to RWF 10 million for cooperatives and associations. The PHHS assessment was unable to obtain any detailed information regarding agricultural activities eligible for funding from the Women's Guarantee Fund.

B. Other Government-Sponsored Initiatives

I. Rural Sector Support Project (RSSP)

The objective of Rwanda's agricultural sector strategy is to enhance food security and increase rural household income by converting existing agriculture activities, highly dependent on subsistence farming, into viable and commercially driven activities. RSSP is a project financed by the World Bank and emanating from the **Ministry of Agriculture and Animal Resources (MINAGRI)** to ensure the achievement of these objectives. Its mission is to assist the Government of Rwanda achieve its strategic goal of revitalizing the rural economy and thereby reducing poverty, and reinforcing national stability. Its two key functions are the promotion of an input distribution system and the country wide improvement of the agricultural marketing system.

To promote input distribution systems, the RSSP approach is to:

- Provide technical and financial assistance to private traders in order to raise their capacity to import and distribute fertilisers and seeds to farmers;
- Promote the multiplication and distribution of improved seeds and livestock breeds by the private sector;
- Support the emergence of private sector based extension system to increase the adoption of new and modern innovations.

In line with the PHHS project activities, the RSSP approach to improve local agricultural marketing systems is to:

- Facilitate farmers' access to marketing services through technical assistance to farmers and local communities with respect to product conservation and marketing
- Encourage private sector investment in marketing services, and facilitate the flow of market information

2. Millennium Village Program in Rwanda²³

The Millennium Village Program is designed to expose ways to achieve the eight Millennium Development Goals in rural Africa within five to ten years “through community-led development. It has a pilot site in Rwanda that is located in Mayange, a sector of Burgesera District. The program has recently built a cassava plant production that employs 700 locals. This has been a result of the diversifying to new crops to combat drought incidents, common in the district. The project is also introducing the community to micro-credit, namely by raising awareness of the existence of micro-finance institutions and how they can be utilized to fund income generating activities, resulting in many farmers accessing micro-credit to purchase agricultural inputs.

Whether or not farmers will utilize micro-credit in the future to support staple crop post-harvest activities remains to be seen. The Millennium Village is funded by the Millennium Promise, a non-profit organization, the United Nations Development Fund and Columbia University's Earth Institute and relies on local government existing mechanisms, i.e. health workers and other civil servants specialized in rural administration, to implement its program. Annual funding for the program approaches \$300,000, including \$50,000 for overhead cost.

3. CAADP National Compacts

Signed on March 29 – 30 2007 in Kigali by the Rwandan Ministries of Agriculture and Finance, the Africa Union, COMESA and national development partner representatives, the **Comprehensive Africa Agricultural Development Program (CAADP)** was born as an African instrument that seeks to eliminate hunger and reduce poverty through a focus on agriculture. CAADP signatory countries have agreed to increase their public investments in agriculture, raising it to a minimum of 10% of their national budgets. The aim of this is to stimulate a minimum annual growth of 6% in agricultural productivity.

In the case of Rwanda, the focus of the CAADP process is to strengthen and add value to the Strategic Plan for Agricultural Transformation (PSTA) under the ongoing Economic Development and Poverty

²³<http://www.millenniumvillages.org/resources/index.htm#08>;
http://www.millenniumvillages.org/docs/news/press/AllAfricaCom_28August2009.pdf

Reduction Strategy (EDPRS). In Section 3.3 of its National Aid Policy, the Government of Rwanda (GoR) stresses the essential nature of strong strategic plans in all sectors and calls for the improvement of existing policies and strategic plans. The ultimate goal of the CAADP process in Rwanda is to answer that call for the agricultural sector by:

- i. helping define a coherent long term framework to guide the planning and implementation of current and future EDPS/PSSTA programs under the Vision 2020 agenda;
- ii. identifying two strategic options and sources of poverty reducing growth for the agricultural sector between now and 2020; and
- iii. developing existing and new strategy analysis and knowledge support systems to facilitate peer review, dialogue, and evidence based planning and implementation of agricultural sector policies and strategies. Furthermore it is intended that the national compact will provide a basis and inputs into the formulation of a supporting regional compact.

CAADP opportunities for PHHS-related activities

In the MINAGRI-sponsored stakeholders meeting on the CAADP Program held in Kigali on 7-8 December 2009, under **Program 3, Item “Government and Development Partners Planned expenditure”**, it was revealed that there are three sources of funds available for PHHS-related activities in Rwanda. These sub-programs funds are:

- US\$ 14,522,417 dedicated to the production and value addition for domestic staple products for the period 2009 – 2012,
- US\$ 26,653,638 dedicated to promote the Market - oriented rural infrastructure for the period 2009 – 2012,
- US\$ 14,522,417 dedicated to strengthening rural financial systems for the period 2009 – 2012.

Source: *Linkages between the CAADP and PSTA II study prepared by OTF Group July 2009*

In addition to the above CAADP-sponsored sources of funds, the initiative has identified seven private-sector investments expected to be realized in the context of Public Private Partnerships, where the GoR will take on some of investment risk and provide some of the infrastructure required for the initiatives, which are described in the table below.

Table 11: Expected Investments (US \$)²⁴

Activity	2009/10	2010/11	2011/12	Total Contribution to Funding Gap
Flower Park Development	5,000,000	5,000,000	5,000,000	14,000,000
Fresh Wholesale Food Market	12,000,000	10,000,000	10,000,000	32,000,000
PPP for Juice Concentrate Production	15,000,000	15,000,000	15,000,000	4,500,000
Mukamira Milk Processing Plant	15,000,000	15,000,000	15,000,000	4,500,000
Creation of Coffee Roasting and Packing Units	235,000	150,000	150,000	535,000
Tea packaging and Blending Plant	900,000	0	0	900,000
Warehouse Receipt Systems	100,000	100,000	100,000	300,000

²⁴ Source: Linkages between the CAADP and PSTA II study prepared by OTF Group July 2009

In large part as a result of the global financial crisis, however, the above private sector investments have not yet been secured. The Warehouse Receipt Systems initiative, as noted in the above table, only reflects a very small proportion of the targeted investments.

4. Rwanda Development Board

Among other activities, Rwanda Development Board (RDB) has the mandate to inform the private sector about opportunities in agro processing and encourage full integration of value chains. One of its achievements was the 60% equity acquisition by the international company, ICM of rice mills in the Rwanda. The RDB is actively pursuing a value addition strategy for the Rwanda agriculture sector, with the objective of developing agricultural-based industries that will transform agriculture products locally, raise export revenues and improve the country's deficit account balance. The RDB is seeking both foreign and local direct investment of at least \$250,000, especially in the heavy equipment sector where an aggressive push is being made to industrialize the country. The board actively promotes the tax incentives (0%) on imported equipments.

The RDB functions as a one stop station where the registration of a company: identification of land for sale, lease and purchase is possible; assistance to apply and pay for customs obligation is available; immigration work permits can be processed; all services associated with establishing an investment in Rwanda are conducted.

The RDB also serves as an advisor, reviewing investors' business plans to ensure they are viable before providing fiscal and customs endorsements of same.

Additionally, the RDB helps businesses to establish and mobilize investor interest where opportunities exist. It is now promoting the horticulture sector and helping set up a fresh produce market, which could service the Irish potato value chain.

Finally, the RDB provides information on agricultural opportunities and promotes rural investment. It coordinates with the four provincial investment groups (Northern Provincial Investment Corporation, Southern Provincial Investment Corporation, Eastern Provincial Investment Corporation and Western Provincial Investment Corporation) established by the private sector to identify private investment opportunities in rural areas.

2. Private Sector Associations

A. Private Sector Chamber of Agriculture

The Chamber of Agriculture and Livestock is a professional organization created in June 2006 to represent the private members of the agro-pastoral industry in Rwanda. Its mission is to build an organizational framework for farmers and stockbreeders, reinforce their capacities of intervention and represent its members' interests with the governing authorities and within the private sector. For the agriculture sector, the focus is on reinforcing production and processing of agricultural products as well as marketing of the same. In particular, the Chamber wishes to tackle the issue of adding value to both exported and imported agricultural products, thus fulfilling a vision of promoting Rwandan agribusiness at the local, regional and international level.

With regards to post-harvest activities, the Chamber of Agriculture and Livestock focuses on:

- Developing the capacity building of cereal/staple crops farmers by establishing local training sessions and/or scheduling international agriculture exposition site visits, for example sponsoring attendance of Rwandans to agricultural expositions in China and India in 2009. The objectives of the sessions and site visits included dissemination post harvest management best practices.
- Promoting markets linkages in Rwanda by establishing contacts between cereals/staple crops producers and buyers across the country.
- Linking cereal producers with potential sources of funding. One example in this context is that the Chamber was successful in linking a local maize a producer, Mr. NKUBILI with MINAGRI, for assistance in the construction of his maize storage facilities in the Western Province.

B. USADF's Rwanda Program²⁵

USADF is an independent Federal agency established to support solutions that address African grassroots economic and social problems. In Rwanda, USADF shares the Government's commitment to private sector development, particularly in community based small enterprises and cooperatives. Its development assistance programs focus on capacity and infrastructures building. Through its Enterprise Development Investments (EDI) Program, USADF provides capacity building assistance, funding up to \$100,000 over a period of two years, to improve the financial, managerial, and technical capacity of the program beneficiaries. Limited additional funds, deriving from EDI can be allocated for fixed capital or working capital costs. Overall, EDI positions the grantee to effectively utilize future expansion funding through its Enterprise Expansion Investments (EEI), other public and private funding sources. USADF provides assistance for the acquisition of fixed assets among which, equipments, supplies and infrastructures through its Enterprise Expansion Investments (EEI). EEI provides funding for up to \$250,000 over five years for established enterprises and organizations with viable growth and expansion plans.

As of now the USADF has financially assisted the construction two community storage facilities for Irish potatoes (at a budgeted total amount of RWF 10.3 million) and provided milling equipment, improved drying facilities and two storage warehouses (at a value of RWF 5.5 million each) for a rice cooperative (Cooperative de Riz de Mirenge) in the Western Province.

3. Other Initiatives

A. The Market Linkages Initiative

The Market Linkages Initiative (MLI) is regional project funded by the Global Hunger and Food Security Initiatives designed to promote growth in staple crop value chains and food security by integrating low scale staple food producers into the commercial markets. The MLI project has a grants funding mechanism which can be used to improve storage facilities and services close to rural areas in targeted market areas, enabling these facilities to become collection and trading centers. The grant will also serve as a source of funding for capacity building of producers in storage conditioning to ensure quality and minimize storage losses. In Rwanda, the grant has set aside \$800 thousand for potential grants to be utilized for PHHS related activities, ranging from improving of post harvest equipment to upgrading the skills set of producers and private enterprises actively involved in post harvest activities.

B. The Competitiveness and Trade Expansion Program

²⁵ <http://usadf.gov/>

The Competitiveness and Trade Expansion Program, COMPETE, is a four year regional USAID funded project that, among other activities, is “working to reduce poverty” by improving small holders farmers access to commercial staple food markets. Through its Partnership Fund and a grant of \$24.6 million, COMPETE awards grants to cereal grower associations to help promote food crop security in the East Africa region by focusing on creating “village-based” post harvest infrastructure for farmers. The Partnership Fund emphasizes construction of storage and processing facilities, towards the ultimate goal of enhancing regional trade by improving post harvest conservation and quality standards. There is considerable scope for the PHHS project and COMPETE to collaborate, as is described in Sections 4.4 and 5 below.

C. The Rwanda Enterprise Investment Company

Similar to a private equity/venture capitalist, the Rwanda Enterprise Investment Company (REIC) fund was established to assist enterprises in Rwanda access capital. It is financed by a private and public consortium, made up of GoR (33.33%); BRD, Martha Group, Caisse Sociale, Housing Bank of Rwanda (all sharing 16.67%) and; private funds (50%). The fund mainly focuses in early stage companies providing seed financing and technical assistance when needed, in investment opportunities within the Rwandan border and, in growth sectors of the economy. It seeks to only work with entrepreneurs that have substantial experience in their industry. As of yet, REIC has not made any private sector agriculture investment because the country lacks of accurate production data to substantiate any investment in that sector. REIC has an initial capital of \$12 million, expects an internal rate of return on investment of 25% to 30% over a period of 4 to 5 years and, targets incorporated entities with annual revenues of \$50 thousands to \$500 thousands. It can structure a hybrid financing with an equity ownership of 30% and, is modeled to be a filling gap for the commercial banks, by lowering its collateral requirement.

D. “Warehouse Based” Financing Schemes

The implementation of a Warehouse Based Financing structure requires the availability of long term investment loan facilities. The banking sector is not effectively present in the area. However, some MFIs are willing to partner with other GoR initiatives to implement various programs in the country. It is in this capacity that The PHHS Project, in conjunction with the IFC, will explore the possibility of setting up a permanent training center which will help to assist either farmers, processors, banks, MFIs, etc. with technical, management and financial training on post harvest activities for a sustainable warehouse base financing program expansion in Rwanda agriculture Sector.

At present few warehouse base financing activities exist. The examples are:

➤ CAF Isonga

The Rwandan experience of CAF Isonga in the Southern Province is exceptional in its simplicity and innovative nature of its operations. The CAF Isonga model uses a tripartite approach to link farmers with warehouse and credit facilities. The micro-finance institution finances all farming activities, both pre and post harvest, (production, harvest, storage, distribution network). The model, although new, has demonstrated success in increasing farmer profitability.

➤ RIM

The Rwandan Catholic Church MFI RIM is participating in the Projet d’Appui a la Securite Alimentaire au Bugesera (PASAB). It is engaged in financing staple crop post harvest activities and intends to replicate

the experience across the country. RIM finances cooperatives by using groups as collateral. It disbursed RWF 7million in 2009 season A and RWF 5 million in 2007 season B.

RIM plans to contact IFC for the Program feasibility study.

➤ **AMIR**

AMIR is an association of MFIs in Rwanda. AMIR, BNR, MINAGRI and MINICOM in a meeting held at BNR in September 2009 agreed to initiate a common strategy for the implementation of the WRS Program in Rwanda.

AMIR has already identified 30 MFIs which can partner with cooperatives to execute the WRS Program. MINAGRI will build and renovate the existing warehouses and work with farmers' cooperatives to strengthen the agriculture activities and post-harvest handling issues, while MINICOM will work with cooperatives to address the marketing and commercialization of the harvest.

Because of its presence in the rural areas, AMIR will play an important role to implement warehouse based financing across the country. AMIR is working to consolidate the micro-banking sector in the country by developing innovative savings and microloan products such as, micro-leasing, micro-insurance.

Rice cooperatives are well organized and, have been targeted to pilot warehouse based financing programs. They serve as credit guarantors and, usually finance and store their members' harvest collection until, the price of rice stabilizes, upon when it is then sold and the loan reimbursed. In such scheme, the management of the warehouse based financing system is shared between the cooperative and the MFI.

➤ **COMICOKA**

COMICOKA is a young MFI engaged in maize and Irish potatoes agriculture activities in the Western Province. It has been selected to participate in the AMIR Microleasing Pilot Program. It is a participating institution in the RIF 2 Program. With some cooperatives, the COOPEC COMIKOCA is evaluating how to initiate a warehouse based financing program, since its members have already expressed the need for storage of their harvest.

Overall constraints facing MFIs can be summarized as follows:

- lack of capital to finance the warehouse buildings;
- lack of staff skills to identify bankable agricultural proposals; and
- lack of enough management skills in terms of warehouse based financing.

4. Partners

A. Introduction

In order to successfully achieve the PHHS project goals, including meeting the objective of mobilizing private sector resources to stimulate investment in the construction and management of post-harvest facilities, the PHHS team is likely to work with various partners.

To reduce the percentage of post harvest lost emanating from the lack of adequate post harvest handling farmers' groups or cooperatives will have to seek investment for the construction and/or rehabilitation of primary post harvest handling and storage facilities capable of drying, grading,) and storing their crops until suited buyers are identified and commodity prices recover. Microfinance institutions (MFI) working in the rural sector are best equipped to provide this financing.

To secure the amount of private sector funds which should be leveraged and increase the number of post harvest facilities constructed and purchased, PHHS will have to identify commercial institutions participating in the National Bank agriculture credit enhancement programs, and willing to commit their capital investment for post harvest infrastructure. The initial assessment found that nine commercial banks are participating in the RIF2 programs. Some commercial banks surveyed appeared enthusiastic about the prospect of collaborating with the PHHS project to identify suitable organizations willing to undertake such investments. However caution should be used as local banks are known to evaluate loan applications on the "case by case" basis.

The PHHS project will work with suitable entrepreneurs willing to renovate, expand and/or build commercially scaled post-harvest infrastructure facilities to reduce post harvest losses and increase the number and quality of these facilities in the country. The likely targets will be purchasers of substantial quantities of staple crops, already well known in the private sector and possessing existing selling contracts, such as the WFP P4P program, millers and other processors. The PHHS project will provide assistance in loan application processing, business plan writing and accessing cost sharing equipments financing, most likely with the MLI grants mechanism.

The PHHS project will also work with service providers capable of providing training in investment, sales and marketing. Furthermore both the service providers and the PHHS project will collect and publish information on post harvest management trainings' best practices.

B. Commercial Banks

La Banque Populaire du Rwanda is a local bank that is actively present in the rural sector. The bank is currently working with the RSSP program in the Akanyaru region and rice cooperatives supplying Gikonko Rice mill. The PHHS project could partner with this financial institution to develop business plans for the farming groups seeking post harvest financing.

Ecobank has also expressed interest in working in collaboration with the PHHS project to identify cooperatives or individual entrepreneurs seeking post harvest infrastructure financing.

Rwanda Development Bank (BRD) is a government owned financial institution specialized in promoting investment in the agriculture sector. The PHHS project will work with BRD to identify suitable entrepreneurs and/or cooperatives seeking to invest in post harvest infrastructure.

C. Services Provider

Center for Business Solution (CBS): PHHS will work with CBS to provide training in post harvest investment, sales and marketing to entrepreneurs and head of farmer organizations. The training will be complementary to the business plan writing assistance that the PHHS project will provide. PHHS will also use CBS database to access information on previous training participants who may be potential beneficiary of PHHS services.

D. Banking Sector Experience

Almost all commercial banks and the BRD under the supervision of the BNR have signed a partnership agreement to use the BNR Guarantee Funds in financing the agriculture sector. Despite this, the experience in banks shows that the level of funding the agriculture area remains minimum, compared to the total banks' loan portfolio.

Examples²⁶:

- The Access Bank Relationship Manager stated that with the assistance of the RIF 2 Program, the bank agriculture lending represent only between 5 to 10% of the total loan portfolio.
- COGEBANK also utilizes the BNR Agriculture Funds, but its agriculture loan portfolio of RWF 5 billion represents less than 10% of the total bank loan portfolio. As of now, the Bank has financed a warehouse receipts scheme for coffee export.
- ECOBANK is practically absent in financing the agriculture sector. According to the Head of Commercial Finance/SME, the Bank prior experience in the agriculture financing has been unsuccessful. As of now, with the BNR Programs, the bank has awarded only one loan facility to the SOPAV, a private agriculture input trader with \$200 thousands facility for the purchase of maize, under a contract with the World Food Program.

Conclusions and Recommendations

A. Conclusions

The PHHS inception assessment study found that Rwanda has limited credit enhancements targeting staple crop post harvest activities. Nine commercial banks are participating in the RIF2 programs²⁷ and, only two (representing, 16.3% of the total funds disbursed) have awarded loans under the program as of January 27th, 2010²⁸, for a total disbursement of RWF 271, 966,738. Seventy-four percent of total disbursement has been made by two MFI's, one of which is the COOPEC of COMICOKA, and thirty five percent% has been lent to staple crop pre harvest activities, further confirming PHHS findings. The disinterest of financial institutions to provide post harvest financing is further exhibited by the lack of staff expertise to identify viable projects and/or organized farmer organizations with substantial production capabilities. With the exception of BRD and Banque Populaire du Rwanda, few financial institutions have the dedicated resources for post-harvest activities related to staple crops.

MFIs are well positioned to have a significant input in the development of rural post harvest financing. However, their limited capital hinders any investment lending opportunities because of the long term period associated with the repayment. They are willing to finance most pre harvest activities, but refrain from providing post harvest financing at the farmers' level. During harvest, they prefer to receive reimbursement from their loans from farmers, and lend to the speculators and small local grains buyers working independently or contracting with major grain wholesalers. This is one of the causes of the abundance of staple crops available on the market after harvest. Farmers are pressured to repay their loans, and must sell their harvested product at any price to meet their obligations. Those MFIs which lack the knowledge and resources to finance profitable post harvest financing activities, i.e. "warrantage",

²⁶ Source: PHHS Team visit reports

²⁷ National Bank of Rwanda, Mme. Kagwesage Nz. Adelaide, Mgr, Special Funds & Line of Credit

²⁸ Rural Investment Facility Utilization as of 01/27,2010, Rhoda Rubaiza, MINAGRI

prefer to receive repayment of these loans and lend to the local merchants for shorter period of time, less than the six months required by the agriculture sector.

B. Recommendations

In addition to the technical assistance provided by the PHHS project, credit enhancement should be made available to “raise the appetite” of both commercial banks and MFIs to offer lending facilities for the financing of post harvest infrastructure. These enhancements should be solely developed for post-harvest infrastructure financing, and used to complement the existing government financing programs as an “enhancing tool”. The PHHS project foresees that the hybrid usage of these enhancements will not only increase construction investments but will also entice commercial banks to relax some of their guarantee requirements.

At the rural level, PHHS recommends developing long term credit enhancements for primary post harvest handling and storage constructions and for post harvest equipment purchase for the rural financial sector. A credit guarantee and/or facility housed at few MFI's, actively involved in providing access to credit and technical assistance to rural farmers groups and/or cooperatives should be emphasized.

The PHHS project was approached by a local commercial bank to explore the possibility of signing a memorandum of understanding to collaborate in identifying suitable loan applicants seeking post harvest financing. The project will attempt to replicate similar collaboration with other institutions.

ANNEX C – REVISED PERFORMANCE MONITORING PLAN (PMP)

Post-Harvest Infrastructure and Management

During the inception assessment exercise, it soon became apparent that the original targets set in the project PMP need to be revised downward. To begin with, the number of storage/processing facilities already in place in Rwanda is extremely low. Discussions with MINAGRI indicated that their estimations are that just over 80 staple crop storage facilities exist in Rwanda at present. The revised indicators presented in the Project Monitoring and Evaluation Plan below reflect the reduced numbers of post-harvest infrastructure facilities, and the lower numbers of farmers using these facilities, as well as volumes of products stored.

On the basis of the plans for training in improved post-harvest handling techniques and technologies, the PHHS project proposes to use a system whereby agronomists or other individuals working with farmers will be trained as “Master Trainers”; each shall in turn, with project assistance, provide training to individuals or “lead farmers”.

As indicated in the value chain assessment findings in the main report, the PHHS team found that reliable data on current post-harvest losses for staple crops in Rwanda simply does not exist. The MINAGRI Post-harvest Program uses a very rough estimation of “30% for all agricultural commodities”. PHHS believes losses may be higher from more perishable products such as the Irish potato. The figure of 30%, provided by MINAGRI, will be used as the baseline indicator.

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Indicator	Unit of Measure	Disaggregation	Data Quality	Data Collection Method	Collection Frequency	Reporting Frequency	Base-line (FY 2008)	Year 1 Target	Year 2 Target	Year 3 Target
New construction for post-harvest/ processing units commenced with PHHS assistance	storage units	commodity	High	Site visits	Monthly	Quarterly	n/a	115	225	275
No. of post-harvest storage/ processing centers for which site selection finalized	storage units	commodity	High	Site visits	Monthly	Quarterly	n/a	150	250	325
No. of storage/conditioning/processing centers constructed/ purchased with project assistance.	storage units	commodity	High	Site visits	Monthly	Quarterly	0	100	200	265
Amount of private sector funds leveraged to support post-harvest storage/ conditioning/ processing centers	dollars	commodity	Medium	Interviews with investors	Annually	Annually	n/a	\$50,000	\$150,000	\$200,000
% decrease in post-harvest food losses in project sites	percentage	commodity	Medium	Interviews with buyers/ farmers	Annually	Annually	30%*	5%	10%	15%
No. of farmers using storage/conditioning/processing centers with project assistance	farmers	gender	High	Site visits	Monthly	Quarterly	0	18,000 (###/###)	22,000 (###/###)	24,000 (###/###)
Quantity of selected commodities stored in improved storage facilities	metric tons (MT)	commodity	High	Site visits	Monthly	Quarterly	n/a	5,000	10,000	12,500
Number of rural households benefiting directly from PHHS assistance	# of households	gender	Medium	Interviews with farmers	Quarterly	Quarterly	n/a	18,000	22,000	24,000
Number of producer unions, trade + business associations, and community-based organizations receiving direct assistance	# of organizations/ associations	n/a	High	Active list of partners	Quarterly	Quarterly	n/a	50	50	50
Number of agriculture-related firms benefiting directly from PHHS assistance (access to invest + loan)	# of firms	n/a	High	Active list of partners	Quarterly	Quarterly	n/a	2	7	6
Number of individuals who have received short-term agricultural sector	# of people	gender	High	Training records	Monthly	Quarterly	n/a	11,000	20,000	10,000

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productivity training										
Number of farmers, processors, and others who have adopted new technologies or management practices	# of people	n/a	High	Site visits	Annually	Annually	n/a	11,000	22,000	11,000
Number of SMEs that successfully access bank loans or private equity	# of SMEs	n/a	Medium	Interviews with investors	Annually	Annually	n/a	1	3	5
Number of firms receiving assistance to invest in improved technologies	# of firms	n/a	High	Interviews with firms seeking financing for investment	Monthly	Quarterly	n/a	1	4	1

*Current percentage post-harvest losses as estimated by MINAGRI

ANNEX D – List of Interviews and Stakeholders Met

A. Buyers/Traders/Processors				
Organization	Contact	Title	Tel.	Email
World Food Program P4P	Emmanuela Mashaya	Coordinator	078 518 6324	emmanuela.mashaya@wfp.org
World Food Program P4P	Denis Mupenzi	Procurement	Tel. 0788 845 8200	denis.mupenzi@wfp.org
MURENZI SUPPLY	Donatien MURENZI	Directeur General	078 830 0759	murenzidon@yahoo.fr
	Ignace MWIZERWA	Commerçant	0788504875	
ENAS	Alfred NKUBILI	CEO	0788301967	
MINIMEX S.A.	Félicien MUTALIKANWA	CEO	0788300240	fmutilikanwa@yahoo.fr
SOSOMA INDUSTRIES S.A.	Thadée MUSABYIMANA	Directeur Général	0788304189	thaddemu@yahoo.fr
MAISERIE MUKAMIRA	Enode NDUWAYEZU	Managing Director	0788346225 or 0788604394	nduwenode@yahoo.fr or maizemanco@yahoo.fr
Rwanda Development Investment company (RDI) Nyagatare, Eastern Province	Obald Ndizihiwe	Extension Agent	0788282094	
NYAMIG (Nyagatare Maize Investment Group)	Eric Ntukabumwe	President du CA	078 835 5563	
NYAMIG (Nyagatare Maize Investment Group)	Shumbusho	Secrétaire du CA	0783072713	
Gatsibo Cassava Innovation Platform	Modeste Sebazungu	President	078 859 0412	
ICM Rwamagana Rice Mills	Theoneste Bikolimana	Technical and Operations Director	0788490008	bitheos10@yahoo.fr
KOAGIMITA, Stockage de blé a Mbuga, Nyamagabe	Vénantie Mukashyaka	Trésorière du CA et Gestionnaire des Stocks	0783333857	

B. Support and Umbrella Organizations				
Organization	Contact	Title	Tel.	Email
Ministry of Agriculture and	Ernest Ruzindaza	Permanent Secretary	0788 300765	ruzindaza@yahoo.fr

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Animal Resources (MINAGRI)				
MINAGRI	Gilbert Kayitare	Head, RADA Post-harvest Program	0788 594474	kagicade@yahoo.fr
MINAGRI	Alexandra Lowe	Consultant, Department of Planning	0783 852702	a.lowe.MINAGRI@gmail.com
MINAGRI	Rhoda Rubaiza	Consultant, Department of Planning	0783 342425	rubaiza@gmail.com
Rural Sector Support Program (RSSP)	J Jolly Dusabe	Director		jollydusabe@gmail.com
Institut des Sciences Agronomiques du Rwanda	Christine Mukantwali	Post-harvest Unit	0788 445328	mukantwalichristine@yahoo.fr
Institut des Sciences Agronomiques du Rwanda	Jean Ndirigne	Coordinator in Charge of Mid Altitude Research Center	0788 527320	ndrick@yahoo.fr
Rwanda Development Board	Rosemary MBABAZI	Director General Investment Promotion Unit	(250) 0788306391	rmbabazi@rwandainvest.com.rw
DUHAMIC ADRI	Innocent Benineza	Secrétaire Exécutif	0788305329	duhamic@rwanda.l.com
UGAMA CSC	Laurien Jyambere	Coordinateur	0788 840 4460	jyamberelaurien@hotmail.com
SYNDICAT INGABO P.O. BOX. 50 MUHANGA	Joseph Karangwa	Chargé de Programmes	250 55105421 ; 0788651849	ingabo@rwanda.l.com ; karangwajoseph@yahoo.fr
HARVEST PLUS	Harrie Hendrickx	Head of Product Delivery		h.hendrickx@cgiar.org
HARVEST PLUS	Jean d'Amour MANIRERE	Country Manager for Iron-Rich Bean	0788306916	j.manirere@cgiar.org
RWANDA DEVELOPMENT ORGANIZATION (RDO)	Augustin BAHORANA		Tel. 078 821 2604	
ROPARWA	TUMUKUNDE Aimée Marie Ange	Secrétaire Executive	Tel. 0252 589573; Cell 078 830 7930	roparwa@rwanda.l.com ; aimetum@yahoo.fr
CENTRE IWACU	MUPENZI Georges	Coordinateur	Tel. 55117086, GSM. 078 830 1546	ciwacu@rwanda.l.com , gmupenzi@yahoo.fr , Site Web : www.centreiwacu.org.rw

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DERN B.P. 45 Musanze	Celestin RUBURA	Coordinateur	Tel. 0252 546 238, 078 848 9435	dernord1981@yahoo.fr , ruburacelestin@yahoo.fr
BAIR	Ferdinand HAKIZIMANA	Agronome, Superviseur des travaux d'assistance technique aux coopératives	Tel.078 852 9180	hakifern@yahoo.fr
ISAE	Patrice HAKIZIMANA	Vice Recteur Affaires academiques et Recherche	0788300474	phakiza@yahoo.co.uk
FUCORIRWA	Aloys RUSANGANWA	Ingénieur Agronome, Coordinateur	078 877 8069	alvarus@yahoo.fr , Site Web : www.roparwa.org
UCORIVAM	Onesphore Habamenshi	President	078 377 2821	
UNION TWIBUMBE	JMV HABAMENSHI	President	0788438759	
UCORIBU	Thaddée Manirareba	Coordinateur	0788454526	manirareba44@yahoo.fr
UNICOOPAGI	Joseph Ndabamenye	Coordinateur	078 846 5660	jndabamenye@yahoo.fr
UNICOBLE	Daniel Nzamurambaho Tadju	President du C.A.	078874 2720	
UNICOBLE	Alfonse Habamungu	Coordinateur	078 844 4300	

C. Cooperatives			
Organization	Contact	Title	Tel.
COPROVAB	Denis NIRERE	Président du Conseil d'Administration	078 845 3850
COIMU	Esdras NTAGISANIMANA	Gérant	
COIMU	Jonas NZARAMBA	Président du CA	078 830 0764
IMPUZABAHINZI	Pascal BARIGORA	Vendeur et Gestionnaire des stocks	
COTEMU	Augustin NIYONSABA	Auditeur	078 883 3540
COTEMU	Theophile KWIRINGIRA	Agronome	078 841 1222
KOARU	Liberata BAPFAKURERA	Présidente	078 875 2053
COAMV	Thadee NIBISHAKA	President du CA	078 886 9830
UVA (Umutara Veterans Association)	Stanislas Mutabaruka	President	078 880 6585
COAMN	JMV Nshimyumuremyi	President	078 822 1874
COPRORIKA	Boniface Bimenyimana	Secrétaire du CA	0788289406
COTRAVAM	Felix Ndagijimana	Agronome/ Président du CA	078 326 6359
Cooperative ABAHUJE	Beatrice UWARUREMA	Présidente	0788755571

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Coopérative JYAMBERE MUHINZI GISAGARA (COJYAMUGI)	Onesphore Rudakubana	Président	078 526 0698
COPRORIZ NYIRAMAGENI	Jean Damascène Sindikubwabo	President	078 866 0954
COPAKI	Juvenal Mushinzimana	President du CA	0788452840
COPAPEF	Theophile Rubanzangabo	President du CA	0788639245

D. Financial Institutions and Partner Projects				
Organization	Contact	Title	Tel.	Email
Market Linkages initiative (MLI)	Anthony Moses A. Ngosi	Chief of Party		angosi@eamli.com
Market Linkages initiative (MLI)	Bizuwork Negussie	Grants Manager		bnegussie@eamli.com
Market Linkages initiative (MLI)	Sophie Walker	Commodity Marketing Manager		swalker@eamli.com
HARVEST PLUS	Harrie Hendrickx			
HARVEST PLUS	Jean d'Amour Manirere			
KARISIMBI BUSINESS PARTNERS	Dano Jukanovich	Co-founder	078 554 9062	dano@karisimbipartners.com
East African Grain Council	Harriet Nabirye	Uganda Country Manager		hnabirye@eagc.org
East African Grain Council	J. Kiraka	Market Information specialist		
Nyagatare District	Philippe Mutarambirwa	Coordonateur de developpement economique		
CHF International	Elly Kaganzi Mwesigwa	Team Leader Economic Development	0788 305642	ekaganzi@chfrwanda.org.rw
COMPETE	Steven Humphreys	Staple crops Specialist		shumphreys@competeafrica.org
COMPETE	Martin Wmaniala	Staple Foods Advisor		mwamaniala@competeafrica.org
COMPETE	Isaac Tallam	Private Sector Grain Trade Advisor		itallam@competeafrica.org
IFDC CATALIST	Bruce Smith	Chief of Party	0788 830 2832	bsmith@ifdc.org
IFC	Murekatete Rugege Karimba	Operations Analyst, IFC Rwanda CEDP Leasing Program	078 830 7201	mrugegekarimba@ifc.org
IFC	Etienne Ndatimana	Associate Operations Officer, Rwanda Entrepreneurship & SME Development Program (PEP Africa),	078 830 6686	ENdatimana@ifc.org

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IFC	Berry O. Odhiambo	Associate Operations Officer, Rwanda Entrepreneurship & SME Development Program (PEP Africa),	078 830 5106	bodhiambo@ifc.org
CBS/MAXINET	Daniel Pate			
CBS/MAXINET	Rebson Dzala Washe			
CBS/MAXINET	Patrick R. Kagabo			
US African Development Foundation	Taibu NAKUERIA	Country Representative	(250) 0788303933	tnakueira@usadf.gov
Association of Microfinance Institutions in Rwanda (AMIR)	Faustin ZIHIGA	Chairman	(250) 0788306518	fzihiga@amir.org.rw
AMIR	Claudine ZANINKA	Executive Secretary	(250) 0788303899	claudinembaraga@yahoo.fr
AMIR	Patricia UWIMBABAZI	Research and Product Development Specialist	(250) 0788356811	puwim@yahoo.fr
Vision Finance Company s.a	Patrick BIRASA	Credit, Operations and Marketing Director	(250) 0788304590	birasapatrick@gmail.com
Reseau Interdiocesain de Microfinance s.a (RIM)	Diane UWIMBABAZI	General Director	(250) 0788306384	udiane81@yahoo.fr
ZIGAMA CSS	Augustin KAYIGIRE	Credit Manager	(250) 0788303512	kayigire@zigamacss.com
Banque Rwandaise de Développement	Christine KARANGWAYIRE	Director of Investments	(250) 0788304376	c.karangwayire@brd.com.rw
Compagnie Generale de Banque	L. de Montfort MUJYAMBEREI	Head of Credit Risk Management	(250) 078303086	m_mujyambere@cogebank.com
Access Bank	Jean Luc CYUSA	Relationship Manager, Institutional Banking Group,	(250) 0788648349	cyusaj@accessrwanda.com
Ecobank Rwanda s.a	Patrick BUKI KANUNI	Head of Commercial Finance/SME	(250) 0788308094	pbuki@ecobank.com
Banque Commerciale du Rwanda s.a	Renee KAYITAYIRE	Account Relationship Manager/Agriculture	(250) 0788304811	Kayitayire@bcr.co.rw
Banque Populaire du Rwanda s.a	Gerard MUTIMURA	Program Lending Manager	(250) 0788488184	Gerard.MUTIMURA@bpr.rw
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du Rwanda	KAGWESAGE	Lines of Credit Manager		
African Development Bank	Joseph NYIRIMANA	Agronomist	(250) 0788304270	j.nyirimana@afdb.org
Opportunity International	John Magnay	Agricultural Advisor - Africa	(256) 772771237	johnmagnayi@gmail.com
Rabobank	Hans Bogaard	Head Agribusiness	31(0)651503468	j.j.bogaard@rn.rabobank.nl
The World Bank	Valens Mwumvaneza		(250) 0788464196	vmwumvaneza@worldbank.org
CLECAM de WISIGARA	Ndaturaniwe Ildephonse	Directeur	(250) 0783480952	uclecam@yahoo.fr
UCEA	Sebazungo Alphonse	Directeur	(250) 0788762830	ucoopecccea@yahoo.fr
REIC	Herbert Hatanga		(250) 0788306490	herbert@reic.co.rw
Sparkassenstiftung Fur Internationale Kooperation	Volker Walther		(250) 0788055740	

E. Others				
Organization	Contact	Title	Tel.	Email
Kivu Arabica Coffee Company KKC SARL	J. Bosco Seminega	Directeur Associe	(250) 0788304467	seminegajb@gmail.com
Balton CP	Kelving Odoobo	Agriculture Manager	(250) 0788307484	kelvin@balton.co.rw
Balton CP	Tunca Kocyigit	Commercial Manager	44(0)1923228999	tk@baltoncp.com
OTF Group	Eric Kacou	Managing Director	(250) 0788303063	

Annex E – Inventory of Existing Storage Facilities

List compiled by IFDC-CATALYST:

ENTREPOTS

Entrepôt et sa localisation	Capacité (T)	Propriétaire	Etat	Utilisation actuelle
Nyanza	3 000	Public	Moyennement en bon état	N'est pas utilisé
Nyamagabe	600	Public	En bon état	Est utilisé
Rusizi	600	Public	Un peu abimé	Non utilisé
Nyabihu	700	Public	Un peu abimé	Non utilisé
Musanze	3 000	Public	Beaucoup Abimé	Non utilisé
Ngoma	1 000	Public	En bon état	utilisé
Gicumbi	1 300	Public	En bon état	utilisé
Karongi	400	Public	En bon état	utilisé

2.2 STORAGES INFRASTRUCTURES INSTALLED BY RSSP

STORAGES INFRASTRUCTURES	Numbre	Province/	District	Status	Propriétaire
Rehabilitation of stores in Gaseke	9	West	Ngororero	Good	Coop. ADI
Maize store (COAMV)	1	North	Burera	Good	Coop. COAMV
Store in Budaha (Songa)	1	Westo	Ngororero	Good	Coop
Storage of Kinnyogo	1	East	Kirehe	Good	Coop
Silo of Muko	1	North	Gicumbi	Good	Coop
Store Bicumbi (rehabilitation)	2	East	Rwamagana	Good	Coop
Stores of KOIMU (INKINGI)	3	East	Rwamagana	Good	Coop
Stores of TWUZUZANYE (Kabuga)	3	MVK	Gasabo	Good	Coop
Store of CPRB Cooperative	4	West	Rusizi	Good	Coop
Storage of ABIYUNZE	1	South	Ruhango	Good	Coop

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Store Rutsiro	1	West	Rutsiro	Good	Coop
Storage for irish patato of COAMV	1	Northern	Musanze	Good	Coop
Storage for maize of COAMV	1	Northern prov	Musanze	Good	Coop
Irish patato store of COIMU 1	1	West	Nyabihu	Good	Coop
Storage of IABU 1	1	West	Rubavu	Good	Coop
Storage of IMPAKOMU 1	2	Sud	Ruhango	Good	Coop
Store of Mwulire (in Rwamagana)	1	Eas	Rwamagana	Good	Coop
Storage of IABINDI	1	South	Muhanga	Good	Coop
Storage of COCOF	1	South	Muhanga	Good	Coop
Store in Itabire	1	West	Karongi	Good	Coop
Storage of INGABO	1	South	Muhanga	Good	Coop
Storage of Abibumbiyehamwe	1	West	Ngororero	Good	Coop
Storage CEFAPK	1	South	Kamonyi	Good	Coop
Storage of CODDT	1	South	Muhanga	Good	Coop
Storage CICODEB	1	South	Nyanza	Good	Coop
Silo de stockage pour CODEKA	1	East	Bugesera	Good	Coop
Storage of AVOPAC	1	MVK	Gasabo	Good	Coop
Store of Dukorerehamwe Cooperative (Bugarama), phase II	1	West	Rusizi	Good	Coop
Storage of IMPAKOMU 2	1	South	Ruhango	Good	Coop
Store in Muhazi (Murambi)	1	East	Rwamagana	Good	Coop
Storage IMPABARUTA	1	South	Kamonyi	Good	Coop
TOTAL	48			12 000 MT	

Each has 500 MT capacity

ANNEX F – Questionnaires

Buyer Questionnaire

- Do you own storage?
 - What location(s)?
 - What condition is it in?
 - What type (silos, cocoons, bagged)?
 - What is the capacity (MT) of the storage facility?
 - What commodity is stored?
- Are you planning to invest in new storage?
 - How much money can you invest now and in the future?
- Do you rent any storage facilities?
 - From whom?
 - What storage options exist in the sector/ district?
- Do you have losses in storage?
 - What percentage of your stock?
 - What is the cause (infestation, rot, other)?
 - How do you evaluate the losses?
 - Do you try to reduce losses?
 - If yes, what technology do you use?
- Do you have problems with transport and handling?
 - What percentage of your stock is lost during the transport and handling?
 - Who are the major transporters in/out of your market (transporter/businessman, cooperative, women/men)?
- Where are you purchasing stock from? From whom? At what volumes?
 - How do you finance the purchases?
 - Where do you sell the surplus?
 - How far is the market if sold on the open market?
- What quality, reliability, quantity issues do you face in dealing with your suppliers? /How do you determine quality? Do your buyers differentiate on quality?
- What are your projected raw material supply requirements over the next 3-5 years? How far out do you plan (by season? Month? Year?)
- What sort of contracting arrangements do you have with your suppliers (payment 2/10/n30? Installments? Cash? Barter?) ? Do you have contract fulfillment problems with your suppliers?
- Are you working with any other donor projects? Which ones?

- What types of financial products do you have access to and on what terms (commercial banks, microfinance, money lenders, personal assets)?
- Who are your 3 largest buyers (Names, location, relationship, frequency, organizations)?

Sector Umbrella Organizations Questionnaire

- Which value chains/crops?
- Which are the most advanced (market oriented) organizations/cooperatives in the sector?
- What are the types of support?
 - Funding?
 - Trainings?
 - Coaching?
 - Material benefits (constructions, inputs)

Banks/MFI Questionnaire

- Loans to agriculture sectors?
- Repayment problems? In which groups?
- Types of guarantees? Collaterals?
- Already financing PH activities? If no, why?
- If technical assistance availed by PHHS Project, would be interested in financing PH activities?
- What are the terms and conditions for their agriculture credits?

Producer Questionnaire

- Do you own storage?
 - What location(s)?
 - What condition is it in?
 - What type (silos, cocoons, bagged)?
- Are you planning to invest in new storage?
- Do you rent any storage facilities? From whom?
- Do you have losses in storage?
 - What percentage of your stock?
 - What is the cause (infestation, rot, other)?
- How much of your crop do you consume vs. sell as surplus?
- When do you sell your surpluses? Why do you sell at that time?
- Who buys your surpluses? At what price?
- What percentage of your crop is lost prior to sale? What is the cause of the losses (infestation, rot)?
- Are you working with any other donor projects? Which ones?

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VALUE CHAIN PROGRAM DESIGN: *Green Beans in Rwanda*

June 2010



Photos courtesy of CIAT – International Center for Tropical Agriculture



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About Action for Enterprise

Action for Enterprise (AFE) is a leader in the field of private sector and enterprise development. Since 1991, AFE has developed state-of-the art training programs, implemented cutting edge field programs, authored numerous publications, and provided technical support to programs worldwide.

As both an implementer of field programs and an advisor to other organizations, AFE:

- provides comprehensive analyses of value chains and the interrelationships of enterprises that function therein;
- designs effective and sustainable interventions based on the latest principles of competitiveness and private sector development;
- facilitates market linkages between buyers and sellers;
- facilitates the development of sustainable trade and business associations;
- builds the capacity of local enterprise development organizations;
- designs and manages private sector development programs; and
- develops and documents its innovative methodology and shares it with others to promote improved private sector development practices worldwide

The AFE value chain methodology combines the strengths of value chain/subsector analysis with methods for identifying sustainable market-based solutions that promote medium and small micro-enterprises and industry competitiveness. It allows practitioners to understand market dynamics, identify major constraints and opportunities, and promote sustainable economic solutions to identified constraints.

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About USAID & PEPFAR

The United States Agency for International Development (USAID) is a U.S. Government agency that works with the Government of Rwanda to improve the health and livelihoods of Rwandans and increase economic and political development. USAID programs in the areas of health, economic growth and democracy and governance are made possible by the generous support of the American people.

The President's Emergency Plan for AIDS Relief (PEPFAR) is the United States' initiative to combat the global HIV/AIDS epidemic. In Rwanda, PEPFAR supports voluntary counseling and testing activities, youth intervention programs, provides antiretroviral (ARV) drugs and treatment for opportunistic infections and supports education and life skills training for orphans and vulnerable children in Rwanda. Launched in 2003, PEPFAR is the largest effort by any nation to combat a single disease.

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ACRONYMS & DEFINITIONS

ADEPR	Association des Eglises de Pentecôtes au Rwanda
AEE	African Evangelistic Enterprise
AIDS	Acquired Immuno-Deficiency Syndrome
ARCT-Ruhuka	Association Rwandaise des Conseillers en Trauma
CIP	Crop Intensification Program
DRC	Democratic Republic of Congo
DUHAMIC ADRI	Association pour le développement rural intégré
EPR	Eglise Presbytérienne du Rwanda
ETS	Name of a green bean lead firm in Rwanda
FDG	Focus Group Discussion
Higa Ubeho	<i>Kinyarwanda phrase meaning “Be Determined and Live”</i>
HIV	Human Immunodeficiency Virus
ISAR	Institut des Sciences Agronomique du Rwanda
LF	Lead Farmer/Lead Firm
MBS	Market-based solutions
MINAGRI	Ministry of Agriculture and Livestock Resources
MONUC	United Nations Mission DR Congo
MOU	Memorandum of Understanding
NPK	Nitrogen Phosphorus and Potash
PAMASOR	Programme d’Appui aux malades du su Sida et aux Orphelin Rejetes
PEPFAR	The U.S. President's Emergency Plan for AIDS Relief
PROFIT	Production, Finance and Improved Technologies Project (USAID funded Program in Zambia)
RFA	Request for Application
RHODA	Rwanda Horticulture Development Authority
ROPARWA	Réseaux des Organizations Paysanne du Rwanda
RRP+	Réseau Rwandais des Personnes Vivant avec le VIH/SIDA
RWAMREC	Rwanda Men’ Resource Centre
SWAA-R	Society for Women and AIDS in Africa-Rwanda
URUNANA DC	Urunana Development Communication
USAID	United States Agency for International Development
USD	United States Dollars
WIF	Women Investment Fund

EXECUTIVE SUMMARY

The Economic Strengthening component of the USAID/Higa Ubeho program in Rwanda works to build capacity and strengthen the market opportunities of vulnerable populations. To support its efforts, CHF International contracted Action for Enterprise (AFE) to conduct a program design for the green bean value chain in Rwanda. This work took place from June 7-24, 2010. Activities included: 1) a two-day workshop for CHF and partner staff in the concepts and tools of value chain program design; 2) development of interview guides and planning for value chain analysis; 3) interviews with over 40 market actors and key informants; 4) additional interviews and focus group discussions (FGDs) with market actors to assess market-based solutions and identify potential project activities, and 5) a debrief of the program design activities for CHF staff.

After conducting interviews and identifying the constraints facing the market actors during value chain analysis, the program design team formulated ‘market-based solutions’ (MBS) that could address the constraints. The team then ranked the top three solutions according to i) their ability to promote growth and competitiveness in the entire value chain and ii) their ability to increase incomes of their target groups. Next, the team assessed the prioritized solutions to determine the challenges targeted market actors may face in implementing them and the commercial viability of the solutions. The program design team then conducted interviews and held an FGD with targeted market actors to identify program interventions that could help overcome the challenges to sustainable market based solutions. Solutions include the following:

Market-Based Solution #1:

Access to affordable, quality green bean seed for farmers

(Targeted providers of MBS include input suppliers)

- Build the capacity of input suppliers to expand their distribution networks in rural areas.
- Support input suppliers to form tripartite financing arrangements between input supply companies, retailers and farmers.
- Initiate an association of inputs suppliers to enforce standards of quality as well as to provide self-regulation.

Market-Based Solution #2:

Training to farmers in green bean production techniques (spacing, seed utilization, fertilizer application, pesticide use, irrigation, planting and harvesting schedules, picking techniques, and crop rotation)

(Targeted providers of MBS include input suppliers and large buyers)

- Support to large buyers in: 1) preparing training modules for producers in green bean production techniques; 2) conducting training of trainers for their staff; and 3) providing cost share to conduct initial / pilot trainings for producers.

Market-Based Solution #3:

Provision of lobbying services to change MINAGRI policy that limits production of green beans
(Targeted providers of MBS include a coalition of market actors)

- Coalition to promote policies that encourage green bean production (including addressing issues with the Crop Intensification Program).

Two additional project activities were suggested by the market actors, including i) to build the capacity of larger green bean buyers to manage contract farming arrangements with producers to ensure consistent quality and quantity; and ii) to facilitate an exchange visit on packaging materials that could provide an alternative to polyurethane.

To follow-up on this initiative AFE presented CHF with a “Request for Applications” (RFA) format that requests targeted MBS providers / lead firms to propose cost share interventions that would support them to implement the interventions described above and develop their supply chains. Once activities are identified and agreed upon, CHF can develop MOUs and cost share agreements with the firms and support them in implementation.

Program Background

The USAID/Higa Ubeho program aims to support 72,000 Rwandan families—particularly the families of orphans, vulnerable children and people living with HIV and AIDS—to develop sustainable ways of coping with the health and economic challenges that often affect the most vulnerable communities in Rwanda.

The strategic objectives of USAID/Higa Ubeho include increasing families’ access to quality health and social services; improving household response to health and financial obstacles through economic, nutritional and educational support; and strengthening local government and civil society capacity to provide quality health and social services to those in need.

The USAID/Higa Ubeho program is implemented by a consortium of 18 organizations, led by CHF International, that includes two international partners (CARE International & Catholic Relief Services) along with 16, non-governmental Rwandan Partner Organizations (RPOs): ARCT-Ruhuka, ADEPR, AEE, Caritas, DUHAMIC ADRI, EPR, HAGURUKA, ICYUZUZO, PAMASOR, RRP+, RWAMREC, SWAA-R, URUNANA DC, WE-ACTx for Hope and WIF. The USAID/Higa Ubeho program consortium works closely with a number of Rwandan Ministries to implement the USAID/Higa Ubeho program, including the National AIDS Control Commission and the Ministry of Gender and Family Promotion.

The Kinyarwanda words within the program name--*Higa Ubeho*--mean ‘be determined and live.’ The concept of determination is linked to the idea of resilience, a key feature of USAID/Higa Ubeho. Determination directly involves the program beneficiaries, not only in receiving program support but in leveraging this support against their household strategies for improving health and economic outcomes.

USAID/Higa Ubeho beneficiaries are called ‘abahizi’—another Kinyarwanda word that refers to *people committed to participating in achieving a goal*. *Abahizi* play an important, active role in improving their quality of life—not only receiving services but taking initiative in defining elements of service delivery and household resilience response.

CHF International and its partners implement the USAID/Higa Ubeho program across Rwanda’s 5 provinces, in 20 PEPFAR districts: Bugesera, Gakenke, Gasabo, Gatsibo, Gicumbi, Kamonyi, Karongi, Kicukiro, Muhanga, Ngororero, Nyabihu, Nyagatare, Nyamagabe, Nyarugenge, Nyaruguru, Rubavu, Ruhango, Rulindo, Rutsiro, and Rwamagana.

Introduction to Value Chain Analysis

From June 7 to June 24, 2010, AFE led a team from CHF Rwanda and its local partner organizations in a value chain program design that resulted in the identification of project activities to support the green bean value chain. This report describes the program design exercise. It begins with descriptions of the end market for green beans (domestic and international), the various market actors in the green bean value chain and their interrelationships, the supporting market actors, and the enabling environment relevant to

green beans. The report then continues with a discussion of the constraints and opportunities in the green bean value chain, and the corresponding market-based solutions that are needed to address the constraints and improve competitiveness. The report concludes with assessments of the market-based solutions, challenges to providing the solutions, proposed intervention activities, and recommendations for next steps.

1. Value Chain Analysis & Identification of Market-Based Solutions

This section begins with a characterization of the end-market for green beans. It then describes the functions, activities and interrelationships of the various market actors, which are laid out in a value chain map. The section then presents the actors in the supporting markets and discusses the enabling environment. This section concludes with a discussion of the constraints that the market actors face, and the market-based solutions that can address those constraints.

1.1. End Markets for Green Beans

Domestic Market

Consumers in Rwanda purchase fresh green beans from a number of different retail venues, including open air markets, supermarkets and hotels. The majority of consumers, however, buy the beans from the open markets, and as such, supermarkets (and to some extent, hotels) source low quantities of green beans from retailers, collectors, and producers. The demand for green beans in Rwanda is concentrated geographically in the province of Kigali, which is the economic and logistical ‘hub’ of the country. Though green beans can be found in open air markets in areas such as Rubavu and Cyangugu in the Western Province, only a few kilos of green beans are sold per day (during the harvest season) in these regional markets. Retailers in Kigali noted that the demand for green beans has grown steadily over the past few years, though the quality of the beans is inconsistent, and customers often spend time sorting through the green beans at the open markets to pick out the ‘best’ beans. One retailer/wholesaler in Kigali noted that his customers were generally unsatisfied with the quality of their green beans, and that their appearance and presentation in his store deterred customers from buying more. Though hotels source relatively small quantities of green beans, they are seemingly more focused on providing quality green beans to their clients (as compared to supermarkets and small retailers) and one interviewee expressed that they frequently reject green beans (and other products) when they are not of the quality standards that the hotel seeks.

In general, the market actors involved in the green bean value chain believe that demand will continue to grow in the future, particularly considering the growth in demand in Kigali throughout the past decade. In the past, green beans were not traditionally consumed by the local population. Rather, foreigners visiting Rwanda and staying in hotels were the primary end consumers. Now, green beans are increasingly purchased and consumed by Rwandan households. In the same way that the demand for green beans in Kigali has steadily increased, the market actors believe green beans will become more popular in the other four provinces amongst Rwandan consumers.

Export Market

According to a few large buyers and traders, Rwandan green beans are quite competitive in the regional export market. Based on various interviews it appears that regional demand stems primarily from the Democratic Republic of the Congo (DRC), Rwanda’s direct neighbor to the west, where very few vegetables are produced locally. The majority of the demand in the DRC comes from the United Nations peacekeeping mission based there, and it is unclear for how long the UN in DRC will be an end market for Rwandan green beans. There is also greater demand for quality with the regional end markets, and quality standards for green beans sent to the DRC are higher (to the UN, in particular) than the standards in the domestic market.

Figure 1: Provinces of Rwanda¹



Though there is unmet demand in European markets for green beans, the current cost of air freight (\$2.50 per kilogram) to fly cargo outside of Rwanda prohibits companies from profitably meeting this demand. Nearby Kenya, in contrast, is quite competitive extra-regionally, and exports beans to European markets. Domestic demand in Kenya for green beans is also high, and according to some, there may be opportunities for Rwanda to export green beans to Kenya during its non-productive seasons.

1.2. Value Chain Market Actors

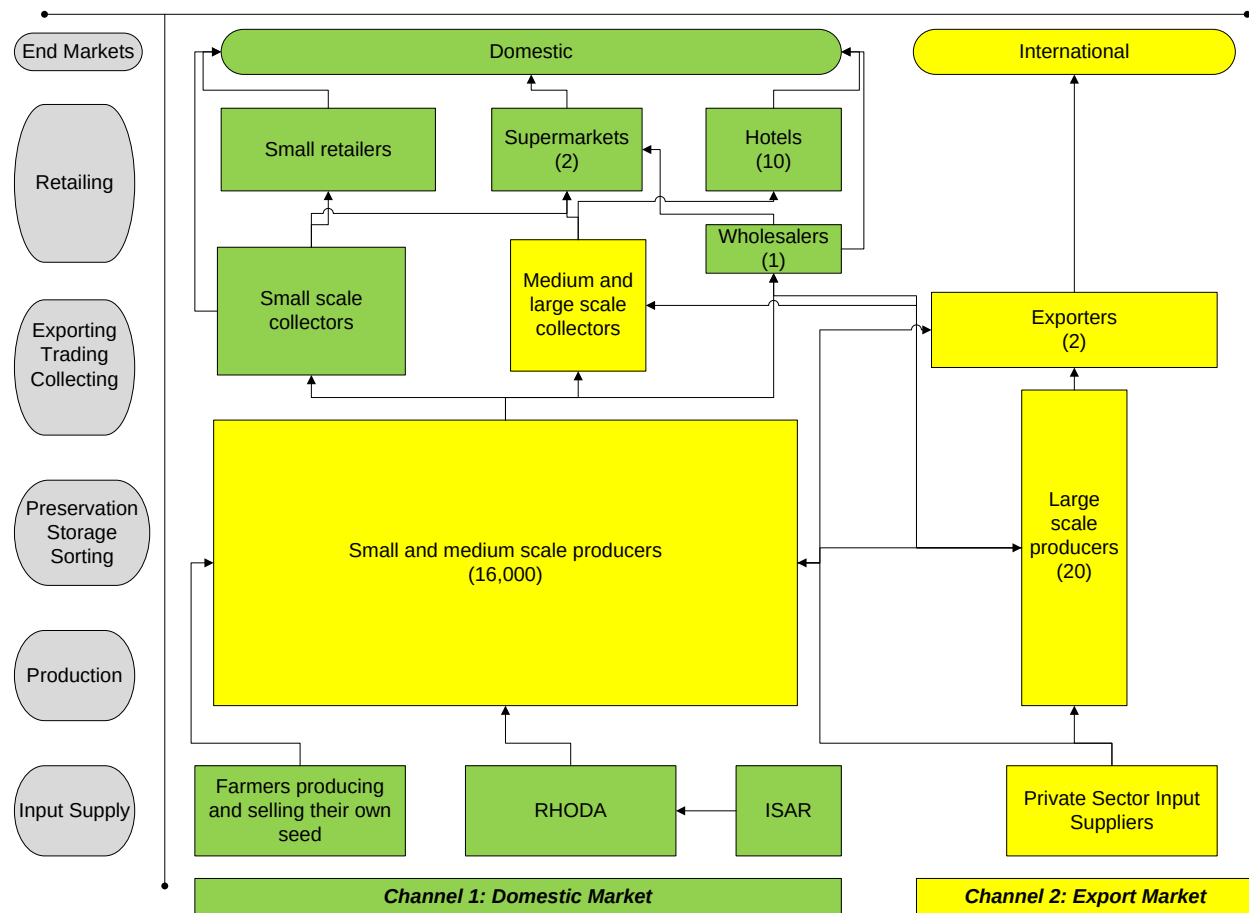
During the analysis of the green bean value chain more than forty interviews conducted with market actors and key informants. The primary actors in the green bean value chain include the following:

- Input suppliers (seed, fertilizers and pesticides)
- Producers
- Collectors and traders (small, medium and large scale)
- Retailers (includes small retailers selling in open markets, supermarkets and hotels)
- Exporters

As seen in the value chain map below, several market actors may take on a number of different functions. Some collectors, for example, may also sell green beans in open markets, and some farmers may also bring their goods to the markets. Many farmers produce their own seed, and as such are involved in input supply as well as production.

¹ BBC News. Rwanda redrawn to reflect compass. January 3, 2006.
<http://news.bbc.co.uk/2/hi/africa/4577790.stm>

Figure 2: Green Bean Value Chain Map



1.2.1. Input suppliers

There are three large scale input suppliers in Rwanda who sell a range of inputs (seed, fertilizers, pesticides, etc.) to farmers, retailers and other clients. The companies include: 1) Agrotech, which began operations in Rwanda in 1987 by an Italian businessman, and whose core business is veterinary supplies; 2) Africhem, a distributor for a Belgian agri-input supply company, is fully owned and operated by a Belgian/Italian foreign national who sells premium quality seeds; and 3) Balton CP, a multinational British company with nine subsidiaries throughout Sub-Saharan Africa (the companies' activities in Rwanda began in 2006). These companies are primarily based in Kigali, but at least one, Agrotech, has a distribution network with regional retail shops and partner stores that sell their line of products. For the past several decades, Agrotech has had the majority of the market share in the input supply market, and only more recently are there new entrants in the input supply market, such as Balton. In terms of green bean seeds, Agrotech sells small quantities of local varieties (primarily a variety called 'Loiret') that are multiplied informally by farmers, and are admittedly of 'low quality.' As mentioned above, Africhem sources very high quality seeds from an input supply company called Semerse in Belgium (the price to the consumer is rather high at 6,000 FRW per kilogram). These seed varieties include Ferrari, Tarot, Calibra, Roi des Beurres, and Sigma. The large input

suppliers expressed that there are no quality standards for green bean seeds, and that most of the green bean seed sold in Rwanda is of low quality. They also noted a few additional challenges, which include enforcing quality standards throughout their distribution networks, as well as the need to improve the organization, management, and outreach of those networks. Very few farmers purchase their green bean seeds directly from these larger input suppliers.

The majority of farmers producing green beans in Rwanda either produce their own seeds, or purchase seed (and other inputs) from smaller and medium scale input suppliers. In the Nyabugogo market in Kigali, for example, there are approximately 10 shops selling a range of inputs to farmers and other retailers, who then sell the products in smaller towns throughout Rwanda. Some of these shops have smaller-scale distribution networks and one in particular sets up demonstration plots to promote the use of the hybrid seeds it sells. These input suppliers source their seeds from Uganda, Kenya, and in some instances from local farmers who multiply seed. The cost of the imported green bean seed is quite high, and as such these suppliers sell very small quantities of this seed. Some of the challenges for these input suppliers include: the cost of transport to source seeds from Kenya and Uganda, low demand from customers for imported seeds, and limited working capital to expand their business.

The Kamonyi-based green bean producer shown here is using a traditional method for applying pesticide. A number of farmers interviewed cited the lack of knowledge regarding proper pesticide use and application as a constraint.



Farmers also purchase fertilizers and pesticides from small input suppliers—either those based in the Nyabugogo market in Kigali or in district level input supply shops. Though the majority of farmers use organic fertilizer (from manure and composting), some purchase inorganic fertilizers such as Diamino-Phosphate (DAP), Nitrogen, Phosphorus and Potash (NPK) and Urea. Depending on the planting period, the use of pesticides varies from farmer to farmer. The most common pesticides used by green bean growers are Dithane and Ridomil, though most farmers mentioned the high cost of pesticides (4,000 RWF for one kilo of Dithane and 16,000 RWF for one kilo of Ridomil) as a major constraint. The lack of knowledge regarding the proper use and application of pesticides was also cited by several green bean farmers.

1.2.2. Producers

Although there are no official statistics regarding exactly how many farmers produce green beans in Rwanda, of the 1,000,000 people involved in horticulture production, there are an estimated 16,000 green bean producers². There are conflicting sources of information regarding where the majority of green bean production takes place in the country. A survey³ conducted

² Extrapolated from statistics included in ‘A Survey Report on the Status of Horticulture in Rwanda,’ by first calculating the percentage of land used for green bean production compared to the total amount of land used for horticulture production. The same ratio/percentage was then applied to the total number of persons involved in horticultural production to approximate the number of persons involved in green bean production.

³ A Survey Report on the Status of Horticulture in Rwanda. G&N Consultants Ltd. for RHODA. October 2008.

by the Rwanda Horticulture Development Authority (RHODA) notes that 75%-80% of production (1,845 tons, and over 767 hectares) is concentrated around the area of Gicumbi, a district in the Northern Province, whereas research conducted by the National Agricultural Research Institute⁴ (ISAR) shows the primary production area to be in Muhanga, a district in the Southern Province.

Most green bean farmers intercrop with other vegetable crops (such as cabbage, carrots, cucumber, etc.) and depending on the Province, they rotate their vegetable production with a staple crop such as maize, rice, or Irish potatoes. Many obtain seed by either producing it themselves, or from other local farmers who have multiplied the seed. Farmers seem to be less concerned about the quality of the seed than they are with affordability. Though some farmers invest in fertilizers and pesticides, several noted that these inputs are very expensive (increasingly so) and that they don't know how to properly use them (pesticides, in particular). Some farmers (such as those interviewed in the Western Province) don't invest in any inputs and didn't perceive the need to purchase or use them. The majority of growers expressed that producing green beans provides them with quick income, as there may be as many as four seasons per year, and during each season farmers can harvest up to six times per month. Farmers (and their families) either function as collectors themselves, or they sell their green beans to collectors that come to their farms. For the farmers that are also collectors, the majority bring their green beans to the local and district level open air markets (on their heads) to sell the beans. For others that are producing in larger quantities for hotels, wholesalers and exporters, the collectors come directly to the farms. Increasingly, though, when it is harvest time, farmers find that the price fluctuates significantly, and at times the markets are flooded with green beans.

Green bean farmers cite the price volatility of green beans on the market, the high cost of quality inputs such as seed and pesticides, and the lack of technical skills in the use of inputs, production techniques, and post-harvest handling methods (such as storage and preservation) as their major constraints.

1.2.3. Collectors and Traders

The total number of collectors in Rwanda is also unclear, but the majority of collectors interviewed transport green beans to the large Kigali-based open air markets of Kimisagara and Nyabugogo, Kamonyi market in the Southern Province, and the Gicumbi market in the Northern Province. In the Kigali-based markets, there is an average total of 80-300 sacks (each sack contains between 20 to 25 kilograms of green beans) equal to 1.6 – 6 tons, transported to these markets every day. Collectors typically buy the green beans directly from growers and transport them to the market, where they sell to retailers. When collectors bring the green beans to the markets, they are typically able to sell their entire stock to retailers who they communicate with in advance via mobile phone. Some collectors, or 'suppliers', also sell to supermarkets and hotels on a consistent basis (though generally there is no written contract involved). One supplier interviewed in Cyangugu sources green beans from Gitarama (the second largest city in Rwanda, in the Southern Province) and Kigali and sells them to an

⁴ Information gathered through an interview conducted on June 9, 2010 with a representative from ISAR.

exporter (mentioned below) to supply the green beans to an open air market in the DRC border town of Bukavu as well as to the UN mission there. Challenges faced by collectors include the cost of transportation, the high fluctuations in the price of green beans throughout the harvest season, limited working capital, and the inability to source consistent quantity and quality of green beans from their suppliers (farmers or other collectors).

1.2.4. Wholesalers/Retailers

Open air markets

Like the collectors, the majority of retailers in open air markets that consistently sell green beans are concentrated in and around Kigali in such markets as Nyabugogo and Kimisagara, and in the provincial market of Kamonyi. Retailers in other provincial and district-level markets sell green beans as well, but in much smaller quantities, as is the case in the two districts of Gisenyi and Cyangugu in the Western Province, where local demand (and supply) for green beans is generally much lower than in the province of Kigali City. The retailers in the larger Kigali-based open air markets generally sell the green beans with other fresh vegetables from market stalls

This retailer, from the small open air market of Mahuko, in the Western Province, sells green beans in the local markets, though in this town there is more demand for the more mature beans, as shown below.



(or designated areas), and those selling in the small regional markets tend to have even less of a formal structure from which they sell their goods (as shown in the picture to the left). Retailers buy from collectors who bring the green beans directly to the markets, and sell to individuals, and to a lesser extent, to hotels that send buyers to the open markets. Individual retailers may buy and sell from 2 to 5 sacks (45 to 100 kilograms) per day. Most retailers interviewed in the open markets had already sold all of their green beans by mid-morning. The retailers expressed that their main challenges are the high daily and weekly price during the green bean harvest season, a lack of working capital, and for some the cost of rental space at the market.

Supermarkets

There are two major supermarkets in Kigali, Nakumatt and Simba, and a large retailer/wholesaler, FRULEP, that specialize in the sale of fresh fruits and vegetables. In some cases, these retailers go to the local open markets to purchase green beans, and the others have either collectors or producers that bring the beans directly to their stores. The two supermarkets purchase and sell very small quantities of green beans (only a few kilos per week). The retailer/wholesaler had purchased 87 kilograms of green beans during the week of the interview, and also had a cold room in the store to preserve the beans and other produce. These markets sell to individual customers and hotels, though most consumers prefer to purchase their fruits and vegetables in the open markets. All supermarkets mentioned the challenge of getting quality green beans, and one in particular noted that from week to week both the quantity and quality was highly variable.

Hotels

High-end hotels in Kigali and in popular tourist destinations, such as Gisenyi and Ruhengeri, source and supply green beans to their clients. In general, the quantities sourced are not very high (ranging from approximately 15 kilograms per week at the Stipp hotel in Rubavu to 20 kilograms per day at the La Palisse hotel in Kigali) relative to the quantities traded and sold at the open markets. Some hotels interviewed have a contract with specific suppliers who bring the green beans (and other products) directly to the hotel, while other hotels send staff to the open markets. The hotels' need for green beans depends primarily on the tourist seasons. Like supermarkets, hotels face challenges of inconsistent quality, and some indicated that due to the seasonal nature of green bean production, they are not always able to get the quantities they need. Several interviewees mentioned that they reject the green beans from their suppliers if the quality does not comply with their standards (which can happen up to once a week), and in such cases hotel staff goes to local open markets to purchase the needed quantities.

1.2.5. Exporters

Currently there are very few exporters of green beans in Rwanda, and during the interview process two were identified, including a company called ETS (owned and operated by Thomas Binoyi), and a trader by the name of Fondateur Straton. The destination for the green beans is the DRC, and the primary importer there is the United Nations Mission DR Congo (MONUC). The exporters source green beans both directly from producers, as well as from collectors, and transport them to the DRC.

- Fondateur Straton, the green bean trader and exporter based in Cyangugu, for example, buys from small collectors, open air markets and directly from growers in Gitarama in the Southern Province. He sells the beans in the open air markets of Kamembe (in the Western Province) and Bukavu (a border town in the DRC) as well as to the UN mission in the DRC.
- ETS transports up to two tons of green beans per week to MONUC, and sources its green beans from five main suppliers, who are a combination of producers and collectors based in Byumba (Northern Province), Gisenyi (Western Province), Bugesera (Eastern Province), and Gitarama. ETS has a warehouse in the Kigali neighborhood of Kimisagara, where farmers bring their green beans and where the beans are sorted. ETS has no formal or written contract with its suppliers, and provides neither inputs nor credit to them.

Both exporters mentioned that they have more demand than they are able to supply, and that they require a high standard of quality from their suppliers.

It is worth noting that in the past there was one green beans trader who was exporting to Europe, but due to the extremely high cost of air freight (\$2.50 per kg), this trader is no longer exporting.

1.2.6. Supporting Services

Financial Services

A number of market actors that were interviewed require additional working capital, and as such have loans from a range of financial service providers. A number of the farmers and small scale retailers have loans from internal savings and loan groups. Several smaller scale input suppliers that were interviewed have bank loans from the Bank of Kigali, and Banque Populaire du Rwanda, and they also mentioned that they will sometimes get credit in-kind from the larger input suppliers that they purchase from.

Rwanda Horticulture Development Authority (RHODA)

RHODA is an agency of the Ministry of Agriculture and Livestock of Rwanda (MINAGRI) that was established in 2006 to function as a hub for all needs related to the horticulture industry, and to promote the growth of the horticultural products that have export potential. RHODA provides training to farmers in production practices (with a focus on one specific crop per training), and offers these trainings once per year. Though green beans is a ‘priority crop’ for RHODA, the extension services for this crop are not provided consistently (once every few years at most), and the trainings RHODA provides are very brief (3-5 days) with minimal hands-on demonstrations⁵.

Rwanda Agriculture Research Institute (ISAR)

ISAR carries out research in agronomy and animal and environmental sciences. The institute’s first activities with vegetables began in 2003, and ISAR has recently begun a breeding program for green beans, and distributes minimal quantities of improved varieties of green beans to RHODA, which multiplies and sells the seed to farmers. RHODA’s seed multiplication and distribution activities with respect to green beans are very minimal, and as such RHODA is not considered a key input supplier for the green bean sector.

1.3. Enabling Environment

The principle issue facing the enabling environment for green bean production is a new program sponsored by the Ministry of Agriculture and Livestock of Rwanda (MINAGRI) called the Crop Intensification Program (CIP). Beginning in 2007, this program established pilot crop zones in the eight districts of Kirehe, Kayanza, Bugesera, Gatsibo, Musanze, Burera, Rulindo and Gicumbi to address ‘falling productivity of crops and the minimal use and availability of fertilizer’. ⁶ Producers in each of the eight crop zones are strongly encouraged to place a priority on the planting and growing of maize, wheat, irish potato and cassava in order to contribute to food security and nutrition for rural households in the country. Some of the market actors interviewed noted that the CIP has discouraged farmers from growing green beans in some areas, which has reduced the quantity of green beans they are able to source from farmers. It remains unclear the extent to which this program will affect farmers, or limit their ability to grow green beans in the future.

⁵ Information gathered in an interview with a RHODA trainer. June 14, 2010.

⁶ MINAGRI website. www.minagri.gov.rw

1.4. Constraints & Market-Based Solutions

During the analysis of the green bean value chain a number of constraints were cited by the market actors interviewed. The table below presents these constraints, along with associated market-based solutions that could potentially address them. The market-based solutions in bold represent those that were prioritized for further assessment (the prioritization process used is described in more detail below).

CONSTRAINTS	MARKET-BASED SOLUTIONS (potential)
<i>Market Access</i>	
Producers and collectors lack awareness of potential green bean buyers in the domestic market, resulting in missed opportunities for sales.	1. Access to information on green bean buyers for producers and collectors.
Producers are unable to accurately project earnings of green bean production, and as a result there is less commitment to invest in the sector.	2. Access to information for producers on production costs, revenues and potential profit of green bean production.
<i>Technological/Product Development</i>	
Lack of knowledge in production techniques (spacing, seed utilization, fertilizer application, disease prevention and treatment, pesticide use, irrigation, planting and harvesting schedules, crop rotation) results in reduced quality and quantity of production for farmers.	3. Training to farmers in production techniques (spacing, seed utilization, fertilizer application, pesticide use, irrigation, planting and harvesting schedules, crop rotation).
Farmers lack information on the appropriate use of pesticides, resulting in higher than acceptable minimum residue levels (as compared to international standards).	
Farmers lack the ability to identify which types of disease affect their green bean crop and thus which type of pesticide to apply, resulting in reduced infected crops and thus lower production levels.	
Lack of proper post-harvest handling (storage and preservation) of green beans by farmers affects the quality of the domestic supply of green beans and limits potential for export sales and income.	4. Access to appropriate post-harvest handling facilities (storage, preservation and packaging) of green beans for farmers.
Lack of knowledge in proper post-harvest handling techniques (sorting and preservation), of green beans by farmers affects the quality of the domestic supply of green beans and limits sales and income.	5. Training in post-harvest handling techniques (sorting and preservation) for farmers.
Lack of Global Gap certification for farmers limits companies from establishing long-term commercial relationships with European customers requiring these standards.	6. Provision of Global Gap certification services for farmers.

CONSTRAINTS	MARKET-BASED SOLUTIONS (potential)
<i>Input Supply</i>	
Perceived high cost of fertilizer (both chemical and organic) limits farmer use and therefore the quality and quantity of production.	7. Access to affordable fertilizers for farmers.
Lack of affordable pesticides leads to lower yields and poor quality of production for farmers.	8. Access to affordable pesticides for farmers.
Farmers are unaware of improved varieties of seed, which limits the productivity and yield of their green bean production.	9. Greater awareness by farmers of improved varieties of seed, which can increase the productivity and yield of their green bean production.
Adulteration of seeds and pesticides results in low quality and quantity of production/yields for farmers.	10. Access to unadulterated seed and pesticides for farmers.
Retailers of input suppliers lack knowledge in proper handling and maintenance of input quality, lowering the quality of their product and potentially decreasing sales.	11. Training for retailers in handling and maintaining input quality.
Lack of affordable, quality green bean seed (including improved varieties) for farmers leads to limited productivity (quality and quantity).	12. Access to affordable, quality seed for farmers.
<i>Regulatory/Policy</i>	
The Crop Intensification Program requires farmers to grow specific crops in specific regions. This results in less production of green beans and lost revenue for producers.	13. Provision of lobbying services to change MINAGRI policy that limits the production of green beans.
High cost of import duties on inputs limits ability of input suppliers to import and market quality seed and other inputs.	14. Lobbying services to reduce the import tax for seed and other inputs.
<i>Finance</i>	
Limited access to working capital for farmers to purchase inputs (seed, pesticides and fertilizers) limits their production capacity.	15. Access to working capital loans for farmers.
<i>Infrastructure</i>	
Lack of affordable and appropriate irrigation technologies for farmers limits them from producing green beans throughout the year.	16. Access to affordable and appropriate irrigation technologies for farmers.

1.5. Prioritization of Market-Based Solutions

Once the final list of constraints and market-based solutions (MBSs) was identified, the program design team prioritized each of the MBSs on the basis of i) their potential to increase the growth and competitiveness of the green bean value chain, and ii) their potential to benefit the

greatest number of medium and small micro-enterprises. The grid below shows how each of the market-based solutions from the table above was prioritized and ranked.

Market-Based Solution Ranking Grid – Green Bean (Imiteja) Value Chain

Potential to Increase Growth and Competitiveness	High	6	2	<u>12</u>
	Medium	11	1, 5, 7, 9, 10	<u>3</u> , 8, <u>13</u> , 14
	Low	4, 15	16	
		Low	Medium	High
Number of Farmers that will Benefit (directly or indirectly)				

The following MBSs were selected as having the highest potential to meet the above-mentioned criteria:

- Access to affordable, quality seed for farmers
- Training to farmers in production techniques (spacing, seed utilization, fertilizer application, pesticide use, irrigation, planting and harvesting schedules, picking techniques, and crop rotation)
- Provision of lobbying services to change MINAGRI policy that limits production of green beans

It is important to note that as the program develops, some of these MBSs (and corresponding constraints) may be revisited based on better understanding, new opportunities for program interventions or if realities on the ground in the value chain change.

2. Assessment of Market-Based Solutions & Identification of Project Activities

2.1 Market-Based Solutions

Next, the team carried out assessments of the three prioritized market-based solutions (MBSs). These assessments included interviews with existing or potential private sector providers of the targeted MBS to better understand the incentives and challenges they face in providing them

in a sustainable manner. Once the challenges were understood the program design team organized “focus group discussions” (FGDs) that brought these parties together to validate assumptions regarding the challenges that providers face in providing the MBS, and to solicit ideas and activities whereby the CHF program could help them to overcome those challenges.

The following tables describe these assessments:

MARKET-BASED SOLUTION 1	
Market Based Solution	Access to affordable, quality green bean seed for farmers
Value Chain Constraint	Lack of affordable, quality green bean seed (including improved varieties) for farmers leads to limited productivity (quality and quantity).
Proposed Provider(s) of Market-Based Solution	Input suppliers
<i>Challenges and Incentives for <u>Providers</u> of the Market-Based Solution</i>	
Challenges	- Input suppliers lack distribution networks that would allow them to reach small communities, limiting them from growing and increasing sales. - Input suppliers lack the ability to enforce their standards of quality throughout their distribution network. - Many farmers are producing their own green beans seeds.
Incentives	To increase the number of customers/market share, and thus increase sales.
<i>Challenges and Incentives for <u>Users</u> of the Market-Based Solution</i>	
Challenges for Farmers	- Farmers are unable to purchase quality seed due to the high cost. - Farmers lack knowledge in how often they need to purchase seed in order to maintain the quality of production.
Incentives for Farmers	Increase the quality of their production, and increase income.
<i>Proposed Project Facilitation Activities and Recommendations</i>	
1) One facilitation activity that was suggested to address the challenge of ‘lack of standards and monitoring of seeds available on the market’ was to: - Initiate an association of inputs suppliers to enforce standards of quality as well as to provide self-regulation. If there are no clear leaders or market incentives for the actors to take on the formation of this association, it would be very challenging for CHF to facilitate such an activity. The long term sustainability of such an association would also need to be considered. Nevertheless, there are initial steps that CHF could take to determine whether to move forward on this activity: - Meet with Balton, who came up with this facilitation activity, to ask them how they would foresee this association taking shape, how it could be operationalized, and what would the cost structures be (commercial viability). - If there are clear ideas and steps presented for operationalizing this association, CHF could collaborate with Balton, and potentially others to support specific activities.	

MARKET-BASED SOLUTION 1

2) During the assessment interviews, one of the challenges (noted above) that Agrotech cited was the lack of distribution networks that allows them to reach small communities. CHF could meet with Agrotech (and others) to determine:

- What steps are they taking, or plan to take in order to expand their distribution network?
- How specifically can CHF collaborate with them to build their capacity to expand their distribution networks?

It is worth noting here that although Agrotech (and other input suppliers such as Balton) does not sell many inputs specifically for green beans, that this type of intervention could be considered as one that supports the growth and competitiveness of the input supply value chain. Other market development projects (such as the “*Production, Finance and Improved Technologies Project*,” PROFIT, in Zambia) have worked to support input supply companies to expand their distribution network, and CHF could research this model.

Also, based on the interviews, Agrotech did not appear to be particularly interested in any potential collaboration with CHF to address their challenges (and did not attend the FGD). Several of the smaller input supply companies from the Nyabugogo market (interviewed both during analysis as well as for the assessments), such as Agrophia were interested in collaboration but were unable to attend the FGD. Additional follow-up interviews with these companies are recommended to help them address their challenges.

3) Balton, which has a relatively recent presence in Rwanda, seems to be highly motivated to gain market share in the country and is conducting trainings and demonstrations plots. During an interview with this company, the primary challenge they cited they could use support with is an appropriately structured ‘tri-partite’ funding mechanism that connects input suppliers, retailers and farmers to address issues around lack of credit. CHF could meet with Balton again to:

- Gather more details on the issue of financing to better understand how it affects the company, its distributors and farmers.
- Determine what specific steps can be taken to support Balton with a tri-partite funding mechanism.

MARKET-BASED SOLUTION 2

Market Based Solution	Training to farmers in production techniques (spacing, seed utilization, fertilizer application, pesticide use, irrigation, planting and harvesting schedules, picking techniques, and crop rotation).
Value Chain Constraint/s	Lack of knowledge in production techniques (spacing, seed utilization, fertilizer application, disease prevention and treatment, pesticide use, irrigation, planting and harvesting schedules, crop rotation) results in limited production (quality and quantity) for farmers.

MARKET-BASED SOLUTION 2	
	Farmers lack information on the appropriate use of pesticides, resulting in higher than acceptable minimum residue levels (as compared to international standards).
	Farmers lack the ability to identify which types of disease affect their green bean crop and thus which type of pesticide to apply, resulting in reduced infected crops and thus lower production levels.
Proposed Provider(s) of Market-Based Solution	○ Input suppliers ○ Large buyers
<i>Challenges and Incentives for <u>Providers</u> of the Market-Based Solution</i>	
Challenges for Input Suppliers	○ Lack of staff expertise (both Agrotech as well as their partners). ○ Cost to invest in training materials and staff training, and demonstration plots. ○ Difficulty for input suppliers to follow up with farmers on their training/guidance.
Incentives for Input Suppliers	○ Repeat customers, increased sales, attract new customers.
Challenges for Large buyers	○ Lack of buyer/staff expertise (for some buyers). ○ Cost to invest in training materials and staff training, and demonstration plots. ○ The training information that large buyers/traders can provide may not be transmitted directly/properly to farmers due to several levels of intermediaries.
Incentives for Large buyers	○ Ensure the quality of production, potentially increasing demand, increased sales.
<i>Challenges and Incentives for <u>Users</u> of the Market-Based Solution</i>	
Challenges for Farmers	○ If there is a fee for the training, farmers may lack the incentive to pay. ○ Farmers may not apply/accept the new knowledge. ○ Farmers not be interested in taking the time to attend a training. ○ Farmers may not be accustomed to a formal training (depending on how the material is presented). ○ Farmer have been accustomed to getting paid for trainings.
Incentives for Farmers	○ Improved quality and quantity of production, increased income.
<i>Proposed Project Facilitation Activities and Recommendations</i>	
4) The participants stressed the importance of hands-on trainings (including demonstration plots) with follow-up and mentoring, rather than written product guides or instructions (particularly from the perspective of the input suppliers). Mr Binoyi, the owner of ETS who exports green beans to the Congo, expressed a willingness to invest in training of trainers, but wasn't sure about how to select people to be trained as trainers (his operation is relatively small and would likely train a consultant rather than staff), and to decide on which training topics are most important. A project activity that arose from the participants was:	

MARKET-BASED SOLUTION 2

- Training of trainers to build the capacity of lead firm staff (or consultants) in providing hands-on training in all aspects of green bean production to farmers (including spacing, seed utilization, fertilizer application and pesticide use, irrigation, planting and harvesting schedules, picking techniques, and crop rotation).

CHF should meet with Mr. Binoyi to discuss the following:

- Determine and outline exactly what his needs are for this training (i.e. which aspects of green bean production should be covered).
- Establish who will conduct the training, who will be trained as trainers, which farmers will be trained and can then train others, how long will the training last, etc.
- Assist ETS to prepare training modules for producers (that they will organize and conduct on their own).
- Provide cost share to ETS to conduct initial/ pilot trainings to producers.
- Evaluate pilot training programs and provide feedback to ETS for improvements.
- Use the Memorandum of Understanding (MOU) and cost share agreement provided to the CHF Rwanda staff. The MOU and cost share agreement will describe the nature of collaboration between the project and the lead firm, roles and responsibilities for interventions, and cost share budgets. Once these are established, the CHF team can then provide technical support (as needed) to Mr. Binoyi (and potentially others) in implementing interventions according to agreed upon work plans.

MARKET-BASED SOLUTION 3

Market Based Solution	Provision of lobbying services to change MINAGRI policy that limits production of green beans.
Value Chain Constraint	The Crop Intensification Program requires farmers to grow specific crops in specific regions. This results in less production of green beans and lost revenue for producers.
Proposed Provider(s) of Market-Based Solution	○ Coalition of Market Actors
<i>Challenges and Incentives for Providers of the Market-Based Solution</i>	
Challenges	Little lobbying power, few human and financial resources to lobby, and lack of expertise in lobbying for a specific technical issue.
Incentives	Depending on the impact of the CIP, coalition members can increase their production capacity and more effectively meet market demand for green beans.
<i>Proposed Project Facilitation Activities and Recommendations</i>	
5) There were differing opinions on the Crop Intensification Program, and if or how it limits farmers’ capacity to grow beans. Market actors were interested in forming a coalition to lobby around CIP , but first want to better understand how this policy potentially limits the production of green beans. In order to fully understand the impact of the CIP on farmers and other actors, CHF should:	

MARKET-BASED SOLUTION 3

- Gather information and interview additional key informants to determine whether the CIP limits the production of green beans for farmers.
- If the CIP has been determined to limit the production of green beans (and thus the competitiveness of the sector), CHF can provide assistance to help the market actors (whose interests are at stake) to build a coalition that enables them to tackle the potentially negative impact on the CIP.
- Once the coalition has been formed, CHF can provide technical assistance to build the capacity of the coalition to develop a message, persuade government officials to take action, use mass media, develop press materials, conduct media interviews, and work with coalition members.

Additional guidance on approaches to advocacy for facilitators (CHF) is included in Appendix 4.

2.2. Additional Project Activities

At the end of the FGD, the participants were asked if they had any additional ideas for project activities to help them address their challenges to providing market-based solutions. One company in particular, FRULEP, a retailer and wholesaler of fruits and vegetables, mentioned the following ideas:

- 6) *Build the capacity of large buyers of green beans to manage contract farming arrangements with producers to ensure consistent quality and quantity*

FRULEP has had no known previous experience with contract farming and is not satisfied with their current system of procurement, in which collectors bring produce to FRULEP without any agreed upon conditions regarding quality or quantity.

Recommendations

As a first step, CHF could meet with FRULEP to outline more details what the company has in mind, using the interview guides that are included in the AFE manual on ‘Facilitating the Development of Outgrowing Operations’.⁷ There are 14 question guides included in the manual, and they cover various components of outgrowing operations, such as: deciding to establish an outgrowing operation; hiring staff for outgrowing operations; selecting and engaging lead farmers; selecting outgrowers; communicating with outgrowers, etc. Depending on FRULEP’s incentives to move forward with an outgrowing scheme, CHF could develop an MOU and cost-share agreement with FRULEP so that the company could start with a small number of contract farmers.

- 7) *Exchange visit on alternative packaging materials to polyurethane*

⁷ Several copies of this manual were distributed to CHF staff during this consultancy. The manual can also be found online at: <http://www.actionforenterprise.org/paper-usaid.pdf>

In order to preserve, store and sell green beans, FRULEP uses polyurethane (plastic) materials. This material, however, is prohibited in Rwanda, and FRULEP is frequently fined up to 40,000 RWR each time they are inspected. They proposed an exposure visit to learn more about alternative, affordable packaging materials that would comply with regulations.

Recommendations

CHF could conduct initial research on packaging materials that would provide an alternative to polyurethane. CHF could develop an MOU and cost-share agreement with FRULEP for a company representative to visit a provider of alternative packaging.

2.3 Next Steps

To follow-up on this initiative and begin implementation of the proposed project facilitation activities AFE presented CHF with a proposed “Request for Applications” (RFA) format. This application requests targeted MBS providers / lead firms (LFs) to propose cost share interventions that would support them to implement the interventions described above and develop their supply chains.

The RFA includes clear guidelines and parameters that stipulate the potential size and nature of such cost share activities. Once applications are submitted, the CHF program will enter into discussions and negotiations with the MBS providers to determine the most appropriate activities to support. This can be viewed as a good follow-up to the intervention ideas discussed with market actors, and it provides an opportunity to get into more details about proposed activities. In addition, the RFAs are distributed to as many MBS providers as possible, so they reach beyond FGD participants alone. An RFA template was tailored and sent to CHF Rwanda on June 29th along with an illustrative newspaper advertisement and sample Memorandum of Understanding (MOU).

Once activities are identified and agreed upon, CHF can develop MOUs and cost share agreements with the targeted MBS providers / LFs. These will clearly describe the nature of collaboration between the project and the MBS provider, roles and responsibilities for interventions, and cost share budgets. Once these are established the CHF team will then provide technical support as needed to the MBS providers in implementing interventions.

Depending on the need and opportunity, the CHF team may also organize cross-company interventions for MBS providers / LFs in the same industry. These might include feasibility assessments for certain kinds of investments, end-market surveys, observation visits to other countries, etc.

Appendix 1: Interview Guide Used in Value Chain Analysis

(Please note: this guide was further modified according to each type of market actor interviewed)

Introduction

Greetings. Thank you for meeting me today. My name is _____, and I am conducting research on behalf of CHF. We are an organization working in the field of private sector development, and we’re designing a program for the green beans sector in Rwanda. Can I ask you a few questions? I would like to say that this interview will be confidential in nature, the information you provide us is very valuable to our research for the whole sector. We do not conduct commercial business activities. Rather, we support businesses in different sectors.

Contact Information

Interviewer / Date of interview / Firm Name / Principal product or service

No. of employees / Owner (or contact) / Legal status / Address / Telephone / Email

Market Access, Trends, and Governance

2. To whom do you sell your product or service (large firms, small firms, wholesalers, exporters, retailers, direct to consumers, etc.)? What percentage goes to each?

3. Describe the relationships you have with these buyers and sellers (who determines what to produce, product specifications, prices, and amount purchased?). How much input do you have?

4. How do you promote and market your products/services?

5. How much demand is there for your products/services right now? Next year? What trends do you see?

6. Do you sell more green beans to some customers and less to others? Which ones?

7. Do you ever collaborate with other firms on promotion and/or marketing?

8. Who are your major competitors?

9. Do you have a means of communicating information about your products and or services to others?

(Attach any brochures, list of products, etc.)

Standards and Certifications

1. What standards or certification requirements do your products need to conform to?

2. Who sets these standards and requirements?

3. Who helps you to conform to these standards and requirements?

4. Do you have any problems in this regard?

Technology / Product Development

1. What are your major needs/ opportunities in service delivery?

2. What other products do you produce/sell? What percentage does each product represent in terms of your gross revenue?

3. What have you done recently to improve your services?

4. Is your current equipment or machinery an impediment to growth? Explain. If so, what kind of equipment or machinery could improve your business?
5. Is the current level of your workers training holding back growth? If so, what additional training do they need?

Management/Organization

1. In the area of organization and management, what are your major needs/opportunities?
2. Who does most of the work in the areas of: general management/supervision, product design, purchasing, production, shipping, accounting, marketing, repairs, etc. (owner, employees, or external)?
3. What functions do you subcontract/outsource?
4. Do you sometimes collaborate with other firms to produce and deliver customer orders?
5. Which aspects of your business do you intend to change in the next 2 years (machinery, equipment, computers, new products, marketing strategy, quality control, management system, worker skills, etc.)?
6. What management skills would you like to strengthen in order to grow your business?

Input Supply

1. What are your major needs/opportunities in the areas of cost, quality, and availability of seed, fertilizer, pesticide, green beans (for collectors/retailers/buyers)?
2. Who are your *most important suppliers* and what do you buy from each?
3. Are there problems in obtaining some important inputs? Explain.
4. Have you ever purchased inputs jointly with other business? Explain.

Finance

1. Where do you go when you need money for your business?
2. Do you get credit from input suppliers? What are the terms?
3. Do you get production financing from your buyers? What are the terms?
4. Do you have need for additional financing at the moment? If so, what would it be used for?
5. What sources (formal or informal) have you approached for loans, and what have been the key problems, if any?
6. Other (repayment rates in the sector, risk management insurance, etc.)

Policy/Regulation

1. What government policies/regulations benefit your business (registrations, inspections, subsidies, incentives, etc.)?
2. What government policies/regulations are obstacles to growing your business?

Infrastructure

1. What are the most important infrastructure constraints affecting your business' growth and profitability (road/transport conditions, telephone service, electric supply, crime/corruption, storage, etc.)?
2. What is your industry doing about these problems?

Business Membership Organizations

1. Is your industry/trade sector represented by national or local business associations?

If so, please name them.

2. Are you a member? If not, why?
3. What are the primary functions and benefits of these associations?
4. What additional services should they provide?

Final Open Ended Questions

1. What are the major incentives you have for investing in / promoting change in the value chain?
2. What risks or constraints do you face in making these investments?
3. What do you think are the strengths of your industry locally and/or internationally?*
4. What are the main weaknesses of your industry?
5. What do you think is the greatest challenge facing your industry today?
6. Can you name some business owners in your industry who are leaders –for example, in terms of technology, product design, quality, or marketing?
7. How did you get into your business?

Appendix 2: Ideas on Value Chain Advocacy Activities

ADVOCATING FOR CHANGE

Facilitators of value chain/ market development activities can assist Lead Firms to advocate for improvements in the policy environment relative to their value chain's activities. Policy issues include:

- Licensing (registration, fees, and so forth)
- Access to land for enterprises (land entitlement, and so forth)
- Development of basic infrastructure (access roads, water and drainage, electricity)
- Regulations on redundancy, wage guidelines, and apprenticeship systems
- Patent systems
- Health standards for food processing, etc

Other practices that can be examined include:

- Unfair methods of assessing annual taxes and stall fees
- Harassment by local officials
- Unfair bidding practices for government contracts
- Import and export restrictions
- Subsidies for selected imports which render local Lead Firm production uncompetitive

Facilitators can provide technical assistance to develop the capacity of Lead Firm trade associations and/or policy working groups to address these issues. This "advocacy" assistance can include:

- **Defining Key Policy Issues Affecting the Trade Group/Value chain and Developing Strategies** (identification of problems, immediate and long-term advocacy goals, methods for proceeding);
- **Developing a Message** (collecting local facts and data, surveys of members, assessment of public opinion, development and testing of a simple message, practice in presenting message, tailoring the message to a selected audience, and so forth);
- **Persuading Government Officials to Take Action** (development of allies among government agencies, policy makers, and legislators; preparing meetings; developing persuasive communication techniques; collecting information on the position of each government agency regarding the issue; keeping the message simple; avoiding confrontations; finding common ground; writing good letters; and the like);
- **Using Mass Media** (becoming familiar with local media outlets, identifying journalists with a special interest in the issue, respecting journalists time constraints, developing a relationship with local press corps, and so forth);

- **Developing Press Materials and Planning Media Events** (news releases, news conferences, press/photo opportunities, statements, fact sheets, letters-to-the-editor, opinion/editorial pieces);
- **Media Interviews** (preparing interviews, techniques for personal/radio/tv interviewing, dealing with reporters);
- **Working with Lead Firm Association Members** (organizing support, building relationships, promotion of participation, developing short- and long-term goals to meet specific needs, foster empowerment), and;
- **Forging Alliances** (building coalitions with specialists and influential individuals/ organizations, achieving consensus with coalition members, and planning events to foster coalitions)

On this last point (forging alliances), Facilitators can provide assistance to help Lead Firms develop effective alliances and coalitions. This can enable them to tackle policy constraints that are specific to the value chain needs. An example of this was seen in Kenya, where legislation once prohibited the price of cooking oil from rising above a certain level. This made it practically impossible for small-scale oil processors to make a profit. A few DOs put together a coalition and successfully lobbied for legislative reform. Examples of coalition members included:

- Lead Firm association members and leaders;
- A respected agricultural economist from the local university who could point out the inefficiencies of the current legislation (and market);
- Representatives of farmers who were current or potential producers of the raw seeds that are transformed into oil (they could increase their production if the law was changed);
- Influential politicians from geographic areas that might profit from increased oil seed production and transformation;
- Manufacturers of oil seed presses who stood to gain from increased production; and
- Representatives of agricultural projects, donors, and others who supported the cause.

Facilitators can assist Lead Firm trade associations to nurture such coalitions, and to organize work sessions and advocacy activities referred to earlier. When the association gains experience on how the process works, it can take it over on its own.

Many policy issues facing Lead Firms are specific to their value chain and the type of business they run. The example of price controls on edible oils is a case in point. Other examples might include:

- Government subsidies on the import of finished wood products which make local furniture production unprofitable;
- Unfair government contracting practices in the garment production value chain; and
- Overly complex and unnecessary licensing procedures for small restaurants and food vendors.

In each of these cases the problems are value chain specific. They are best addressed by those most concerned. By focusing advocacy on trade groups, Facilitators can facilitate the resolution of specific problems and obstacles.

Policy Workgroups

Policy Workgroups can utilize a model that has proven successful in other countries, most notably in Botswana under BPED, a \$20 million dollar USAID funded private sector development project that implemented several components through a local business association (BA). This model had great success in the promotion of policy initiatives related to industrial development, trade/investment policy, financial sector development, and privatization. Its success is due to a mechanism of regularly-scheduled, issue-based workgroup meetings that cover all policy activities and that are attended by representatives of the business association, parastatal investment corporations (if they exist), and the local Ministries of Commerce and Industry. These meetings are structured to foster an inter-organizational, collaborative, and participatory approach to the identification and resolution of key policy concerns. The Project uses funds to catalyze the workgroup activities, many of which are subsequently assumed, partially or wholly, by the participating organizations. The nurturing of this process becomes a significant achievement, and the cornerstone of Project success.

Three main elements of the methodology are:

1. Forming workgroups within selected BAs comprised of BA members, BA staff, investment agencies, government agencies, and others.

2. Nurturing the process whereby the facilitators: a) maintain regular contact with workgroup members; b) prepare well-planned meetings; c) produce and circulate detailed minutes; d) develop clear terms of reference for consultants undertaking workgroup commissioned studies; e) provide monitoring and follow-up of commissioned activities; f) engage workgroup members in active advocacy campaigns once issues are well researched.

3. Use of Activity Sheets

These standardized forms, produced quarterly by the workgroup leaders, are used for each policy issue or member service being addressed. They provide a clear synopsis of: a) the activity; b) expected and actual impact; c) the implementation plan; d) the status; e) outstanding issues/ recommendations and; f) total costs and host country contributions.

Initially, the Facilitator will assist selected BAs to develop an internal capacity to implement the Policy Workgroup methodology. Once workgroups are formed, the Facilitator will assist them to identify the key policy or member service issues they wish to address. To facilitate this, the Facilitator will train workgroup members in the use of value chain analysis techniques. This will

be particularly appropriate in helping them to address the industry specific needs of their members. Once policy, or in some cases member service, constraints are identified then the Project will assist the workgroups to design a study or intervention to address them. Once approved, the appropriate SOWs to carry out the activity will be developed, and a competitive procurement process will take place. Workgroup members will then be trained in how to monitor/evaluate and how best to disseminate and act on the findings.

Over time, the BAs will be weaned of assistance from the Facilitator as they become more adept at managing all aspects of the Policy Workgroups.

Appendix 3: List of Persons Interviewed in the Green Bean Value Chain

No.	Name	Location	Contact Information	Interview Date
Input Suppliers				
1	AFRICHEM	Kigali	Paolo Paganin, 0788300784	June 10
2	AGROTECH	Kigali	Jean-Marie Vianney Bizimana, 0788651360	June 14
3	Agropha	Nyabugogo (Kigali)	Bosco Kayiranga	June 10
4	Uburumbuke Seed Shop	Nyabugogo (Kigali)	Manace Ntambara, 0788765959	June 10
5	Win Win Agritech	Nyabugogo (Kigali)	Ignace Nyiringabo	June 10
6	Agruni	Mahuko	Betty Ndamushimye, 075272451	June 15
7	Balton	Kigali	Kelvin Odoobo, 0788307484	June 21
Producers				
8	Hitimana Clavel	Cyangugu	250 783679158	June 15
9	Viateur Garambe	Rulindo		June 15
10	JMV Twamugabo	Kamonyi	0783204320	June 11
11	Straton Nzabahimana	Gicumbi	0783047284	June 14
12	Assiel Nkurikiyinka	Kamonyi	0785331558	June 11
13	Genereuse Diamant	Gicumbi	0783590340	June 14
Collectors/Traders				
14	Ignace Musabyimana	Mutangana (Kigali)	0788976586	June 10
15	Felecita Niyongira	Mutangana (Kigali)	0788976586	June 10
16	Claude Bizimana	Congo	+243 990462733	June 14
17	Esperance Mukamugema	Cyangugu	+250 783466248	June 14
18	CPJEK Cooperative	Cyangugu	Alphonsine Maneno, 0783647461	June 14
Retailers				
19	Pila Mukarukundo	Nyabugogo	0788231821	June 10
20	Aisha Nyiramajyambere	Kimisagara	0788783590	June 10
21	Jean Pierre Mutemberezi	Kimisagara	0898767588	June 10
22	Esperance Mukakabera	Gicumbi		June 14
23	Maman Afsa	Rubavu		June 15
24	Maman Hamida	Rubavu		June 15
25	Laurence Nyirahabineza	Mahuko		June 15
26	Nakumatt	Kigali	Paul Mutunga, +254720264253	June 10
27	Frulep	Kigali	Sinigenga Narcisse,	June 11

No.	Name	Location	Contact Information	Interview Date
			0788504512	
28	Simba	Kigali		June 12
29	Stipp Hotel	Gisenye	Gahimbare Denis, 0788594405	June 15
30	La Palme Hotel	Ruhengere	Jacqueline Urukundo, 0788415758	June 15
31	Hotel La Palisse			June 11
32	Hotel Serena		Furaha Terry Innocent, 250-597100	June 10
Exporters				
33	ETS	Kigali	Mr. Thomas Binoyi, 0788304788	June 11
34	East Africa Growers	Kigali	Aimable Gakirage, 0788303641	June 14
35	Fondateur Straton	Cyangugu	250 783855787	June 14
Key Informants				
36	RHODA	Kigali	Chantal	June 14
37	Organic Horticultural Association	Kigali		June 16
38	University of Rwanda	Kigali		June 11
39	ISAR	Kigali	Domitilla Mukankubana	June 9
40	ROPARWA	Kigali	Aimee Tumukunde, 0788307930	June 21

Appendix 4: Focus Group Discussion Participants

No.	MBS Provider	Role in the Value Chain	Contact Info
1	AfriChem	Input Supplier	Paolo Paganin, 0788300784
2	Balton	Input Supplier	Kelvin Odoobo, 0788307484
3	ETS	Exporter	Mr. Binoyi
4	East Africa Growers	Former exporter	Aimable Gakirage, 0788303641
5	Frulep	Retailer/Wholesaler	Sinigenga Narcisse, 0788504512
6	Viateur Garambe	Lead farmer	
7	ROPARWA	Apex Association of Farmer Groups	Tumukunde Aimee Marie Ange, 0788307930

VALUE CHAIN PROGRAM DESIGN: *Pineapples in Rwanda*

June 2010



Photos courtesy of CIAT – International Center for Tropical Agriculture



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About Action for Enterprise

Action for Enterprise (AFE) is a leader in the field of private sector/enterprise development. Since 1991, AFE has developed state-of-the art training programs, implemented cutting edge field programs, authored numerous publications, and provided technical support to programs worldwide.

As both an implementer of field programs and an advisor to other organizations AFE:

- provides comprehensive analyses of value chains and the interrelationships of enterprises that function therein;
- designs effective and sustainable interventions based on the latest principles of competitiveness and private sector development;
- facilitates market linkages between buyers and sellers;
- facilitates the development of sustainable trade and business associations;
- builds the capacity of local enterprise development organizations;
- designs and manages private sector development programs; and
- develops and documents its innovative methodology and shares it with others to promote improved private sector development practices worldwide.

The AFE value chain methodology combines the strengths of value chain/subsector analysis with methods for identifying sustainable market-based solutions that promote medium and small micro-enterprises and industry competitiveness. It allows practitioners to understand market dynamics, identify major constraints and opportunities, and promote sustainable economic solutions to identified constraints.

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About USAID & PEPFAR

The United States Agency for International Development (USAID) is a U.S. Government agency that works with the Government of Rwanda to improve the health and livelihoods of Rwandans and increase economic and political development. USAID programs in the areas of health, economic growth and democracy and governance are made possible by the generous support of the American people.

The President's Emergency Plan for AIDS Relief (PEPFAR) is the United States' initiative to combat the global HIV/AIDS epidemic. In Rwanda, PEPFAR supports voluntary counseling and testing activities, youth intervention programs, provides antiretroviral (ARV) drugs and treatment for opportunistic infections and supports education and life skills training for orphans and vulnerable children in Rwanda. Launched in 2003, PEPFAR is the largest effort by any nation to combat a single disease.

For more information, contact: usaidhigaubeho@rw.chfinternational.org

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ACRONYMS & DEFINITIONS

ADEPR	Association des Eglises de Pentecôtes au Rwanda
AEE	African Evangelistic Enterprise
AIDS	Acquired Immuno-Deficiency Syndrome
ARCT-Ruhuka	Association Rwandaise des Conseillers en Trauma
DUHAMIC ADRI	Association pour le développement rural intégré
EPR	Eglise Presbytérienne du Rwanda
FDG	Focus Group Discussion
Higa Ubeho	<i>Kinyarwanda phrase meaning “Be Determined and Live”</i>
HIV	Human Immunodeficiency Virus
ISAR	Institut des Sciences Agronomique du Rwanda
LF	Lead Farmer
MBS	Market-based solutions
OXFAM	Oxford Committee for Famine Relief (a UK Registered INGO)
PAMASOR	Programme d’Appuie aux malades du Sida et aux Orphelin Rejetes
PEPFAR	The U.S. President’s Emergency Plan for AIDS Relief
RFA	Request for Application
RHODA	Rwanda Horticulture Development Authority
RRP+	Réseau Rwandais des Personnes Vivant avec le VIH/SIDA
RWAMREC	Rwanda Men’ Resource Centre
SWAA-R	Society for Women and AIDS in Africa-Rwanda
URUNANA DC	Urunana Development Communication
USAID	United States Agency for International Development
USD	United States Dollars
UTEXRWA	Usine de Textille du Rwanda

EXECUTIVE SUMMARY

The Economic Strengthening component of the USAID/Higa Ubeho program in Rwanda works to build capacity and strengthen the market opportunities of vulnerable populations. To support its efforts, CHF International contracted Action for Enterprise (AFE) to conduct a program design for the pineapple value chain in Rwanda. This work took place from June 7-24, 2010. Activities included: 1) a two-day workshop for CHF and partner staff in the concepts and tools of value chain program design; 2) development of interview guides and planning for value chain analysis; 3) interviews with over 40 market actors and key informants; 4) additional interviews and focus group discussions (FGDs) with market actors to assess market-based solutions and identify potential project activities, and 5) a debrief of the program design activities for CHF staff.

After conducting interviews and identifying the constraints facing the market actors during value chain analysis, the program design team formulated ‘market-based solutions’ (MBS) that could address the constraints. The team then ranked the top three solutions according to i) their ability to promote growth and competitiveness in the entire value chain and ii) their ability to increase incomes of their target groups. Next, the team assessed the prioritized solutions to determine the challenges targeted market actors may face in implementing them and the commercial viability of the solutions. The program design team then conducted interviews and held an FGD with targeted market actors to identify program interventions that could help overcome the challenges to sustainable market based solutions. FGD Participants included lead pineapple farmers, sellers of pineapple planting materials, and wholesalers of fresh pineapples. The prioritized solutions and the corresponding project activities they suggested during the FGD include the following:

Market-Based Solution #1:

Training farmers on proper selection of seedling/planting material

(Targeted MBS providers include input suppliers and lead farmers)

- Training of Trainers to Farmer/Lead Farmer sucker sellers (MBS providers) on seed selection and disease identification
- Assist MBS providers to prepare training modules for producers (that the MBS providers will organize and conduct on their own)
- Provide cost share to MBS providers to conduct initial/pilot trainings for producers
- Evaluate pilot training programs and provide feedback to MBS providers for improvements
- Study tours for sucker sellers and lead farmers to visit seed planting areas

Market-Based Solution #2:

Training farmers in pineapple production, collection and post-harvest handling techniques

(Targeted MBS providers include wholesalers and lead farmers)

- Training of Trainers to wholesalers and lead farmers (MBS providers) on proper growing, harvesting and collecting techniques

- Assist MBS providers to prepare training modules for producers (that the MBS providers will organize and conduct on their own)
- Provide cost share to MBS providers to conduct initial/pilot trainings for producers
- Evaluate pilot training programs and provide feedback to MBS providers for improvements
- Organize forum between wholesalers and lead farmers

In addition to the activities proposed during the FGD, at least two other potential areas of project focus were identified by the team. These include:

- Exploring linking UTEXRWA (*Usine de Textile du Rwanda*--a Rwandan textile company) with pineapple producers for the viable procurement of pineapple fibers to make alternative fabrics
- Working with Floris, an exporter and local wholesaler of both organic and conventional fruits, to help increase their market access and ability to source from local producers

Program Background

The USAID/Higa Ubeho program aims to support 72,000 Rwandan families—particularly the families of orphans, vulnerable children and people living with HIV and AIDS—to develop sustainable ways of coping with the health and economic challenges that often affect the most vulnerable communities in Rwanda.

The strategic objectives of USAID/Higa Ubeho include increasing families’ access to quality health and social services; improving household response to health and financial obstacles through economic, nutritional and educational support; and strengthening local government and civil society capacity to provide quality health and social services to those in need.

The USAID/Higa Ubeho program is implemented by a consortium of 18 organizations, led by CHF International, that includes 2 international partners (CARE International & Catholic Relief Services) along with 16 non-governmental Rwandan Partner Organizations (RPOs): ARCT-Ruhuka, ADEPR, AEE, Caritas, DUHAMIC ADRI, EPR, HAGURUKA, ICYUZUZO, PAMASOR, RRP+, RWAMREC, SWAA-R, URUNANA DC, WE-ACTx for Hope and WIF. The USAID/Higa Ubeho program consortium works closely with a number of Rwandan Ministries and other Government Institutions to implement the USAID/Higa Ubeho program, including the National AIDS Control Commission and the Ministry of Gender and Family Promotion.

The Kinyarwanda words within the program name—*Higa Ubeho*—mean ‘be determined and live.’ The concept of determination is linked to the idea of resilience, a key feature of USAID/Higa Ubeho. Determination directly involves the program beneficiaries, not only in receiving program support but in leveraging this support against their household strategies for improving health and economic outcomes.

USAID/Higa Ubeho beneficiaries are called ‘abahizi’—another Kinyarwanda word that refers to *people committed to participating in achieving a goal*. *Abahizi* play an important, active role in improving their quality of life—not only receiving services but taking initiative in defining elements of service delivery and household resilience response.

CHF International and its partners implement the USAID/Higa Ubeho program across Rwanda’s 5 provinces, in 20 PEPFAR districts: Bugesera, Gakenke, Gasabo, Gatsibo, Gicumbi, Kamonyi, Karongi, Kicukiro, Muhanga, Ngororero, Nyabihu, Nyagatare, Nyamagabe, Nyarugenge, Nyaruguru, Rubavu, Ruhango, Rulindo, Rutsiro, and Rwamagana.

Introduction to Value Chain Analysis

The Economic Strengthening component of the USAID/Higa Ubeho program in Rwanda works to build capacity and strengthen the market opportunities of vulnerable populations. To support its efforts, CHF International contracted Action for Enterprise (AFE) to conduct a program design for both the pineapple and green bean value chains in Rwanda. This work took place from June 7 to June 24, 2010. During this time, AFE led a team from CHF and its local partner

organizations in a value chain program design that resulted in the identification of project activities to support the pineapple value chain.

Activities of the consultancy included: 1) a two-day workshop of CHF and partner staff in the concepts and tools of value chain program design; 2) development of interview guides and planning for value chain analysis; 3) interviews with over 40 market actors and key informants; 4) additional interviews and focus group discussions with market actors to assess market-based solutions and identify potential project activities; and 5) a debrief of the program design activities CHF staff.

This report describes the program design exercise for the pineapple value chain¹. It begins with descriptions of the end market for pineapples, the various market actors in the pineapple value chain and their interrelationships, the supporting market actors, and the enabling environment relevant to pineapples. The report then continues with a discussion of the constraints and opportunities in the pineapple value chain, and the corresponding market-based solutions that are needed to address the constraints and improve competitiveness. The report concludes with assessments of the market-based solutions, challenges to providing the solutions, proposed intervention activities, and recommendations for next steps.

1. Value Chain Analysis & Identification of Market-Based Solutions

CHF selected the pineapple value chain as a sector in which to design an enterprise development program because it can positively affect many of their target beneficiaries in the USAID/Higa Ubeho program. These beneficiaries are either already growing pineapple, have high potential to do so, or are benefiting from it as processors, traders, and retailers.

While it is difficult to estimate precise figures, there are more than 10,000 people who make a living growing and/or processing and selling pineapple across Rwanda. Total production is estimated at close to 100,000 Metric Tons per year². For this particular study, AFE and CHF conducted interviews with more than 40 market actors and stakeholders. These included farmers, input suppliers, wholesalers, processors, retailers, and key informants from government extension agencies (RHODA and ISAR).

This section begins with a description of the end-market for pineapples. It then describes the functions, activities and inter-relationships of the various market actors, which are laid out in a value chain map. The section then presents the actors in the supporting markets and discusses the enabling environment. This section concludes with a discussion of the constraints that the market actors face, and the market-based solutions that can address those constraints.

1.1. End Markets for Pineapples

¹ A separate report describes the program design exercise for green beans.

² OXFAM Pineapple Value Chain Analysis, 2008-2009.

Domestic Market

Pineapples in Rwanda, fresh and processed, go through three end-market channels: rural and urban consumers of fresh pineapples, domestic consumers of pineapple juices (who are largely but not exclusively urban-based), and export markets for pineapple juice in East Africa (small quantities exported primarily by one firm).

The most significant and fastest-growing of these markets is the urban market for fresh pineapples, which has seen steady – but not rapid – growth over the last ten years. The main reason cited for this slow growth is that pineapples are fairly expensive relative to other fruits. Consumers do not often have the choice of purchasing pineapples in small, more affordable quantities. This is in contrast to other popular, locally-grown fruit such as tree tomato fruit, passion fruit, and bananas – each of which can cater to end-users with both large-scale and small-scale purchasing power.

Nevertheless, fresh pineapples remain a popular fruit and find steady sales outlets in Kigali. Apart from taste, they appeal to consumers for their ability to be stored over relatively longer periods of time (as opposed to passion fruit, which tends to shrivel quickly). Some retailers in Kigali reported that many consumers attach medicinal properties to pineapple, believing it aids in weight loss.

The domestic market for processed pineapple, in particular juice, has recently undergone significant development, but it is still too early to tell how this will affect overall production and sales of the fruit at the farm gate. Most juice produced (and consumed) in-country by any processor involves some kind of dilution with sugar and water, and thus, does not involve large quantities of pineapples for its production. Part of the reason is cost (100% juice is more expensive than other ingredients), but due to the absence of proper carton packaging, a 100% juice has not been marketable due to rapid spoilage. In April, Inyange (the country’s largest and most well-known fruit processor) introduced Tetra Pak™ cartons for a new line of 100% pineapple juice. This is being marketed aggressively across Kigali retail outlets (especially in supermarkets) and can even be found in smaller retail shops across the country. It is priced significantly lower than competing import products (by more than 30-40%), but is still considered a relatively high-priced commodity. Retailers reported that many consumers still prefer to buy cheaper (and lower quality) artificially-flavored imported juice concentrates.

Export markets

Rwanda does not currently have export markets for its fresh pineapples. This is due largely to Rwanda’s relative isolation in terms of transport infrastructure and to its limited production potential. Neighboring countries, especially Congo and Tanzania, produce pineapples for their own markets at significantly lower prices. At least one large-scale farmer reported that the government extension service has been trying to push farmers to adopt smaller varieties which can be targeted to those neighboring markets, but “everything [he sells] goes to Kigali, and Kigali retailers want large, 2-3 kg pineapples, not the 1 kg fruit consumed in markets abroad and advocated by RHODA.”

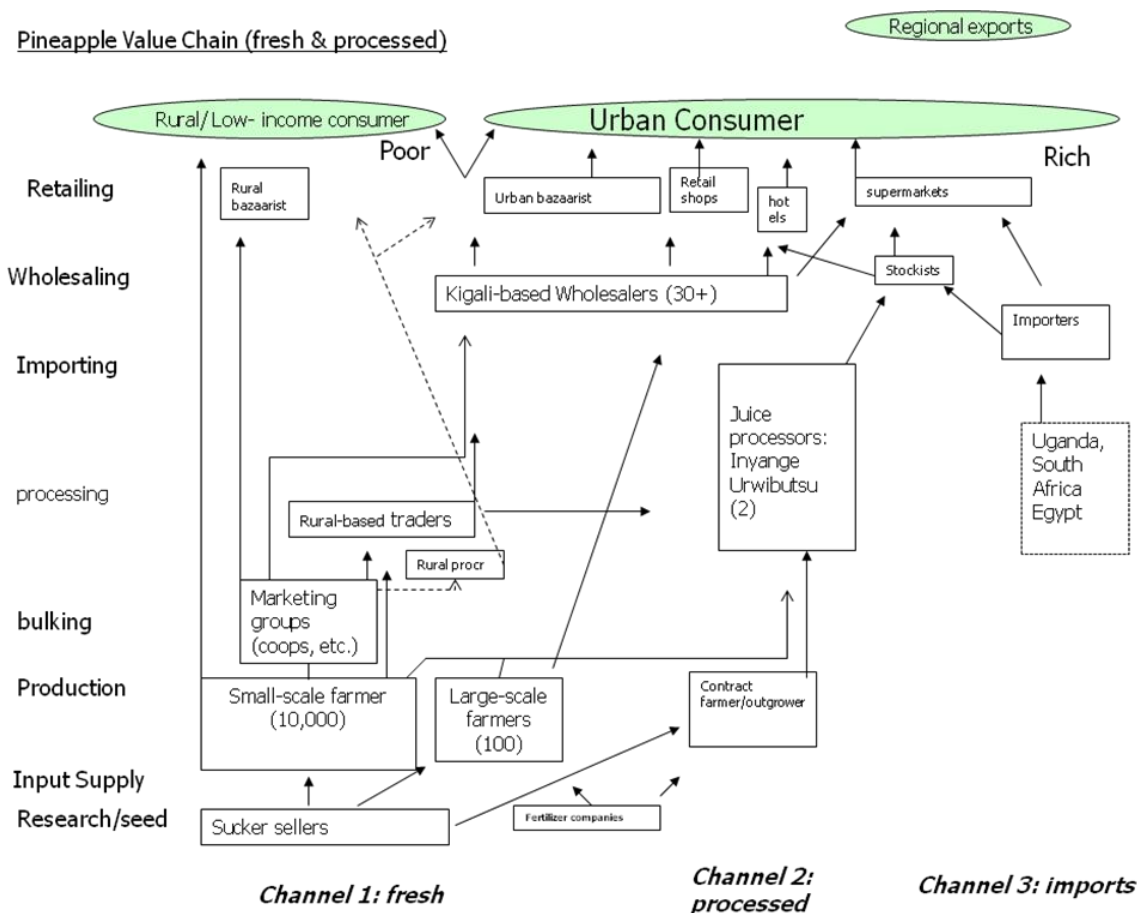
For pineapple juice, the export market is also extremely limited. Juice processors such as Inyange and Urwibutso/Agashya express interest in eventual exports to regional markets, but

they are faced with several daunting challenges on this front: their production levels do not match the economies of scale required for export markets, and the cost to transport these products to neighboring Tanzania, Uganda, or Kenya may be prohibitive. Inyange reports having sent occasional truckloads to markets in the East African Trade Union, and their other juices (not pineapple) can be found in Congo and Burundi as well.

Wider global markets for both processed and fresh pineapple are dominated by countries which are able to produce to a much larger scale and have more direct transport access to larger markets. African competitors include Kenya, Ghana and Cote d'Ivoire, each who have a longer history and more developed industrial capacity for export of these products to the European Union, North America, and other African markets.

1.2. Value Chain Map & Description of Market Actors

Below is a map of the Rwandan pineapple value chain as conceived by the AFE/CHF value chain program design team in June 2010. Immediately below the map follows a description of the depicted market actors:



1.2.1. Input suppliers

Input suppliers are limited almost exclusively to producers and traders of pineapple seedlings, also known as “sucker sellers”. The majority of these input suppliers are farmers themselves,

usually with a degree of influence and sophistication (“lead farmers”) in terms of their abilities to market to farmers and farmer groups both in their immediate areas and around the country. Some of the larger sucker sellers are contracted by the state horticultural extension agency, RHODA, to distribute seedlings to farmer groups (and are paid by RHODA for this service, and not the farmers themselves). Many of the more skilled sucker sellers also offer training to farmers as an embedded component of their sales efforts. Prices of pineapple suckers (which are the chutes which sprout around the pineapple plant and eventually form fruit if not cut and planted) range between 15-30 RFr (USD .02 - .05), depending also on transport/distance required.

The Rwanda Agriculture Research Institute (*Institut des Sciences Agronomique du Rwanda*—ISAR) also plays a role in encouraging the development, distribution and subsidization of planting inputs to farmers. Specifically, they have experimented with seed varieties and introduced them, through RHODA, to farmers around the country. The most common varieties encouraged so far have been Cayenne, Queen, and Gold.

In addition to the more formalized sales of planting materials described above, many farmers purchase or exchange informally amongst each other as neighbors. This has been the preferred method of acquiring planting materials, as many farmers are resistant to purchasing planting materials from outside their areas because of a lack of assurances that the fruit eventually yielded (after two years) will be marketable. Several sources reported that efforts by RHODA and other agencies to introduce new varieties to farmers have backfired because the seedlings did not turn out to be suitable to farmers’ needs or market realities, and in some cases the plantings died of disease.

Very few farmers are using chemical pesticides and fertilizers, so few input supply companies are marketing these products to farmers. At least one larger-scale input supply company reported that on occasion, some pineapple farmers have purchased Malathion (a chemical pesticide).



Informal trade of seedlings

The men standing in the picture are all pineapple farmers from the village of Cubi (Gitarama). The elderly man in the middle brought pineapple seedlings from Uganda to his village over 40 years ago, and since then more than 100 farmers in the area have planted the descendants of his seedlings, which they share amongst each other. Retailers and wholesalers in Kigali report the quality of their fruit to be the highest. Therefore, demand for their seedlings has increased in recent years, and farmers from around the country purchase from them.

1.2.2. Producers

Pineapple production is spread throughout the country, with a higher concentration in the Eastern and Southern provinces. The typical pineapple farmer has between one and two hectares of land. Nearly all these farmers produce pineapple as a cash crop and it is their main source of income. Farmers either deal directly with wholesale buyers, or they form groups to market their pineapples (especially smaller-scale farmers, defined as owning *less* than one hectare of land).

Some communities have “lead farmers” who can be defined (unofficially) as farmers with larger plots of land, relative political influence, and more experience and skills in farming and selling their fruit. Many of these lead farmers employ others to work on their land. They also tend to be at the forefront of local initiatives to improve farming practices and productivity, as well as to experiment with new varieties proposed by RHODA and others.

Farmers tend to employ planting and harvesting strategies which do not involve significant monetary investment. They do not typically apply chemicals to their fields, using mulching and animal manure if available. Many farmers however, do not have access to their own livestock in sufficient quantities to supply enough natural manure to their fields. Farmers who do not own their own livestock may opt to graze other farmers’ goats and cows in their fields to secure manure. Others rely on green mulching alone - composed of hay, grasses, or leaves and twigs laid down as a blanket - but this may affect their yields negatively in as little as 3-4 years, as mulching alone does not address drainage of soil nutrients sufficiently. Access to fertilizer was cited as one of the most challenging constraints facing pineapple farmers.

Most pineapple farmers use local hired help for harvest, typically paying fixed fees of between 400-500 RWF per day³ (approximately USD 0.80) for harvesting and/or to carry pineapples to market pickup points, either on foot or by bicycle. These pickup points are typically weekly or bi-weekly village wholesale markets for farmers. They are usually found in areas that buyers can access by vehicle and are within 5 – 10 kilometers of the fields. In more accessible areas, wholesale buyers will come directly to the farm gate with their vehicles.

1.2.3. Wholesale traders

Wholesale traders are typically categorized as large-scale (selling between 1,000-3,000 pineapples/week), or small-scale (300-500 pineapples/week). They bring the majority of what they purchase to Kigali retailers, including open markets, supermarkets, shops, and hotels. While some of them own their own vehicles, others hire public transport cars, especially small “Daihatsu” flatbed trucks and Chinese minibuses. Small-scale wholesalers may even share vehicles with others. Many wholesalers are not exclusively trading in pineapples, but pick up various produce at different places and times.

³ At several village markets, locals reported being paid 20 RFr per pineapple. A bicycle transporter could carry around 30 pineapples in bags in a single load, and women carrying pineapples on their heads could bring between 10-15 fruit.

Wholesalers have varying degrees of contact with farmers who supply to them. Some are only interested in arms-length transactions and purchasing at conventional pickup points, which are often rural produce markets that take place once or twice weekly. Others develop closer relations with individual farmers and farmer marketing groups. Within these closer relations, wholesalers try to assist farmers in harvesting and post-harvest techniques in order to improve the quality of the pineapples they are able to source. Some will even pre-finance farmers so the farmer may purchase a cow or other animal which may serve as a source of fertilizer. Overall, however, the majority of relations between farmers and wholesalers can be described as “market-based” governance structures, where there is little direct collaboration or communication outside of their commercial transactions.

1.2.4. Retailers

This is a broad category of actor in the pineapple value chain, as it encompasses diverse salespeople. Most retailers are found in and around Kigali, and include open market vendors, small shops, large supermarkets, and wandering salespeople. The most important rural sellers are vendors that sell from stalls at rural open markets.

The most important retailers in terms of sales volumes are **open market vendors**. There are four open markets in Kigali with at least one of them (Kimironko) having as many as 40-50 vendors selling pineapples. Typically, these vendors sell anywhere from 300-500 pineapples per week, and a majority cited pineapple and passion fruit as their most important income earners. While most prefer to purchase from wholesalers based at the market, many organize shared transport and buy directly from the same sales points as wholesalers. As these retailers do not have advanced storage facilities (refrigerators, etc.) they are under pressure to sell as many pineapples as they can within 4-7 days, after which they may lower their prices to get rid of produce on the verge of spoiling. In addition to individual buyers, their clients also include local hotels, schools and restaurants that send employees/agents to purchase in bulk.



Open-market vendor in Kigali

Assan, a pineapple vendor in Kimironko, explained that he buys directly from one supplying farmer with whom he has a very close business relationship. By working together with the farmer to apply improved farming and harvesting techniques he is able to obtain a superior-quality fruit which he claims to be able to sell in higher volumes compared with other vendors.

Supermarkets and **small shops** in Kigali sell in more limited quantities (and typically at prices which are at least 25% higher than at the open market). These often have the added advantage of refrigeration (which implies extended freshness), and the quality of pineapples they sell is typically higher. Some of these supermarkets may purchase from urban distributors (i.e. wholesalers with warehouses in-town) or rely on individual, contracted wholesalers for their fresh fruit and vegetables. These outlets sell more processed pineapple products (local and

imported juices) than fresh pineapple. Currently, a slight majority of the juices they sell are imports from Kenya, South Africa, Uganda and Egypt – most which are sold in Tetra Pak cartons.

Finally, there are **wandering salespeople** on the street, mostly women with baskets of fruit, who source from wholesalers or from retailers in the open markets. Sometimes, they cater to lower-end consumers by cutting up the pineapple and selling by the piece. They will often buy older, lower quality fruit in small quantities at a lower price.

1.2.5. Processors

Currently, there are two major **fruit juice processors** in Rwanda working with pineapples, among other fruit: Inyange and Urwibutso industries. Both of these firms have garnered significant attention from the international community as examples of post-genocidal progress. A third major processor closed down last year. Inyange is currently sourcing pineapples from a number of farmer cooperatives on contract. Urwibutso, located in Gakenke (north of Kigali), purchases raw pineapples from area farmers at the factory gate. Both claim to be sending agronomists to assist supplier farmers⁴.

Both processors sell the majority of their juice products in Kigali supermarkets and shops, but a limited quantity is also being exported to other regional markets in Uganda, Congo, Burundi and Tanzania. At the time of writing this report, Inyange had just introduced 100% pure pineapple juice in Tetra Pak™ cartons to the market, and it is not yet known how much this will affect production and sales levels at the farm gate. They are currently producing at less than 20% of their total capacity, as the market for packaged pineapple juice is still limited. Both processors sell more passion fruit juice than pineapple juice and thus focus more of their processing efforts on passion fruit.

In addition to these main processors, there are many small **rural processors** which produce small quantities of artisanal fruit juice. These juices are diluted with sugar and water (for longevity and costs) and do not represent a significant outlet for Rwandan pineapples. It is worth noting that many of these rural processors are elements of government and NGO-sponsored cooperatives (often initiatives to promote value addition). They have received much support and subsidies from the Rwandan government and donor programs – but have not yielded convincing results.

1.2.6. Supporting market actors

Supporting market actors include both private and public-sector entities that are not exclusively tied to the pineapple value chain. Several banks and microcredit institutions, for example, are offering credit to small businesses (retailers, wholesalers, and some farmers). Their outreach is relatively uneven: most beneficiaries of bank loans are urban-based VC actors, cooperatives, or farmers with considerable collateral. As mentioned above, public transport companies are engaged in the wholesale transport and offer their services for individual vehicles and drivers.

⁴ This was confirmed to the team by farmers selling to Urwibutso in villages up to 7 km from the processing plant.

Other than Inyange, local processors source plastic bottles for juice packaging from a Ugandan company, as no plastic bottles are being produced locally. Several processors have cited this shortage in packaging supply as a hindrance to their production capacities.

1.3. Enabling Environment

The Rwandan government has designated pineapples as a strategic crop for promotion. The agencies mostly involved in carrying out promotion are the state horticultural agency (RHODA) and ISAR, which have been trying to propagate “improved” varieties of pineapple and farming techniques to both input suppliers and farmers.

The overall enabling environment is considered positive for pineapple production and sales to the local market. However, many informants indicated that the government’s efforts at the farming and input level do not always reflect market-based realities. For example, the government has often promoted pineapple cultivation in areas which have not turned out to be suitable in terms of climate and geology. Many wholesalers and retailers report that pineapple quality from the east (Kirehe) – despite the heavy involvement of the government in promoting pineapple in that area – is inferior to that found in Gitarama. One input supplier indicated that this is partly the result of the climate, geology, and the varieties (one, called “Cayenne,” is the most popular) being planted nationwide, and that Kirehe has not been as suitable for these varieties as has Gitarama. Some of the criticism stems from the perception that government promotion has not been market-driven, nor has it reflected the realities of individual farmers on the ground.

1.4. Constraints & Market-Based Solutions

The table below shows the constraints cited by market actors during the value chain analysis interviews conducted in the field from June 10-16, 2010. The table also presents associated market-based solutions that could potentially address the constraints. The market-based solutions were subsequently prioritized for further assessment (the prioritization process used is described in more detail below).

CONSTRAINTS	MARKET-BASED SOLUTIONS
Domestic retail level: 1. Customers prefer buying cheaper, imported drinks of questionable quality, sold in larger plastic jugs (as opposed to more expensive Tetra Paks [™]). This results in limited sales for producers and other market actors. 2. Some small-scale market retailers, especially in rural areas, are unable to	A. Provision of marketing for domestic pineapple juice

CONSTRAINTS	MARKET-BASED SOLUTIONS
get access to loans because they do not possess sufficient collateral. This limits their ability to expand the array and quantity of pineapples and other fruit they offer.	B. Access to loans for small retailers
Processing level: 3. Rural processors lack access to affordable plastic bottles, which limits their ability to produce and sell more juice 4. There is a notable preference by Kigali consumers of passion fruit juice over pineapple juice. This limits processors' sourcing and production abilities for pineapple.	(Access to affordable plastic juice bottles for rural processors)* C. Provision of marketing services for domestic pineapple juice * Not included in the shortlisting exercise
Wholesale/Trader level: 5. Many farmers are not using appropriate seedling material, and they do not know how to select for higher productivity. This results in lower quality yields, which limits the income of farmers and wholesalers who buy from them. 6. Poor handling and transport practices from farm gate through to wholesale distribution results in rejected pineapples and losses for farmers and wholesalers. 7. A lack of cold storage at the wholesale distribution level affects product quality and results in rejection by Kigali supermarkets.	D. Training in proper selection of seedling / planting material to farmers E. Training to farmers and wholesalers in collection and post-harvest handling F. Access to improved storage and transport, including cold storage, to pineapple wholesalers
Production level: 8. Many farmers lack access to buyers and information on the overall marketplace which limits their sales. 9. Farmers lack access to affordable mulching material and fertilizer which reduces their yields. 10. Farmers without cows and goats have difficulty accessing manure to fertilize their crops, which reduces yields.	G. Access to market information and market opportunities for farmers H. Access to affordable mulching material and fertilizer inputs for farmers.

CONSTRAINTS	MARKET-BASED SOLUTIONS
11. Farmers that live far from markets or market collection points lack buyers in their area and/or lack access to cost effective transport. This results in lost sales and lower farm gate prices 12. Some farmers lack knowledge and skills in pineapple farming techniques, such as proper use of inputs and post-harvest handling techniques which reduces their yields and quality of production.	Ia. Access to cost effective transport from farm gate to end markets Ib. Access to pineapple markets for remote farmers J. Training to farmers in pineapple production, collection and post-harvest handling techniques

1.5. Prioritization of Market-based Solutions

Once the final list of constraints and market-based solutions (MBS) was identified, the program design team prioritized each of the MBS on the basis of their i) potential to increase the growth and competitiveness of the pineapple value chain, and ii) potential to increase the incomes of CHF’s target beneficiaries. The grid below shows how each of the market-based solutions from the table above was prioritized and ranked.

Potential to Increase Incomes of Target Beneficiaries		
High		G
Medium	B F	C
Low	A	I
Potential to Improve Value Chain Competitiveness		
	Low	Medium High

The market-based solutions with the highest ranking were:

- D: Training in proper selection of seedling / planting material to farmers
- E/J: Training to farmers in pineapple production, collection and post-harvest handling
- H: Access to affordable mulching material and fertilizer inputs for farmers

Following this exercise the Team came to the following conclusions:

- More impact can be achieved if MBSs focus on the production and marketing of fresh pineapples for the domestic market, rather than on the supply chain for processed pineapple juice.
- Promoting access to finance was not deemed appropriate at this stage
- The overall focus of the prioritized MBSs should be on supporting buyers to bring higher quality fruit to market. This in turn will result in greater earnings and sales for all market actors, including producers.

- As the program develops, some of the MBSs (and related constraints) may need to be revisited based on the realities on the ground or changes in the value chain.

2. Assessment of Market-Based Solutions & Identification of Project Activities

2.1 Market-Based Solutions

Next, the team carried out assessments of the three prioritized market-based solutions (MBSs). These assessments included interviews with existing or potential private sector providers of the targeted MBS to better understand the incentives and challenges they face in providing the MBS in a sustainable manner. Interviews were also held with producers who are the potential “users” of the MBS. Once the challenges were understood, the program design team organized “focus group discussions” (FGDs) that brought these parties together to validate assumptions regarding the challenges that providers face in providing the MBS, and to solicit ideas and activities that the CHF program could support to help them to overcome those challenges⁵.

MARKET-BASED SOLUTION 1 (D)	
Market Based Solution	Training in proper selection of seedling / planting material to farmers
Value Chain Constraint	Many farmers are not using appropriate seed material, and they do not know how to select for higher productivity. This often results in lower quality yields, which limits the income of farmers and wholesalers who buy from them.
Proposed Provider(s) of Market-Based Solution	○ Farmers (who sell suckers/cuttings for planting materials) ○ Lead farmers (who sell or could sell suckers/cuttings for planting)
<i>Challenges and Incentives for Providers of the Market-Based Solution</i>	
Challenges for farmer and lead farmer sucker sellers	○ Farmer/Lead farmer sucker sellers lack training materials in the form of written guides, instructions, and visual aids ○ Farmer/Lead farmer sucker sellers lack skills for adult training / coaching ○ Farmer/Lead farmer sucker sellers are unfamiliar with diseases and do not know how to diagnose them. This is an important component in sucker selection and farmer training/ assistance services
Incentives for Farmer /	○ Increased quality production by farmers improves sales

⁵ Solution H was not fully assessed at the focus group discussion, nor was it validated by participants as a constraint.

Lead Farmer sucker sellers	- capacities and attracts more buyers - Sucker sellers can increase their linkages and influence to other growing areas and farmers - At avg. 20 RFr per sucker, 1 ha can yield up to 40,000 suckers in a year
<i>Challenges and Incentives for Users of the Market-Based Solution</i>	
Challenges for Farmers	Farmers may be reluctant to participate in trainings as they: - may not be aware of the need to renew their plantings, so they are hesitant to purchase new planting material. - do not like to spend money on seedlings unless they are reassured this will translate into improved sales and productivity - have to wait for two years for results of seed planting - may not apply/accept the new knowledge - may not be interested in taking the time to attend a training - have been getting free/subsidized planting material from RHODA, which means many will not want to pay.
Incentives for Farmers	- Improved quality and quantity of production, increased income - Opportunity to exchange skills, ideas with other farmers
<i>Project Facilitation Activities</i>	
- Training of Trainers to Farmer/Lead Farmer sucker sellers (MBS providers) on pineapple seed selection, disease identification, and practical techniques for adult learning - Assist MBS providers to prepare training modules for producers (that the MBS providers will organize and conduct on their own) - Provide cost share to MBS providers to conduct initial/ pilot trainings to producers - Evaluate pilot training programs and provide feedback to MBS providers for improvements - Study tours for sucker sellers and lead farmers to visit seed planting areas The Farmer/Lead farmer sucker sellers at the focus group explained they were not up to date on the latest varieties, how to diagnose diseases, and the best growing methods. One had received training from the government in 2000, whereby he had even traveled to Ghana to look at seed plantations, but realities, techniques, and varieties have changed since then. All said that the training they offer to farmers is informal in nature and lacks any materials or formal methodology. They all equivocated that they would be the best possible providers of this solution, saying they understand the realities that farmers in their communities face (more than RHODA and other extension agents up to this point). They also have commercial incentives to provide this training on their own. These facilitation activities are designed to enhance the abilities of farmer/lead farmer sucker sellers to reach out and provide technical support to farmers, which in turn should result in improved sales of their pineapple seed. They agreed that they would not need to charge farmers for the training, but rather they would include it in a package as part of their	

commercial transactions with them.

MARKET-BASED SOLUTION 2 (E/J)	
Market Based Solution	Training to farmers in pineapple production, collection and post-harvest handling techniques
Value Chain Constraint	Some retailers and wholesalers report that pineapples are often of inferior quality owing to poor handling and transport practices from farm gate through to wholesale distribution. They mention that farmers are not aware of when best to harvest the fruit and it may be either under or overripe, and that farmers and rural transporters are often unaware of the bruising of pineapples that happens when they are stuffed into large sacks. Farmers are unskilled at proper harvesting techniques. These include not using knives to cut pineapples from stalk, which inhibits uniformity in appearance and may damage the plant.⁶ The pineapples are also poorly transported from farm gate to wholesale pickup points, packed tightly into bags on bicycles or left in piles in the sun for extended periods of time. This reduces overall quality of the pineapples and their shelf-life.
Proposed Provider(s) of Market-Based Solution	○ Wholesalers ○ Lead farmers ○ Processors* * Potential providers but not targeted at this stage in program design
Challenges and Incentives for <u>Providers</u> of the Market-Based Solution	
Challenges for wholesalers and lead farmers	○ Many wholesalers are not actively engaging farmers and providing them advice ○ Wholesalers and lead farmers lack training materials in pineapple collection and post harvest handling, as well as skills to engage farmers from whom they source ○ Most wholesalers are unfamiliar with best practices in quality preservation from farm gate to retail (i.e. packaging methods, transport, etc.) ○ Many wholesalers, while in tune with market demands, are not farmers themselves, so they are unfamiliar with certain realities and methods farmers use
Incentives for	○ If collection and post harvest handling improves then

⁶ Conversely, some retailers maintain that clients like the “rough look” of hand-twisted pineapples as a mark of freshness and authenticity

wholesalers	wholesalers can sell higher quality pineapples (i.e. firm, uniform color and freshness, free of spotting or bruises) at a higher price and attract more buyers in upscale markets ○ By engaging farmers in training activities, wholesalers can secure better quality products and improve their relationship with farmers who supply to them
<i>Challenges and Incentives for Users of the Market-Based Solution</i>	
Challenges for Farmers	○ Some farmers feel that wholesalers are not interested in any form of collaboration and are only protecting their market interest. This discourages them from actively seeking out collaboration with them
Incentives for Farmers	○ Improved quality and quantity of production, increased income ○ Opportunity to exchange skills, ideas with other farmers ○ Opportunity to engage with wholesalers and develop more productive relations (“win-win” relations)
<i>Project Facilitation Activities</i>	
● Training of Trainers to wholesalers and lead farmers (MBS providers) on proper growing, harvesting and collecting techniques ● Assist MBS providers to prepare training modules for producers (that the MBS providers will organize and conduct on their own) ● Provide cost share to MBS providers to conduct initial/ pilot trainings to producers ● Evaluate pilot training programs and provide feedback to MBS providers for improvements ● Organize forum between wholesalers and lead farmers During the focus group discussion, wholesalers were challenged by both input suppliers and farmers on their willingness to provide training to farmers. The wholesalers responded by saying that they indeed try to engage farmers and provide training and advice, because it is in their interest. They feel, however, that they need help in doing so. One barrier they cited was lack of training materials: one wholesaler explained that previous efforts she had made yielded poor results because there was no material with which to guide the farmers. Lead farmers also explained their incentives to train farmers in improved harvesting and post-harvest handling, especially as it is similar to the reasons they cite for providing better quality seedlings and training in seed selection. The activity of a forum between farmers and wholesalers, which was proposed by a larger wholesaler, was explained as a good opportunity to get both farmers and wholesalers to clarify differences and misconceptions. The objective is for farmers and wholesalers to develop a venue which could help them solve quality, logistical, and supply constraints, as well as serve as an opportunity to hear what wholesalers need from them in order to address quality constraints. It is hoped that with initial initiative provided by CHF, that these fora could continue on their own if both sides see an advantage in it. The mechanics of such an activity	

have to be worked out with wholesalers to gauge it for practicality and sustainability.

2.2. Additional Project Activities

Outside of the context of working with farmers, wholesalers, and seed suppliers on improving pineapple productivity and quality for the local market, there is an opportunity to follow up with a lead firm – UTEXRWA – in their efforts to implement a project to secure pineapple and banana fibers to make alternative textile material out of waste products. In two separate meetings with the AFE/CHF team, Chief Executive Officer Raj Rajendran, affirmed his company’s interest in:

- Training farmers in collecting and extracting fibers from waste pineapple leaves and banana fibers
- Their ability to supply farmers with extractor machines on a loan basis
- Their connections with the domestic market, especially crafts producers, who would be interested in making souvenir bags out of the fabric UTEXRWA produces

While this is worth following up, it will take significant planning and caution should be observed before planning any specific facilitation activities. In preparation, it is important to ensure that counterparts at UTEXRWA (specifically Mr. N. Nithyakumar) are aware of farmer realities on the ground. Certain investigations will need to be undertaken to find out:

- Farmers’ willingness and/or abilities to consign pineapple fibers for this use. One particular assertion which needs to be validated is that pineapple fibers are “waste products”. It is possible that many farmers are using these fibers for green mulching in the absence of sufficient quantities of manure.
- What price farmers would be willing to consign leaves for extraction, and if this would remain commercially viable for UTEXRWA to be able to market the fabric.
- Further assessment of the domestic demand for such fibers by local crafts people (who UTEXRWA is targeting for sales)

Apart from pineapple fibers, CHF and its partners could explore the same model with banana fibers. A potential area of interest would be to facilitate collaboration between Floris, an organically-certified exporter of kamara bananas to Belgium from Eastern Rwanda, and UTEXRWA. Mr. Rajendran and Mme. Donathile Nibagwire, the Director of Floris, expressed interest in this concept separately.

It would be useful for CHF staff to follow up with these firms, as well as to contact lead farmers to gauge their interest and try to answer at least the first two questions above.

2.3 Next Steps

The facilitation activities described above are an “entry point” for CHF to develop a sustainable program in the pineapple sector. These activities will have to be fine-tuned in terms of their design and implementation. Most importantly, the intervention design process should continue

to be inclusive with MBS providers to ensure commercial viability and the demand-led nature of the activities in the market.

AFE presented CHF with useful tools to continue developing intervention design. First, there is a proposed Request for Applications (RFA), which asks targeted MBS providers/lead firms to propose cost share interventions with the USAID/Higa Ubeho program to develop their supply chains. The RFAs include clear guidelines and parameters that stipulate the potential size and nature of such cost share activities. Once they are submitted, CHF and its partners can enter into discussions and negotiations with the MBS providers to determine the most appropriate activities to support. This can be viewed as a good follow-up to the ideas presented by participants at the FGDs, and provides an opportunity to get into more details about proposed activities. In addition, the RFAs are distributed to as many MBS providers as possible, so they reach beyond FGD participants alone. An RFA template was tailored and sent to CHF on June 29th along with an illustrative newspaper advertisement and sample Memorandum of Understanding (MOU).

Next (once activities are identified and agreed upon), CHF can develop MOUs and cost share agreements with the targeted LFs/MBS providers. These will clearly describe the nature of collaboration between the project and the MBS provider, roles and responsibilities for interventions, and cost share budgets. Once these are established the CHF team can provide technical support as needed to the MBS providers in implementing interventions according to agreed upon work plans. The use of detailed MOUs and cost-share agreements are important mechanisms in ensuring sustainability of interventions and maintaining a professional relationship with MBS providers. Otherwise, if relations are not defined in a business-like manner, it is easier for development organizations to have misunderstandings with the firms. Depending on the need and opportunity, the CHF team may also organize cross-company interventions for lead firms in the same industry. These might include feasibility assessments for certain kinds of investments, end-market surveys, observation visits to other countries, etc.

Appendix 1: General Interview Guide for the Pineapple Value Chain

(Please note: this guide was further modified according to each type of market actor interviewed)

Introduction

Greetings. Thank you for meeting me today. My name is _____, and I am conducting research on behalf of CHF. We are an organization working in the field of private sector development, and we’re designing a program for the pineapple sector in Rwanda. Can I ask you a few questions? I would like to say that this interview will be confidential in nature, and the information you provide us is very valuable to our research for the whole sector. We do not conduct commercial business activities. Rather, we support businesses in different sectors.

Contact Information

Interviewer / Date of interview / Firm Name / Principal product or service

No. of employees / Owner (or contact) / Legal status / Address / Telephone / Email

Market Access, Trends, and Governance

2. To whom do you sell your product or service (large firms, small firms, wholesalers, exporters, retailers, direct to consumers, etc.)? What percentage goes to each?

3. Describe the relationships you have with these buyers and sellers (who determines what to produce, product specifications, prices, and amount purchased?). How much input do you have?

4. How do you promote and market your products/services?

5. How much demand is there for your products/services right now? Next year? What trends do you see?

6. Do you sell more pineapples to some customers and less to others? Which ones?

7. Do you ever collaborate with other firms on promotion and/or marketing?

8. Who are your major competitors?

9. Do you have a means of communicating information about your products and or services to others?

(Attach any brochures, list of products, etc.)

Standards and Certifications

1. What standards or certification requirements do your products need to conform to?

2. Who sets these standards and requirements?

3. Who helps you to conform to these standards and requirements?

4. Do you have any problems in this regard?

Technology / Product Development

1. What are your major needs/ opportunities in service delivery?

2. What other products do you produce/sell? What percentage does each product represent in terms of your gross revenue?

3. What have you done recently to improve your services?

4. Is your current equipment or machinery an impediment to growth? Explain. If so, what kind of equipment or machinery could improve your business?
5. Is the current level of your workers training holding back growth? If so, what additional training do they need?

Management/Organization

1. In the area of organization and management, what are your major needs/opportunities?
2. Who does most of the work in the areas of: general management/supervision, product design, purchasing, production, shipping, accounting, marketing, repairs, etc. (owner, employees, or external)?
3. What functions do you subcontract/outsource?
4. Do you sometimes collaborate with other firms to produce and deliver customer orders?
5. Which aspects of your business do you intend to change in the next 2 years (machinery, equipment, computers, new products, marketing strategy, quality control, management system, worker skills, etc.)?
6. What management skills would you like to strengthen in order to grow your business?

Input Supply

1. What are your major needs/opportunities in the areas of cost, quality, and availability of seed, fertilizer, pesticide, (for collectors/retailers/buyers)?
2. Who are your *most important suppliers* and what do you buy from each?
3. Are there problems in obtaining some important inputs? Explain.
4. Have you ever purchased inputs jointly with other business? Explain.

Finance

1. Where do you go when you need money for your business?
2. Do you get credit from input suppliers? What are the terms?
3. Do you get production financing from your buyers? What are the terms?
4. Do you have need for additional financing at the moment? If so, what would it be used for?
5. What sources (formal or informal) have you approached for loans, and what have been the key problems, if any?
6. Other (repayment rates in the sector, risk management insurance, etc.)

Policy/Regulation

1. What government policies/regulations benefit your business (registrations, inspections, subsidies, incentives, etc.)?
2. What government policies/regulations are obstacles to growing your business?

Infrastructure

1. What are the most important infrastructure constraints affecting your business' growth and profitability (road/transport conditions, telephone service, electric supply, crime/corruption, storage, etc.)?
2. What is your industry doing about these problems?

Business Membership Organizations

1. Is your industry/trade sector represented by national or local business associations?

If so, please name them.

2. Are you a member? If not, why?
3. What are the primary functions and benefits of these associations?
4. What additional services should they provide?

Final Open Ended Questions

1. What are the major incentives you have for investing in / promoting change in the value chain?
2. What risks or constraints do you face in making these investments?
3. What do you think are the strengths of your industry locally and/or internationally?*
4. What are the main weaknesses of your industry?
5. What do you think is the greatest challenge facing your industry today?
6. Can you name some business owners in your industry who are leaders –for example, in terms of technology, product design, quality, or marketing?
7. How did you get into your business?

Appendix 2: List of Persons Interviewed

NAME	POSITION / COMPANY	ADDRESS	TELEPHONE/email
Rugaba J de Dieu	Farmer	Ngoma district	0788405778
Twagiramungu Christophe	Farmer	Kamonyi district	0783216946
Nyiraneza Christine	Wholesaler	Kimisagara market	0788674698
NIYIZUKURI Alvadare	Cooperative CATAM	Mutenderi sector/ Ngoma district	0788227586
Hukuzimana J de Damascene and farmers	Coop Tuzamurane	Gahara sector/ Kirehe district	0788613618
GASHIRABAKE Evarist	Farmer from Coop TUZAMURANE	Gahara sector/ Kirehe district	""
Niyibizi J Bosco	V/President of COOPANA	Sake sector/Ngoma district	
Musoni Ignace	Farmer of COOPANA	Sake sector/Ngoma district	
Turatsinze Youssouf	Wholesaler	Ngoma district	0788437044
Mwizerwa Mussa	Wholesaler	Rwamagana district	0783690359
Nyirabunbaje Gaudence	Retailer	Kabuga open market	
Niyitegeka J Bosco	Retailer	Kabuga open market	
Theogene	Retailer	Kimironko open market	
UGIRASHEBUJA Emmanuel	Farmer	Kayenzi Sector/ Kamonyi District	
Elias	Farmer	Kayenzi Sector/Kamonyi District	
Donat Kwizeimana	Farmer	Kayenzi, Cubi village	
Davide Kavara	Kigali-based wholesaler	Kayenzi	

NAME	POSITION / COMPANY	ADDRESS	TELEPHONE/email
Assia	Retailer	Kimironko open market	
Assan	Retailer	Kimironko open market	
Donathile Nibagwire	Wholesaler and exporter of fruits, owner Floris Enterprises	Kigali	0788 534846 florisrwanda@yahoo.fr
Raj Rajendran	Chief Executive Officer, UTEXRWA	Kigali	md@utextrwa.com (250) 58 0453, mob. (250) 0788301107
N. Nithyakumar	Engineer and Technical Advisor, pineapple/banana fiber project, UTEXRWA	Kigali	Mob. (250) 078 33 75 483
James Kayinamura	Farmer Mobilization Team Member , Inyange Industries (Processor)	Kigali	info@inyangeindustries.com +250 0788425144
Jean Claude Bahati	“ “	Kigali	0788 380850
Tarek Bou Matar	Owner, Matar supermarket	Kigali	0788474333
Pascal	Trader/wholesaler	Kigali	0788873802
Paul Nasandonyi	Lead Farmer	Gakenke district	
Margherite Nerere	farmer, Basse	Gakenke district	
Claude	Agronomist from RHODA	Rwamagana	
	Wholesaler – Matar supermarket	Kigali	
Paul Mutunga	Supermarket wholesaler/retailer	Kigali	0783783781
Ignace Nyingabo	Win-Win Agritech Seed Supply Co	Kigali	0788 748 077
Viane	Nagatare pineapple seed supplier and farmer	Nyagatare	
	Ndori Supermarket wholesaler	Kigali	
	Nakumatt supermarket vegetable and fruits	Kigali	
Group of farmers	Agasaro pineapple cooperative	Kilimbere, Nyamasheke	
Bernadette Nyirate.	COVAFGA cooperative processing unit president	Gakenke	

NAME	POSITION / COMPANY	ADDRESS	TELEPHONE/email
Pierre Celeste	COVAFGA worker	Gakenke	
Jeannette	Private input supplier contracted by RHODA	Kirehe	0788 498091
Illiminata	President, Gakenke farmer coop	Gakenke	0788 642474
Florence Kafunzo	Wholesaler, based in Kirehe	Kigali	0788444004
KAGINA Land123 ouard	Farmer	Kayenzi Sector/ Kamonyi District	

Appendix 3: Focus Group Discussion Participants

No.	Participant	Role in the Value Chain	Contact Info
1	Christophe Twagiramungu	Lead farmer based in Kayenzi. Also sells pineapple suckers	0783216946
2	Christine Nyraneza	Kigali wholesaler	0788674698
3	Jean de Dieu Rugaba	Lead farmer, sucker supplier, Ngoma district	0788405778
4	Donatile Nibagwire	Fruit exporter, local wholesaler in Kigali	0788534846
5	Elias	Farmer, Kayenzi	Call 0783216946
6	Viane	Pineapple seed seller, trainer, farmer, Nyagatare	(contact details with Josee Munyaruganda at CHF Kigali)
7	Yussouff Turatsinze	Ngoma-based wholesaler in Kigali	0788437044
8	Illiminata	Grower Coop President, Gakenke	0788 642474