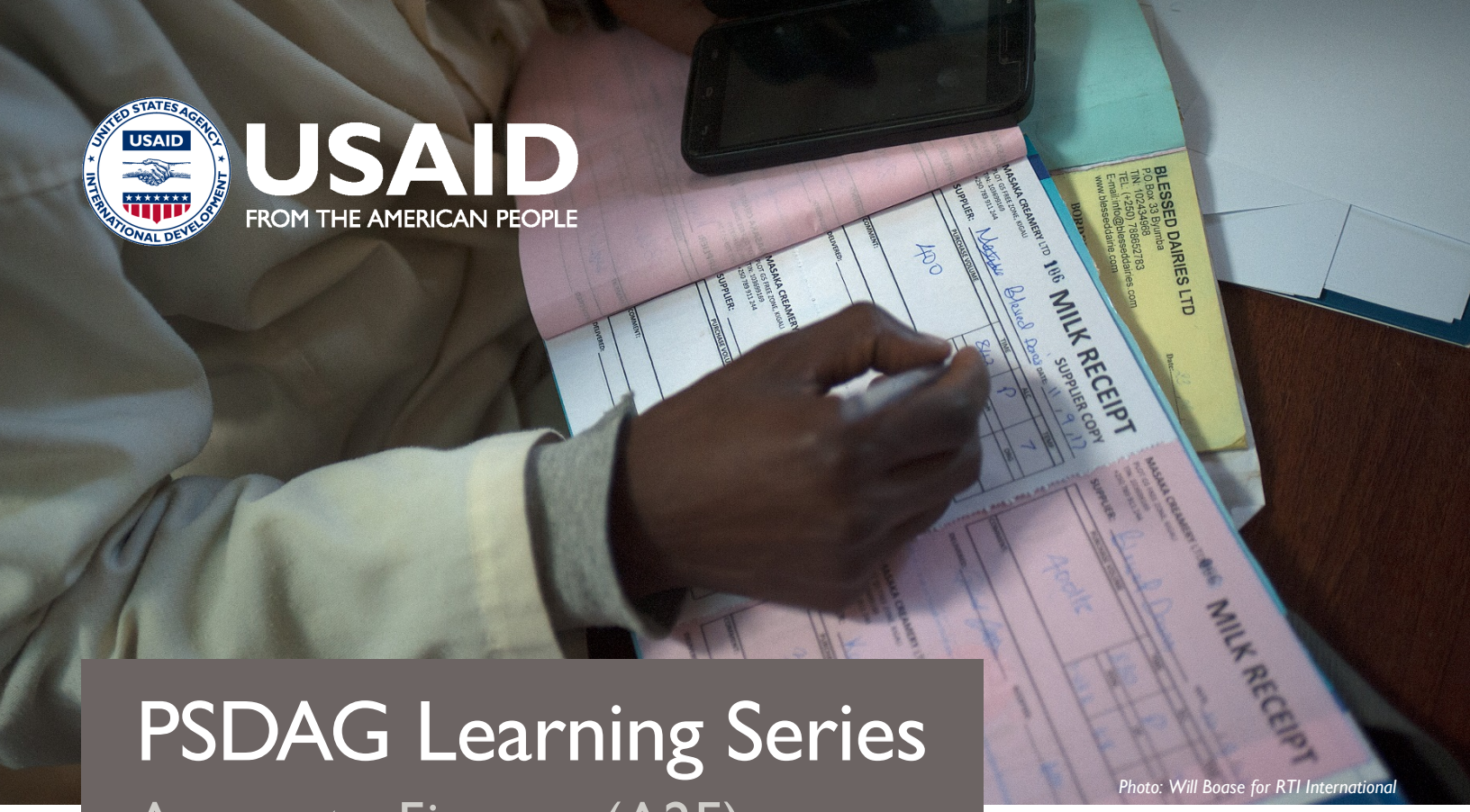

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PSDAG Learning Series

Access to Finance (A2F)

The Rwanda Private Sector Driven Agricultural Growth program (PSDAG) is a five-year (2014-2019) USAID-funded effort. The goal of PSDAG is to increase smallholder farmer incomes by promoting private sector investments – internationally and domestically – that contribute to the Government of Rwanda's Vision 2020 aim of transforming agriculture into a market-oriented, competitive, and high-value sector.

Currently in its fifth year of implementation, and in order to ensure a smooth transition of project activities to partners, PSDAG is holding a series of **learning events** aimed at **sharing successes**, **lessons learned**, **tools and templates**, and **curricula** with a comprehensive group of public, private, and donor stakeholders within the Rwandan agriculture sector.

Ready access to affordable finance is crucial to increasing private investment into agricultural value chains. But lending to the agriculture sector in Rwanda is stymied by factors such as high market price volatility, low profit margins, seasonality, and a high risk of crop failure. These issues are exacerbated by the limited capacity of financial service providers (FSPs) to undertake risk-mitigation efforts such as assessing business models and using alternative forms of collateral like non-real estate assets or contracts.

In order to address these challenges, PSDAG has implemented demand- and supply-side access to finance (A2F) activities, engaging with both agricultural small- to medium-sized enterprises (SMEs) as well as FSPs to assess needs, ameliorate constraints, and develop partnerships and linkages.

In October 2018, 28 stakeholders met in Kigali, Rwanda, to discuss PSDAG's approach to access to finance, its challenges, and its results. Major lessons learned are outlined in this learning brief.

LESSON 1

Where possible, pursue lines of credit instead of traditional loans to decrease interest rates and collateral requirements for agri-SMEs, which can increase uptake of loans.

LESSON 2

Solicit demand-driven partnerships with a broad range of supply-side actors; training and support are most impactful when they reinforce a previously planned institutional shift in strategy, including the set-up or strengthening of an agriculture-specific lending unit.

LESSON 3

Farm-level financing is more feasible through cooperatives or off-takers to minimize risk. Work with private sector partners to ensure they are engaging in professional, profitable, and integrated business models, which are easier for FSPs to lend to.

LESSON 4

In addition to training, address other FSP constraints such as low-cost wholesale finance and linkages to and relationships with lending-ready businesses.

Access to Finance Program Goals

PSDAG designed its A2F activities to increase lending to agri-SMEs in Rwanda in order to facilitate increased private sector investment in agricultural value chains. The project worked to unlock finance by simultaneously solving the following supply-side and demand-side constraints to access.

	Constraint	Approach
Demand Side	Inadequate financial management protocols	Improve "bankability" of SMEs, cooperatives, and farmers
Supply Side	Limited agricultural lending products and risk appetite	Increase FSP capacity to accurately assess risk and tailor lending to agriculture

Access to Finance Process

Demand side: PSDAG leveraged its US$5 million Value Chain Competitiveness Fund (VCCF) to identify promising SME partners and facilitate co-investment grants with them. Through the VCCF, PSDAG provided support to more than 50 agribusinesses, cooperatives, and other actors to increase their bankability by:

- Proving the profitability and sustainability of the business model
- Co-investing in immovable property and other accepted forms of collateral
- Providing business development services (BDS) to increase their financial management and forecasting skills to meet FSP requirements
- Lending credibility to the SME as the partner of a respected development project

Supply side: PSDAG signed MOUs and partnership agreements with six FSPs to build their internal capacity to understand the risks and opportunities associated with agricultural lending, develop financial products tailored to agricultural value chain financing, demonstrate the profitability of agricultural lending, and therefore increase lending to the sector. One of the main collaborative inputs provided by PSDAG to FSPs was a series of 10 formal two- to three-day training courses. Themes were chosen based on project assessment of training needs or the FSP's stated goals and internal workplans. Training topics ranged from product development and delivery to lending to cooperatives.

Following the trainings, the local training expert and PSDAG staff provided ongoing coaching inputs and technical support to FSPs in order to monitor and facilitate increased uptake of new ideas, approaches, and tools.

Results

On the demand side, 70,000 firms and farmers are now accessing more than US$26 million in formal and informal lending. This will increase as the more than 50 VCCF agri-SME partners leverage their US$11 million in durable capital investment as loan collateral and as the pipeline of over 450 firms and farmers supported by PSDAG with BDS and professionalization services utilize their increased financial capacity to access finance.

On the supply side, PSDAG FSP partners have increased agricultural lending. Four partners have developed new loan products tailored to agricultural value chains. One FSP increased agricultural lending from 22 percent of their portfolio to 32 percent, while another increased from 14 percent to 24 percent; both FSPs attribute these increases to their partnership with USAID through PSDAG.

Selected key lessons learned based on challenges that arose during implementation are highlighted at left, and a more comprehensive list was shared with stakeholders at the October learning event.