DCA LOAN GUARANTEE RWANDA

IMPACT BRIEF

On the Cover: Rwandan farmer holds coffee beans, a major export of the country. Photo credit USAID/Rwanda

BACKGROUND

Rwanda is a very small and densely populated country with a population that depends largely on subsistence agriculture for their livelihoods. This dependence, coupled with a limited land base, small landholdings, a high population growth rate, declining agricultural productivity, high rates of illiteracy, and limited opportunities outside of subsistence agriculture contribute to low incomes and high rates of poverty.

ABOUT DCA

USAID's Development Credit Authority (DCA) was created in 1999 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool is available to all USAID overseas missions and can be used as a vehicle for providing much needed credit to an array of enterprises and underserved sectors. The evaluation in Rwanda is part of a set of evaluations EGAT/DC is undertaking in different countries, to test a series of developmental hypotheses related to the DCA guarantees.

The Government of Rwanda's Poverty Reduction Strategy Paper (PRSP) identifies agriculture as the primary engine for growth. It sets forth a strategy to build on the country's core strengths in agriculture to increase economic growth and combat poverty in the medium term. Rwanda's environment is ideal for producing distinctive coffees and enhancing the capacity of Rwanda's coffee sector to target high value specialty markets worldwide is one element of the strategy.

In 2001, USAID/Rwanda implemented several technical assistance projects to support Rwanda's National Coffee Strategy. The projects sought to enhance the capacity of farmers and processors to improve coffee quality and to develop links to high-value export markets. To support these projects, in 2004 USAID implemented a Development Credit Authority (DCA) loan guarantee with the Bank of Kigali (BK) with the objective of increasing access to credit for strategic export-oriented agricultural enterprises. Qualified borrowers included investors in coffee washing stations which are a key component of the chosen strategy to improve coffee quality.

The DCA guarantee covered 40 percent of the loss of principal on a maximum of $2 million in loans. In the 32 months that the guarantee was in effect the Bank of Kigali issued over $1.7 million in investment and working capital loans to coffee washing station investors thus utilizing 86 percent of the guarantee. Table 1 summarizes key characteristics of the guarantee.

EVALUATION OBJECTIVES

The evaluation assesses the performance of the guarantee at three levels – output, outcome, and impact. At the output level, the evaluation asks whether the guarantee changed the Bank of Kigali's lending practices to the target sector (additionality, i.e., did it issue loans that it would not have disbursed without the guarantee). At the outcome level, the evaluation assesses the extent to which the guarantee affected the Bank of Kigali lending to the target sector outside of the protection of the guarantee. At the impact level, the evaluation asks whether the guarantee had any demonstration effect that prompted other banks to increase their lending to the target sectors. The evaluation focuses only on how the guarantee changed the behavior of the Bank of Kigali and other banks. It does not evaluate the performance of the Bank of Kigali in implementing the guarantee, USAID's management of the guarantee, or the impacts of guaranteed loans on borrowers.

EVALUATION METHODOLOGY

The evaluation used structured interviews to collect information from the Bank of Kigali, USAID, other banks, borrowers, technical assistance providers to the coffee sector, relevant government ministries and

TABLE 1: CHARACTERISTICS OF THE 2004 BANK OF KIGALI DCA LOAN GUARANTEE

Start date	End date[a]	Guarantee ceiling	Type of loans	Number of loans	Aggregate value	Median value	Utilization rate
9/2004	12/2007	$2 million	Working capital	7	$710,429	$82,647	86%
			Capital investment	11	$1,019,019	$90,396	

a. *Suspended in February 2007 when the Rwandan Government assumed control of the bank, violating a condition of the guarantee agreement.*
Source: EGAT/DC Credit Monitoring System, accessed, October 21, 2009.

departments (i.e., the Ministry of Agriculture, Rwanda Coffee Board – also known as OSIR-Café, and others) knowledgeable of Rwanda's coffee and financial sectors and of the guarantee.

None of the people directly involved in designing and implementing the DCA guarantee remained at either USAID or the bank at the time of the evaluation. The lack of institutional memory limited the evaluator's access to key qualitative and quantitative data for the evaluation and thus restricted the depth of analysis.

KEY FINDINGS AND CONCLUSIONS

OUTPUT

Conclusions Even though the bank did not have a documented strategy to increase lending to agriculture, the guarantee provided the bank an opportunity to increase its agricultural portfolio and increase deposits at reduced risk. The guarantee was entirely responsible for the bank's substantial increase in capital investment and working capital financing to coffee washing station investors.

The close coordination between the guarantee and USAID-supported technical assistance projects targeted to the coffee sector contributed to the bank's extraordinarily rapid and appropriate utilization of the guarantee. The technical assistance projects steered qualified and creditworthy borrowers to the bank and substantially reduced the bank's costs in implementing the guarantee.

Findings in support of these conclusions include:

- The bank's annual reports and interviews with bank personnel revealed no specific strategy to use the guarantee. However, the bank did not have to market the guarantee because all 11 borrowers had received USAID-supported technical assistance and approached the bank seeking guaranteed loans.
- The Bank of Kigali had disbursed only one investment and one working capital loan to coffee washing station investors prior to the guarantee. This fact, along with statements from the bank and from borrowers, suggests that the bank would not have made the 18 guaranteed loans without the guarantee. Some borrowers could have obtained loans from other banks but these loans were guaranteed by a government-backed guarantee facility and application and disbursement practices were more cumbersome than those at BK.

OUTCOME

Conclusions The guarantee had a limited impact on the Bank of Kigali's lending to the coffee sector outside of the protection of the guarantee. In spite of the bank's demonstrated interest in continued lending to the sector and ample opportunity to lend, the bank has issued no investment loans to the sector since USAID suspended the guarantee. The bank has provided working capital loans outside of the guarantee to a handful of borrowers with which it gained experience during the guarantee but has not changed its usual lending practices when making the loans – that is, it requires 100 percent collateral. Some DCA borrowers were able to accumulate assets for use as collateral during the time that they made use of DCA loans which then gave them greater access to credit outside of the guarantee.

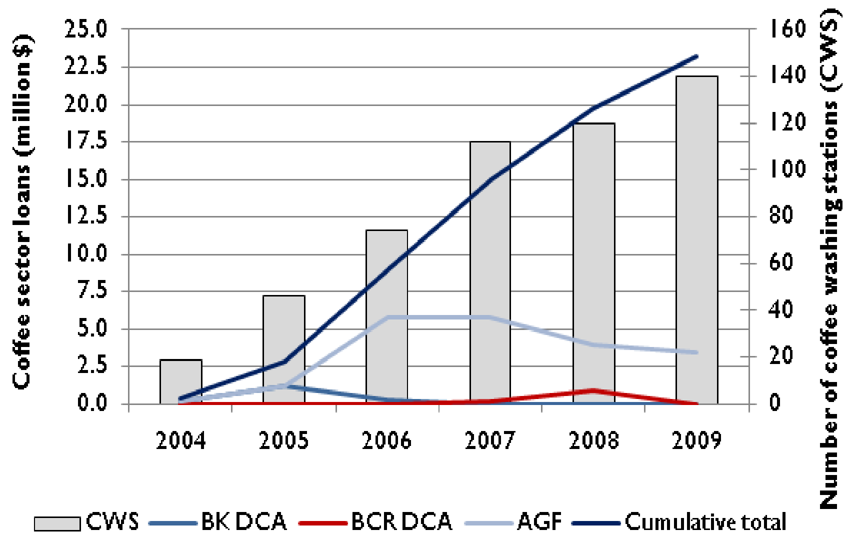
Findings in support of these conclusions include:

- Bank personnel reported that the bank had made no investment loans to the coffee sector since USAID suspended the DCA guarantee.
- The bank's interest in a second DCA guarantee in 2006 demonstrates its interest in continued lending to the sector. Two of the six borrowers that the evaluator interviewed reported seeking additional investment loans from BK to expand their operations thus providing the bank an opportunity to lend to the sector.
- The bank has provided working capital loans to at least two DCA borrowers outside of the guarantee. The experience the bank gained with these borrowers during the guarantee probably played a role in the decision to continue lending. The guarantee also seems to have helped some borrowers increase their collateral positions thus making them eligible for larger non-guaranteed loans than they would otherwise have been able to receive.

IMPACT

Conclusions Rwanda's banking sector has substantially increased its short- and medium-term lending to small-scale coffee investors since 2004. However, banks placed most, if not all, of the loans under one of three available guarantee facilities or used donor-supported credit lines. There is no evidence that banks are providing any substantial number of non-guaranteed investment or working capital loans to the coffee washing station segment of the coffee sector. Banks still seem unwilling to lend to this segment of the coffee sector outside of the protection of a guarantee or credit line.

GUARANTEED LENDING TO THE COFFEE SECTOR, 2004-2009



Findings in support of these conclusions include:

- Bank lending to the coffee sector increased substantially between 2004 and 2008. According to data provided by the National Bank of Rwanda, total lending to the coffee sector increased from $10.7 million in 2004 to $24.0 million in 2008. However, most of the lending was non-guaranteed lending to larger traders and exporters.
- Guaranteed lending to the sector increased from less than 4 percent of coffee sector lending in 2004 to a maximum (over the 2004-2008 period) of 31 percent in 2007. Guaranteed lending likely served primarily small-scale investors such as washing station investors.
- Loan guarantees seem largely responsible for supporting the growth in lending to coffee washing station investors. However, the DCA guarantee represented a relatively small 7.5 percent of the guaranteed financing to the sector while the Government of Rwanda's Agricultural Guarantee Facility (AGF) accounted for 88 percent.
- None of five commercial banks that the evaluator interviewed said that they were willing to lend to coffee sector investors with less than 100 percent collateral. Furthermore, none said that they were willing to relax their strong preference for urban rather than rural property as collateral.

This publication was produced for review by the United States Agency for International Development.
It was prepared by SEGURA/IP3 Partners LLC under SEGIR Global Business, Trade and Investment II – IQC
Indefinite Quantity Contract, Number EEM-I-00-07-00001-00 Task Order # 04, Development Credit Authority Evaluation

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Keyword: DCA