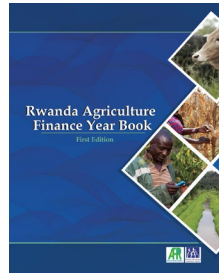


Rwanda Agriculture Finance Year Book

First Edition

Public Financing in Rwanda's Agriculture Sector





Acknowledgement

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Disclaimer

The views expressed in this book don't necessarily represent the views of IPAR-Rwanda and AFR about Agriculture Financing in Rwanda.

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Foreword



Agriculture is essential for the Rwandan economy as it contributes to a third of the GDP. The sector employs more than two thirds of the workforce and agriculture led growth is expected to play a key role in reducing poverty and eradicating extreme poverty.

The Government of Rwanda is committed to transforming agriculture from subsistence to a productive, high value, market oriented farming sector which has an impact on other sectors. This will be achieved through several programs implemented through the Ministry of Agriculture and Animal Resources (MINAGRI) and its agencies but also with the help of the private sector, development partners and other key stakeholders.

To sustain growth, there is need for farmers to move from subsistence farming to commercial farming, which is possible when they have adequate access to financial services. Finance is needed along the whole production value chain such as purchase of quality seeds and adequate fertilizers, payment of labor, harvesting and transportation of produce as well as post-harvest handling.

However, even though access to finance is important for agriculture sector development in Rwanda, credit to the sector remains outstandingly small at only 6% of total commercial lending. This limits the sector's growth potential.

Recognizing that the agriculture sector faces critical challenges such as access to credit and having in mind efforts by different actors both private and public, led by the Government of Rwanda, Access to Finance Rwanda (AFR) and the Institute of Policy Analysis and Research (IPAR) Rwanda partnered to put together the Agriculture Finance book. The book, the first of its kind in Rwanda, is a great source of information on financing, innovations, challenges and learnings with regard to agriculture financing in Rwanda.

We believe the Agriculture Finance book will add great value to existing initiatives geared towards improving the agriculture sector. It is our sincere hope that the information contained in this book will particularly be useful to farmers, financial institutions and policy-makers.

We thank everyone who contributed their time and effort in one way or another, leading to the successful compilation of the book.

Thank you and enjoy reading!



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Public Financing in Rwanda's Agriculture Sector



2014A Season Launch in Southern Province, Source: MINAGRI

Background

Agriculture is the most important sector of the economy of Rwanda. Eighty-six percent (86%) of the adult population is involved in agriculture whether as its main source of income or employment. Since 2014 agriculture has a growth of six percent (6%) and in the last quarter of 2018, it contributed twenty-seven percent (27%) to Rwandan GDP. The agriculture sector growth is hence essential if Rwanda wants to achieve its target set in NST 1 and national development programs. The development strategy of the country acknowledges that together with the creation of off-farm jobs, agriculture will play a key role in reducing poverty and eradicating extreme poverty. Improved productivity along the value chain in agriculture directly benefit the poor. It is a pathway out of poverty. This is supported by the findings of a survey conducted by the International Food Policy Research Institute (IFPRI),

which states that: "economy wide growth led by the agriculture sector has a greater effect on poverty reduction than does the same level of growth driven by the non-agricultural sector".

One constraint to the agriculture sector growth is the access to financial services. Financing Agricultural limits come from both demand and supply factors. On the supply side, lending to farmers or agri-business shares similarities to lending to other sectors. However, given its nature of agriculture it has some differences and lenders often do not understand these differences. For example, as agriculture is seasonal and deals with nature, loan repayment conditions need to take into account that cash flows are linked to the agriculture production cycle. Lenders must hence structure their products to meet the production cycle of the activity they finance. On the demand side, smallholders may not be aware of the financing possibilities or may not



provide the adequate guarantee. A big number of the farmers work in subsistence Agriculture and they are necessity entrepreneurs. If they want to become sale oriented and to grow, they have to borrow but they also have to save. Lack of information related to environmental risks, business capability of farmers, value chains, price risks, yields risks etc. creates market failures, which result in insufficient credit, low levels of investment and low productivity of agriculture.

The above is illustrated by the low level of loans to the Agriculture which account for only an average of 6.15 %¹ of the total loans in the country (from September 2014 to march 2018) (BNR, 2018). Agriculture finance is a key challenge to enhance productivity in the sector and to reach the Rwanda targets in terms of growth, poverty reduction etc.

While various agriculture initiatives have been implemented by the Rwandan government, financial institutions, international development partners, non-governmental organizations and other associations, there is a need for a deep analysis and documentation of such initiatives. It is against this background that Access to Finance Rwanda (AFR) and the Institute of Policy Analysis Research (IPAR-Rwanda) collected and analysed agriculture financing initiatives in Rwanda which are compiled in the first edition of the Agricultural finance book. The have supported the Ministry of Agriculture and Animal Resources in collecting and sharing agriculture initiatives in Rwanda, through an agriculture finance book. The book has been compiled and produced with collaboration of different agencies that are involved in the financing of different activities across the agricultural value chain. Organizations that have provided valuable inputs in terms of quantitative figures on access to finance and the amount of

¹⁰ From both the banking sector and microfinance sector (MFIs and SACCOs).



agricultural credit that has gone to the different actors in the value chain include the National Bank of Rwanda (BNR), Rwanda Development Bank (BRD), and the National Institute of Statistics of Rwanda (NISR). Other organizations that have provided the case study experiences include Dairy cooperatives such COOIAB and National Agricultural Exports Board (NAEB), Bank of Kigali Techouse in collaboration with the Rwanda Agricultural Board (RAB) have provided useful insights on the functioning of the “Smart Nkuganire platform” which will go a long way in de-risking agriculture in Rwanda and improving efficiencies in the distribution of inputs like seed and fertilizers in Rwanda. Although the information has been collected from different actors in agriculture financing chain, the experiences and lessons provided in this book will go a long way in improving the functioning and performance of the agriculture sector in Rwanda. This is because agriculture is a critical sector where all activities such land preparation, planting,

agronomic practices, harvesting, post-harvest handling, market and export are all interlinked. Improved access to finance and credit drives all the above activities and cuts across all the activities in agricultural value chains. It is for this reason that the Ministry of Agriculture and Natural resources has endorsed the initiative and publication of the Agriculture Finance book.

The book with financial availability is planned to be published every year to ensure robust market engagement, continuous knowledge sharing and learning. This is intended to increase knowledge and good practices implemented in Rwanda in the area of agriculture financing.

The book provides a repertory of the past and expected trends in agriculture financing in Rwanda, and hence shows the actual priorities of the sector. The book also provides experiences and practical examples put in



place by different types of actors in the sector. These experiences are actions taken by farmers, cooperatives, banks, private investors, public sector development partners. They showcase the environment of agriculture financing in Rwanda.

The Agriculture Finance book hence aims at sharing knowledge of existing trends and practices in Agriculture finance through a description of Agriculture financing trends and activities. The book therefore aims at informing all readers with interest in Agriculture Financing including decision makers, farmers, investors, consumers and development partners.

This section describes Public finance environment in agriculture. It describes both the public income generated through taxation in the agriculture sector as well as the composition of government expenditure in agriculture. This will serve as the baseline against which

the successive yearly publications of the agriculture finance book will describe the changes in incentives and priorities, according to the public finance of agriculture.

2.1. Methodology and data needs

Before analysing the expenditure in the agriculture sector, there are different definitions of what counts as agricultural expenditure that are worth mentioning. For example, the Comprehensive Africa Agriculture Development Program (CAADP) takes a narrow definition of agriculture expenditure, which includes only funding allocated to the agricultural budget. The Food and Agriculture Organisation Monitoring and Analysing Food and Agricultural Policies (FAO MAFAP) definition is broader and includes expenditure that is not only directly related to agriculture but also expenditure that may stimulate agricultural productivity.



Using the CAADP definition to determine expenditure in the agriculture sector results in an under-estimation of the percentage of the government budget allocated to agriculture. In fact, some other ministries and government institutions; other than the Ministry of Agriculture and its agencies; are responsible for expenditure designed to increase agricultural productivity as part of the agricultural value chain. Some examples include expenditure on feeder roads that improve access to markets, which is the responsibility of the Ministry of Infrastructure, and the school feeding programme, which is the responsibility of the Ministry of Education.

Furthermore, some program expenditures in agriculture are made by the districts and are included in the districts' budgets. There is no valid purpose in commercializing production and increasing productivity if farmers cannot get their goods to market and /or there is no demand for the produce. Therefore, in order

to exhaustively capture government expenditure, we used the broad FAO MAFAP classification.

We used two sources of data in order to disaggregate both planned and executed agriculture expenditures into: Identifiable Administrative Costs; Costs incurred on Agriculture Specific Policies; Costs incurred on Agriculture Supportive Policies; Expenditures in Support of Crops and Livestock Sector (Policy Transfers) and Total Expenditure in the Agricultural Sector. These are (i) the government budgets and (ii) the budget execution reports from the ministry of finance which enabled us to determine what was actually spent vis-a-vis the planned expenditure in the budget.

2.2. Public expenditure

The budget allocated to a sector reflects the country's commitment to achieve its targets for the sector. The CAADP expenditure sets a target of 10% of budget



allocation and 6% annual productivity of the agriculture sector. Under the 2003 Maputo Declaration, member countries are committed to allocate at least 10% of the public expenditure to agricultural and rural development. Considering the national budget allocation during the last four financial years (from 2015/2016 to 2018/2019)

and the MAFAP definition and budget execution reports, the proportion of the amount spent to agriculture varies between 9% and 10% of the total national budget. Overall, the Government of Rwanda has spent on average 9.17% of its budget on agriculture during this period.

Table 1: Agriculture sector share in national public expenditure in Rwf

Fiscal Year	Agriculture budget	Total National budget	% of the agric. budget in the total budget
2015/2016	173,027,952,313	1,808,812,969,876	9.57%
2016/2017	172,696,552,321	1,954,247,251,046	8.84%
2017/2018	206,576,269,921	2,115,391,665,081	9.77%
2018/2019	207,788,826,695	2,443,535,804,386	8.50%

Own calculations using the MAFAP definition. Source: MINECOFIN: National budget

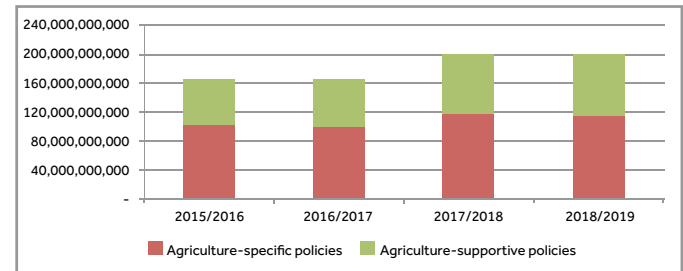


From the classification based on the MAFAP definition, the biggest share is allocated to agriculture specific policies compared to supportive policies. Input subsidies represented the biggest share in the three first years although it has decreased during the current financial year (2018/2019). This can be explained by the increased value chain financing with the fertilizer fund where tea and coffee value chain actors have managed to raise funding for fertilizer acquisition and managed to substitute funding from government subsidies.

This year (2018) the emphasis has been more specifically placed on financing sustainable diversified and climate smart crop production and productivity. Furthermore, national reserves development has been one of the priorities of the country so as to sustain national food security and nutrition programs. This is reflected in the increase of the storage and public stockholding item

that reached 16% of the whole agriculture-specific policies expenditures.

Figure 10: Agriculture-specific policies and agriculture-supportive policies² in total expenditures for food and agriculture, in Rwf, 2015/2016-2018/2019



Own calculations using the MAFAP definition, Source: MINECOFIN, national budget

¹¹ Agriculture-specific policies – monetary transfers that are specific to the agricultural sector, i.e. agriculture is the only, or principal, beneficiary of a given expenditure measure.

Agriculture-supportive policies – public expenditures that are not specific to agriculture, but which have a strong influence on agricultural sector development



In terms of agriculture supportive policies, rural health and rural infrastructure (i.e. road maintenance of districts) are key contributors to the agriculture budget. For instance, the maintenance of rural roads is an important contributor to the increase of the collected milk production because one of the challenges encountered by milk deliverers is road infrastructure. In this sense the time used to deliver milk decreases with improved quality of road infrastructure and also the risks of accidentally spilling the collected milk on the floor.

In terms of agriculture budget execution, the emphasis is laid on ways to achieve PSTA3 and other agriculture programs: land consolidation, marshland irrigation, crop and livestock development, the Girinka program and national reserves construction. In terms of rural health and social protection, the focus is placed on fostering student nutrition and fighting malnutrition among

the population; this is coupled with distributing small livestock (i.e. pigs and poultry) to vulnerable families for nutrition improvement purposes.

2.3. References

- BNR (National Bank of Rwanda). March, 2018. "Monetary Policy and Financial Stability Statement."
- Ghins, L., Ilicic-Komorowska, J., Mas Aparisi, A. (2013). "MAFAP Methodological Implementing Guides: Volume II. Analysis of public expenditure on food and agriculture". *MAFAP Technical Notes Series, FAO, Rome, Italy.*
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