RWANDA BANK OF KIGALI DCA GUARANTEE

EVALUATION

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On the Cover: A Rwandan woman holds coffee beans, a major export of Rwanda. Credit USAID/Rwanda

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Finally, but most importantly, thank you to all the people from washing station managers to borrowers to bankers who gave generously of their time to meet with the evaluator and patiently answer numerous questions. Your insights into the coffee sector made this evaluation possible.

ACRONYMS

ADAR	Agribusiness Development Assistance in Rwanda
AGF	Agricultural Guarantee Facility
ATDT	Agricultural Technology Development and Transfer Project
BCR	Banque Commerciale du Rwanda
BK	Bank of Kigali
BPR	Banque Populaire du Rwanda
BRD	Banque Rwandaise de Développement (Rwanda Development Bank)
CMS	Credit Management System
CEO	Chief Executive Officer
CWS	Coffee Washing Station
COOPAC	Cooperative Pour La Promotion Des Activities-Cafe
DCA	Development Credit Authority
EGAT/DC	Bureau of Economic Growth, Agriculture and Trade/Office of Development Credit
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GoR	Government of Rwanda
ISAR	Institut des Sciences Agronomiques du Rwanda
LPG	Loan Portfolio Guarantee
MINAGRI	Ministry of Agriculture and Animal Resources
MINECOFIN	Ministry of Finance and Economic Planning
MT	Metric tons
NBR	National Bank of Rwanda
OMB	Office of Management and Budget
PEARL	Partnership for Enhancing Agriculture through Linkages in Rwanda
PRSP	Poverty Reduction Strategy Paper
Rwf	Rwandan Franc
SPREAD	Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development
TA	Technical Assistance
UK	United Kingdom
US	United States
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

After nearly a century as an exporter of largely ordinary coffee, Rwanda has recently emerged onto the world stage as a producer of high quality specialty coffee.[1] The transformation of the country's coffee sector reflects the GoR's strategic focus on building the sector's capacity in order to enhance its contribution to economic growth and poverty reduction.[2] The speed with which Rwanda has improved coffee quality and identified markets owes much to the coordinated efforts of the GoR and the donor community.[3]

The country's coffee sector faced a number of significant barriers to increasing quality. The 1994 genocide exacerbated a period of declining investment in coffee spurred by falling world prices. Consequently, Rwanda's coffee production fell from a pre-war peak of over 43,000 metric tons (MT) to just over 14,000 MT in 1998. While production has increased during the post-war period, it has not yet approached pre-war production levels and reached a post-war peak of 25,000 MT in 2005.[4]

In its 2002 Poverty Reduction Strategy Paper (PRSP), the GoR identified the agricultural sector as the engine of economic growth and described a medium-term growth strategy that capitalized on the country's broad and productive agricultural base. The strategy included a specific focus on building the capacity of the coffee sector to produce specialty coffees for high value world markets.

The GoR's National Coffee Strategy identified a number of issues that required attention if the country was to increase its capacity to produce high quality coffee. In 2004, coffee trees remained in poor condition, low prices provided little incentive for investment, the country had few coffee washing stations (19) – a key component of the chosen strategy to improve quality, potential investors and producers had difficulty financing investments in production or processing capacity, and producers and processors had limited knowledge of how to produce quality coffee or the capacity to manage coffee businesses.

A coordinated effort by the GoR and the donor community has begun to address these constraints. Beginning in 2001, USAID supported four technical assistance projects targeted to export-oriented agricultural products, including coffee.[5] The projects focused on capacity building; market access; and, indirectly, financing. When the Agribusiness Development Assistance in Rwanda (ADAR) and Partnership for Enhancing Agriculture through Linkages in Rwanda (PEARL) projects ended in 2006, the new USAID-supported SPREAD (Sustaining Partnerships to Enhance Rural Enterprise

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[1] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.
[2] Ministry of Agriculture & Animal Husbandry and Ministry of Trade & Industry. Rwanda national coffee strategy, 2009-2012. 2008 Dec.
[3] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.
[4] Ibid.
[5] USAID-supported projects included the Partnership for Enhancing Agriculture through Linkages in Rwanda (PEARL), Agribusiness Development Assistance in Rwanda (ADAR), ACDI/VOCA Food Security Project, and ISAR Agricultural Technology Development and Transfer Project (ATDT).

and Agribusiness Development) project assumed many of the activities. In addition; TechnoServe, through a Bill and Melinda Gates Foundation grant, is also providing technical assistance to the sector targeting both production and processing activities.

To complement the technical assistance activities, USAID implemented two DCA loan guarantees with two local banks – a $2 million guarantee with the Bank of Kigali in 2004 and a $2.6 million guarantee with the Banque Commerciale du Rwanda (BCR) in 2006 – to address issues of access to credit. The guarantees specifically targeted recipients of USAID-supported technical assistance projects in agriculture. The USAID loan guarantees complemented a much larger guarantee facility administered by the National Bank of Rwanda (NBR) that began in 2004. In addition, the Dutch Embassy has financed two $10 million credit lines (the Rural Investment Fund) also administered by the NBR that are available to the coffee sector.

The substantial assistance to the coffee sector has produced impressive results. The number of coffee washing stations in Rwanda rose from two in 2002 to 120 in 2008 – almost all financed by the various loan guarantees and lines of credit. Concurrently, the country's production of fully washed coffee increased from 300 MT in 2003 to over 2,600 MT in 2008.[6] Fully washed Rwandan coffee has achieved a measure of acclaim and has attracted very visible international supporters including Starbucks.

This evaluation assesses the performance of the 2004 DCA loan guarantee with the Bank of Kigali. The Action Memorandum describes the objective of the guarantee as "expand[ing] access to credit to USAID-supported agricultural enterprises in strategic export-oriented sectors." The guarantee specifically focused on short-term working capital and medium-term investment loans. The guarantee covered 40 percent of the losses of principal on up to $2 million in loans to the target sectors.

The Bank of Kigali placed 18 loans under the guarantee totaling $1.7 million. It issued loans to 11 individual investors – all in the coffee sector. Each borrower received an investment loan to construct a coffee washing station and seven received additional loans for working capital. As of the date of this evaluation, the bank has made no claims against the guarantee. Table 1 summarizes salient characteristics of the DCA guarantee.

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

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

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

[6] National Bank of Rwanda Annual Reports, 2003-2008.

This evaluation examines the performance of the guarantee at three different levels – output, outcome, and impact. The measures of performance address only whether the guarantee produced the desired effects within the partner bank and in the broader banking sector. The evaluation does not assess the performance of the partner bank or the impact of the guarantee on USAID/Rwanda's objectives.

A two-person team conducted the evaluation. Team members included Dr. Douglas Krieger, team leader and evaluation specialist, and Mr. Joseph Obi, EGAT/DC Regional Manager. The team spent two weeks in Rwanda between October 26 and November 6, 2009 conducting structured interviews and collecting secondary data.

The evaluator encountered significant limitations on the quantity and quality of data available for the evaluation. In particular, those at USAID who were responsible for writing the Action Memorandum for the guarantee and for negotiating the guarantee with BK are no longer in Rwanda. Similarly, the Bank of Kigali personnel responsible for negotiating and implementing the guarantee are no longer employed by the bank. Therefore, there is little institutional memory of the guarantee. Bank personnel that the evaluator met with could not provide the detailed quantitative data the evaluator requested and had little institutional memory on which to base answers to qualitative questions. These limitations – and particularly the lack of quantitative data – severely constrained the depth of the analysis and the strength of conclusions.

Output Level – How did Bank of Kigali use the guarantees conform to guarantee objectives and specifications as described in the Guarantee Agreements?

Outcome Level – Did Bank of Kigali's experience with the guarantees improve access to credit for borrowers in the target sectors outside of the DCA coverage?

Impact Level – Did the guarantees have a demonstration effect that resulted in other banks improving access to credit for borrowers in the target sectors?

The remainder of the Executive Summary reviews the evaluation's key conclusions and findings.

Output Level Conclusions and Findings

Evaluation question 1a. **Why did Bank of Kigali (BK) enter into the guarantee agreement?**

Conclusions: The Bank of Kigali did not have a documented strategy to enhance its lending to the coffee sector. However, the guarantee presented an opportunity for the bank to expand its agricultural portfolio and increase currency deposits. Furthermore, the GoR strongly encouraged banks to support the strategically important coffee sector and it is likely that the Bank of Kigali viewed the DCA guarantee as a way to limit its risk while complying with this request.

Findings: The bank's annual reports and other documents contained no documented strategy to lend to the agricultural sector or to the coffee sub-sector. In fact, the annual reports made no specific mention of agriculture or the coffee sector.

Although current bank personnel could not articulate a particular reason that the bank was interested in the DCA guarantee other than a general desire to support an economically important sector, the former Senior Account Manager for coffee said that the guarantee presented BK with an opportunity to increase its agricultural portfolio and thus attract badly needed deposits.

Evaluation question 1b. **How did BK implement its lending program to the coffee sector? (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?**

Conclusions: The bank did not alter its normal lending procedures to implement the DCA guarantee. It did not actively market guaranteed loans, develop special products to utilize the guarantee, or train loan officers to use the guarantee. The close coordination of the DCA guarantee with USAID-supported technical assistance projects targeting the coffee sector made actively marketing the loans unnecessary because the technical assistance projects referred enough creditworthy customers to the bank to utilize the guarantee.

Findings: The four bank personnel that the evaluator interviewed agreed that the bank had done nothing outside its usual practices to implement the guarantee. It did not advertise the guarantee, develop loan products around the guarantee, or train credit analysts to use the guarantee. It informed credit analysts of the opportunity provided by the guarantee and instructed them to consider using the guarantee for otherwise creditworthy loan applicants in the coffee sector who did not have sufficient collateral.

The close coordination of the DCA guarantee and USAID-supported technical assistance projects to the agricultural sector was largely responsible for the high utilization rate that BK attained. The TA providers were aware of the guarantee and directed their coffee sector clients to BK seeking guaranteed loans. All of the 11 borrowers had received USAID-supported technical assistance and approached the bank for loans.

Because USAID-supported TA projects directed highly qualified borrowers (i.e., clients with well developed business plans) to the bank, the bank was able to utilize the guarantee extraordinarily quickly and appropriately. In just 32 months the bank utilized 86 percent of the guarantee ceiling, well above the average utilization in that period of time for the entire DCA portfolio.

Evaluation questions 2a and 2b. **What was the additionality of the guarantee? What was the extent to which the DCA guarantee influenced changes in BK's portfolio characteristics? How and Why?**

Conclusions: The Bank of Kigali substantially increased its working capital and investment capital lending to the coffee sector under the DCA guarantee. It made only one working capital and one investment capital loan to the sector prior to the DCA guarantee and then placed 11 investment loans and seven working capital loans under the guarantee between 2004 and 2006. Since BK placed all of its loans to small coffee sector investors under the DCA guarantee, the guarantee was entirely responsible for the substantial increase in the bank's lending to the sector during the guarantee.

Findings: The bank made only one investment loan and one working capital loan to small coffee sector investors prior to the DCA guarantee. The 11 investment capital loans and seven working capital loans that BK placed under the guarantee thus represent a substantial change in the bank's lending behavior and improved access to investment and working capital credit for smaller coffee sector investors.

The guarantee increased access to investment capital credit by reducing the risk the bank faced on loans. Bank personnel reported that it could take a long time to recover assets through the courts in case of a default and the guarantee reduced this risk and cost for the bank by providing quicker payment on at least part of the loss. Borrowers said that the guarantee increased access to credit in the sense that they would not have been able to obtain credit without the guarantee.

All six borrowers that the evaluator interviewed said that the guarantee allowed them to receive working capital loans that were larger than the loans they could have obtained without the guarantee.

Outcome Level Conclusions and Findings

Evaluation questions 3a and 3b. **To what extent were desired outcomes achieved, and sustained, as intended in the Action Memorandum and/or Legal Agreement, outside the protection of the DCA guarantee (e.g., through increased BK lending to the coffee sector and changes in loan amounts, types, interest rates, and tenors)? What factors at BK were responsible for achieving desired outcomes (e.g., DCA, TA; bank staff training; revised bank strategy, procedures and structure; new management, external funding, technology, etc.)?**

Conclusions: The Action Memorandum describes the objective of the guarantee as "expand[ing] access to credit to USAID-supported agricultural enterprises in strategic export-oriented sectors." The guarantee specifically focused on short-term working capital and medium-term investment loans. There is no evidence that the Bank of Kigali has changed its lending practices for investment loans to the coffee sector outside of the guarantee as a result of the DCA guarantee. It has provided no investment loans to the sector since USAID suspended the guarantee. It has provided working capital loans to some DCA borrowers outside of the guarantee but said that it did not change its usual lending practices when making the loans – that is, it required 100 percent collateral. There is some evidence that some DCA borrowers accumulated 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: The bank reported that it had made no investment loans to the coffee sector since USAID suspended the DCA guarantee.

The fact that the bank was negotiating a second DCA guarantee targeted to the coffee sector in 2006 suggests that the bank was still interested in the sector and saw opportunity there.

The bank has had the opportunity to lend to coffee sector investors after the guarantee. Four of the six borrowers that the evaluator interviewed reported seeking additional investment loans to expand their operations. Two reported applying to BK but said that the bank has not yet approved the loans. Investment capital lending to the sector under a DCA guarantee with BCR also provides documented evidence of BK's opportunity to lend to the sector.

Three of the six DCA borrowers that the evaluator interviewed said they had received non-guaranteed working capital loans from BK since the guarantee. Two said that they had been able to accumulate assets and were now able to access larger loans than they had under the DCA guarantee while the other borrower said that his non-guaranteed loan was smaller because he had not been able to provide sufficient collateral. This evidence suggests that BK is extending working capital loans to small coffee sector investors with which it has a relationship. However, it has not changed its normal practice of requiring 100 percent collateral. The bank was not able to provide any credible quantitative evidence of the extent of its non-guaranteed lending outside of the guarantee.

Impact Level Conclusions and Findings

Evaluation questions 5a and 5b. **Have other, non-partner, banks initiated or increased lending to the coffee sector since the guarantee? How? If so, what role did the DCA guarantee play as a demonstration model?**

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 to the target sectors under one of three guarantee facilities available to the coffee sector or used donor-supported credit lines. There is no evidence that banks are providing non-guaranteed loans to support investment in coffee washing stations or to provide working capital to operate the stations. Banks still seem unwilling to lend to this segment of the coffee sector outside of the protection of a guarantee or credit line.

Findings: Bank lending to the coffee sector increased substantially between 2004 and 2008. According to data provided by the NBR, total lending to the coffee sector increased from $10.7 million in 2004 to $24.0 million in 2008.

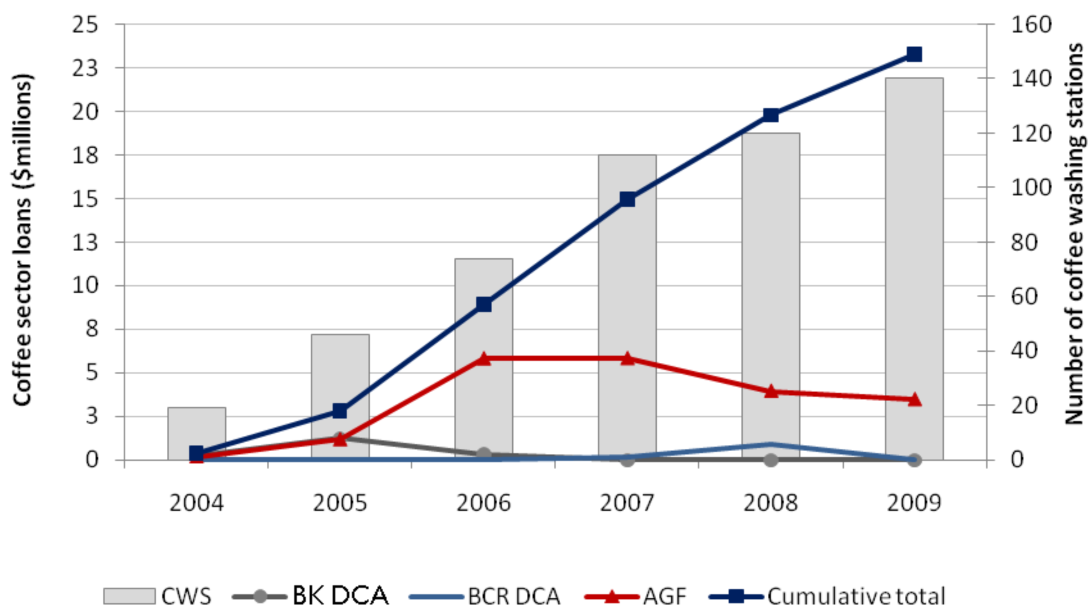
Non-guaranteed lending accounted for most of the lending to the sector. However, as the three guarantee facilities available to the sector came on line, the proportion of loans under a guarantee increased. Guaranteed lending accounted for less than 4 percent of coffee sector lending in 2004 and a maximum (over the 2004-2008 period) of 31 percent in 2007.

Non-guaranteed and guaranteed loans probably serve very different types of clients. Banks use the guarantees largely to provide investment and working capital financing to smaller operations such as washing stations. Both the GoR's Coffee Sector Strategy and USAID's Coffee Sector Assessment reported that Rwanda's commercial banks' generally restrict (non-guaranteed) lending in the coffee sector to large working capital loans to established coffee traders. The Relationship Manager for Agriculture at BCR confirmed this stating that the bank placed about 80 percent of its coffee sector loans under the Agricultural Guarantee Facility (AGF) and that its non-guaranteed loans were primarily working capital loans to large traders with which the bank had a relationship. COGEBANK personnel also reported that its coffee sector portfolio consisted entirely of several large loans to established traders.

The relative size of guaranteed and non-guaranteed loans supports the notion that the two types of loans serve different types of investors. Limited data provided by BK show that the bank's average non-guaranteed loan to the coffee sector between 2005 and 2009 (the years for which the bank provided data) was over $1.9 million. This is far larger than the working capital loans placed under the DCA guarantee which ranged from $64,295 to $207,572 with an average of $101,490. Another commercial bank that the evaluator interviewed reported average non-guaranteed loan sizes of about $3.5 million. The much larger average loan size suggests that the non-guaranteed loans generally serve a very different type of client than those targeted by the DCA guarantee.

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 GoR's 2.9 billion RWF Agricultural Guarantee Facility (AGF) accounted for 88 percent.

FIGURE 1. LENDING TO THE COFFEE SECTOR, 2004-2009



Source: National Bank of Rwanda (NBR), EGAT/DC Credit Monitoring System, accessed, October 21, 2009

According to a Credit Analyst at BRD, the bank that accounts for a vast majority of agricultural sector lending, the GoR's policy of strongly encouraging commercial bank lending to the coffee sector coupled with the credit lines and loan guarantees developed to support the sector are the two factors most responsible for the increase in lending to the target sectors.

Evaluation questions 5c and 5d. **Have the terms of credit for export-oriented agribusiness enterprises changed since the guarantee? How? If so, what role did the DCA guarantee to BK play as a demonstration model?**

Conclusion:

The Action Memorandum for the 2004 DCA guarantee states that the objective of the guarantee is to increase access to short- and medium-term credit for investors in strategic, export-oriented sectors. It identifies collateral requirements and banks' aversion to the perceived risks associated with agricultural loans as the primary constraints to obtaining credit. The Action Memorandum did not address other aspects of access to credit such as interest rates. Therefore, this question focuses only on assessing whether banks have eased collateral requirements for prospective borrowers in the coffee sector.

Findings: The DCA guarantee aimed to increase access to credit by easing collateral requirements and attenuating risk. The available evidence suggests that Rwanda's banking sector has not eased collateral requirements for coffee sector investors.

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 consider rural property as collateral.

Five of the six DCA borrowers that the evaluator interviewed reported that banks still required 100 percent collateral for coffee sector loans.

Of the other parties knowledgeable of coffee sector financing that the evaluator interviewed, none said that local banks had eased collateral requirements. Two (the Coffee Processing Manager of The Rwanda Coffee Development Board (also known as OSIR-café) and the Professional in Charge of Agricultural Finance and Fund Mobilization at the Ministry of Agriculture and Animal Resources (MINAGRI) specifically said they believed that banks still required loan guarantees to continue financing coffee washing stations.

Interest rates for coffee sector loans vary across banks but bank officials said that they have not changed the way they set interest rates for coffee sector loans since the guarantee. In fact, none of the five banks the evaluator interviewed said that they treat coffee sector loans differently than other loans when setting interest rates. According to three borrowers, the BRD offered lower interest rates than BK but the application process was complicated and lengthy which, it at least two cases, led to delays in receiving working capital funds (sometimes after the start of the season) and consequent delays in buying coffee cherries.

INTRODUCTION

Rwanda is a small and densely populated country that is highly dependent on largely subsistence agriculture. In 2004, Rwanda hosted a population of about 9.0 million living in an area about the size of the State of Maryland[7] and about 90 percent of the largely rural population depended primarily on agriculture for their livelihood. [8] The dependence on agriculture, coupled with the limited land base, small landholdings (average of 0.84 hectares/household in 2002 [9]), a high population growth rate (around 2.5 percent[10]), declining agricultural productivity, high rates of illiteracy, limited opportunities outside of subsistence agriculture, and the legacy of a devastating genocide in 1994 contributed to low incomes and high rates of poverty.[11] Approximately 60 percent of the population lived below the poverty line in 2002 and poverty was highly skewed toward rural areas.[12]

Agriculture was, and still is, the cornerstone of Rwanda's economy accounting for 44 percent of GDP in 2004.[13] Two agricultural products – coffee and tea – generated $54 million in export earnings – 55 percent of the country's entire exports. Agriculture is also likely to play an important role in Rwanda's future economic growth. In fact, the 2002 Poverty Reduction Strategy Paper (PRSP) identified agriculture as the primary engine for growth in the medium term. The PRSP singled out the coffee sector for its potential to contribute to growth and described a specific strategy for increasing the capacity of the sector to meet increasing world demand for high-value specialty coffees. The World Bank Economic Memorandum concurred with the PRSP regarding the potential of the specialty coffee sector to contribute substantially to increased incomes and poverty reduction.[14] Because the DCA guarantee focused on the coffee sector, the remainder of this chapter reviews salient aspects of Rwanda's coffee sector.

Rwanda's Coffee Sector

Coffee has played an important role in Rwanda's economy since 1917 when the country shipped its first exports and has usually been the country's leading source of foreign exchange.[15] The coffee sector is also highly diversified affecting an estimated 450,000 smallholder farmers who grow most

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[7] Central Intelligence Agency, World FactBook, Rwanda; https://www.cia.gov/library/publications/the-world-factbook/geos/rw.html .

[8] Ibid.

[9] Mpyisi, Edson; Weber, Michael Shingiro Emmanuel, and Loveridge, Scott. Changes in allocation of landholdings, production and farm size in the Rwandan smallholder sector over the period 1984/1990 to 2002. Agricultural policy synthesis: Rwanda food security research project/MINAGRI. East Lansing, Michigan: Michigan State University; 2003 (Number 6E). http://www.aec.msu.edu/agecon/fs2/rwanda/index.htm.

[10] Large population movements make it difficult to determine the population growth rate but the Economist Intelligence Unit (Rwanda Country Profile, 2004) and the World Bank (Rwanda Country Data Profile, 2005, http://ddp-xt.worldbank.org/ext/ddpreports/ViewSharedReport? REPORT_ID=9147& REQUEST_TYPE=VIEWADVANCED) estimate it around 2.5 to 2.8 percent.

[11] Government of Rwanda. Poverty reduction strategy paper; 2002 Jun.

[12] Ibid.

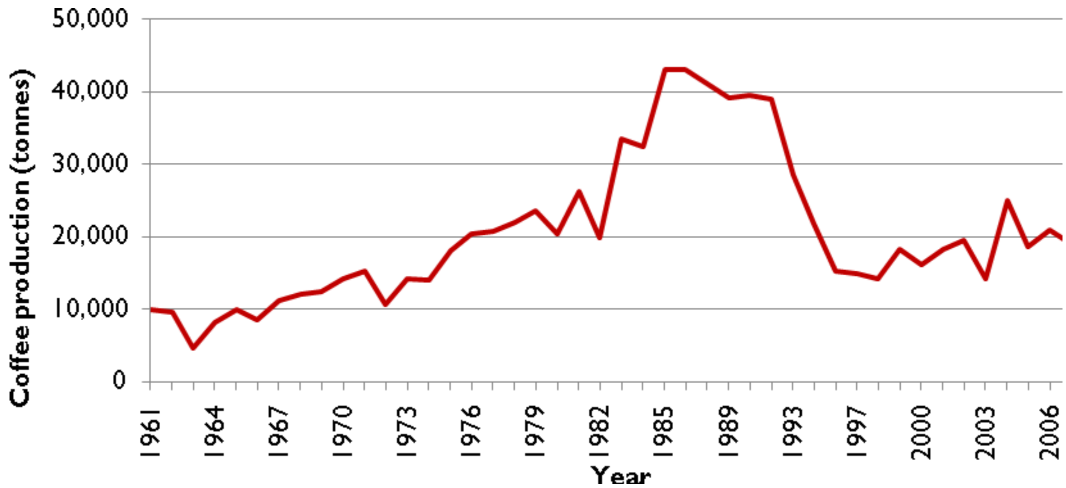
[13] USAID/Rwanda Action Memorandum, 2004.

[14] The World Bank. Rwanda: toward sustainable growth and competitiveness, volume 1; 2007 Oct; No. 37860-RW.

[15] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.

of the country's coffee in small plots of 150-300 trees.[16] Rwanda's coffee production peaked in 1986 and then plummeted during the genocide of 1994 largely as a result of falling world prices that led to underinvestment in trees and inputs.[17] It reached a post-war peak of about 25,000 MT in 2004 but has never approached pre-war production levels. Figure 2 illustrates Rwanda's coffee production from 1961 through 2007.

FIGURE 2. COFFEE PRODUCTION IN RWANDA, 1961-2007



Source: FAOStats: http://faostat.fao.org/default.aspx

In spite of its prominence in Rwanda's economy, the coffee sector faces a number of challenges if it is to realize its potential to contribute to economic growth. Rwanda's National Coffee Strategy[18] described the state of the coffee sector in 2002 in the following terms.

"The coffee industry suffered from difficulty financing crucial investments. The low quantity low quality loop the coffee sector was trapped in was mainly due to the state of coffee plantations after the war, difficulty of financial access for long-term coffee investments, lack of renewal of old coffee trees, low yielding coffee varieties and a virtually inexistent local consumption. It was hence necessary to develop a supporting financial network to address these issues if the Rwandan coffee sector was to become competitive on international markets. Small credit lines at the grower level (e.g. group lending model – micro credit schemes), skills upgrading of financial lending institution staff, and easier access to long term capital for coffee investors were some of the identified priorities."[19]

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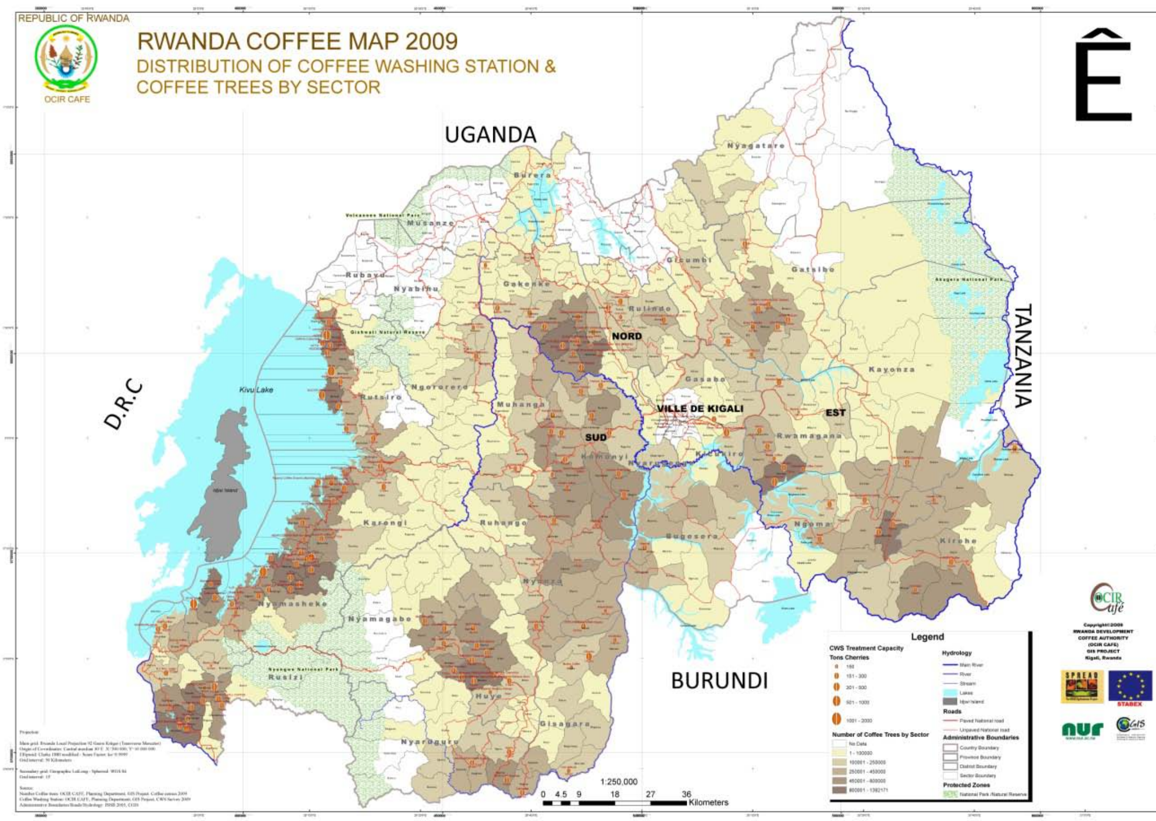
[16] Government of Rwanda. Poverty reduction strategy paper; 2002 Jun.
[17] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.. Also Economist Intelligence Unit, Country Profile, 2004.
[18] Ministry of Agriculture & Animal Husbandry and Ministry of Trade & Industry. Rwanda national coffee strategy, 2009-2012. 2008 Dec.
[19] Ibid

In addition to these challenges, in 2002 Rwanda had very limited capacity to fully wash coffee – a key element of the chosen strategy to increase coffee quality. To address this limitation, the strategy called for increasing the number of coffee washing stations (CWS) from six in 2002 to 107 by 2010 – largely through the efforts of private investors. However, most potential investors could not obtain the medium-term financing necessary to construct a CWS or the short-term seasonal financing necessary to operate the station.[20] The four banks and six borrowers that the evaluator interviewed all stated that banks were unwilling to lend to coffee sector investors because most investors' lacked the capacity to demonstrate the creditworthiness of their projects with good business plans and most lacked sufficient or appropriate[21] collateral to guarantee the size of loans required to build and operate a CWS.[22]

FIGURE 3. LOCATION OF COFFEE WASHING STATIONS AND COFFEE PRODUCTION REGIONS IN RWANDA



Source: SPREAD Project

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20 Ibid.

21 Land title issues in rural areas make it risky for banks to accept rural property as collateral for a loan. Consequently, most banks will consider only urban property as collateral. Each of the four commercial banks and the six borrowers that the evaluator interviewed indicated that banks required 100 percent collateral on coffee sector investment loans.

22 The World Bank. Rwanda: toward sustainable growth and competitiveness, volume II: main report; 2007 Oct; No. 37860-RW.

The Role of Credit in the Coffee Sector

Prior to the focus on fully washed coffee in the early 2000s, there was little need for investment in coffee washing stations since producers processed most coffee manually or at rural processing centers. Banks provided seasonal financing that allowed middlemen and traders to buy coffee directly from producers or cooperatives, dry mill the coffee, and export it. Because of large losses in 2001, however, banks largely restricted seasonal credit from that point onward to large traders and exporters. The 2002 National Coffee Strategy describes the situation prior to 2001 in the following terms.

"Prior to 2001, all coffee pulping was done either on-farm using mortar and pestle, or at rural centers using hand-turned manual pulping machines.... Local banks provided credit to small businesses to finance the purchase of parchment coffee from farmers which was resold to exporters. High losses during the 2001 campaign prompted banks to discontinue financing sector middlemen. Banks did, however, continue to provide credit to exporters for the purchase of coffee. Exporters directly financed middlemen, thereby shifting bank credit risk from middlemen to the more financially solvent exporting firms."

The strategic shift to fully washed coffee required different types of financing that banks were unwilling and unprepared to provide. Coffee washing stations can represent a significant investment. As an indication of the cost, the ten investment loans that the Bank of Kigali (BK) placed under the DCA guarantee ranged in value from $37,465 to $210,000 with an average of $92,682. Median tenors ranged from 10 months for working capital loans to 68 months for investment loans. Few investors – in fact, none of the six that the evaluator interviewed – had the capital necessary to build a CWS. Some form of financing was therefore necessary to facilitate this first stage of investment in Rwanda's fully washed coffee capacity.

Once an investor builds a CWS, he or she requires annual working capital to buy coffee cherries from farmers for processing. In most cases, working capital requirements are relatively short-term and need only to bridge the gap between purchasing cherries and selling processed coffee – a period of nine to ten months.[23] Adequate and timely seasonal financing is crucial however. Limited access to working capital at the beginning of the harvest season will reduce the quantity of coffee cherries a processor can buy. Without a sufficient quantity of coffee cherries, a CWS will not be able to operate at full capacity and thus risks not being able to generate revenue sufficient to service loans.[24] The 12 working capital loans disbursed under the BK and Banque Commerciale du Rwanda (BCR) DCA guarantees ranged in value from $64,295 to $207,572 with an average of $121,110 and a median tenor of 9 months. So, working capital financing also represents a sizeable need for credit.

[23] Reported by CWS investors/operators interviewed by the evaluator.
[24] Mentioned by three of the six borrowers and one bank that the evaluator interviewed.

THE DEVELOPMENT PROBLEM AND USAID'S RESPONSE

Rwanda embarked on its new coffee strategy with severely deteriorated production capacity, almost no processing capacity, limited access to and use of inputs (fertilizers, improved coffee varieties) by producers, and little understanding of how to produce high quality coffee. Furthermore, as the GoR promoted investments in coffee washing capacity, potential investors faced a difficult environment for obtaining either medium-term investment credit to build washing stations or the short-term seasonal financing necessary to operate the stations.[25] Large losses following the genocide in 1994, overextension of banks into real estate and construction since the genocide, and poor experiences in the coffee sector in 2001 made banks particularly risk averse.[26] Furthermore, because most banks had little or no experience in agricultural lending, they were not prepared to evaluate risks associated with lending to the agriculture sector in general or the coffee sector in particular or to effectively monitor loans.[27] Technical assistance and improved access to finance were necessary to implement the coffee strategy.

USAID's Response

USAID/Rwanda supported the growth of the fully washed coffee sector at a number of levels. First, it developed technical assistance projects to enhance production, management, and processing capacity in the coffee sector. These projects included:

- The Partnership for Enhancing Agriculture through Linkages in Rwanda (PEARL) – PEARL focused on agribusiness enterprise development in several promising sectors including specialty coffee. The project was responsible for the first exports of specialty coffee from Rwanda to the US and UK. Even after the end of the PEARL project in 2006, USAID/Rwanda continued its support to these sectors through a new project – Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development (SPREAD) which carries on PEARL activities.

- Agribusiness Development Assistance in Rwanda (ADAR) – ADAR focused on improving the processing and marketing capacities of private sector agribusiness enterprises (and some associations and cooperatives) working in value-added export-oriented products. In 2004 it was supporting the coffee, pyrethrum, and passion fruit sub-sectors.

- ACDI/VOCA Food Security Project – ACDI/VOCA provided grants to develop viable business entities and has funded agribusiness cooperatives in the coffee, tea, and rice sub-sectors.

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[25] USAID Action Memorandum, 2004.
[26] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.
[27] USAID Action Memorandum, 2004 and personal interview with the CEO of BPR.

- ISAR Agricultural Technology Development and Transfer Project (ATDT) – The project focused on institutional development and dissemination of improved technologies in agriculture.

The ADAR project in particular identified access to credit as a key constraint to private investment in CWSs.[28] To address this constraint, USAID/Rwanda implemented a DCA loan guarantee with the Bank of Kigali in 2004. The Bank of Kigali DCA guarantee targeted strategic export commodities including, but not limited to, specialty coffee, passion fruit, chili pepper, cassava flour, essential oils, and fortified food. In practice, however, the Bank of Kigali used the DCA guarantee only in the coffee sector. This focus reflects the tight integration of the DCA guarantee with the technical assistance projects supporting the coffee sector. The Action Memorandum specified recipients of USAID-supported technical assistance as the first priority for guaranteed loans and the technical assistance providers informed their clients of the guarantee opportunity and directed them to BK to apply for guaranteed loans.[29]

The DCA Loan Portfolio Guarantee (LPG) guaranteed 40 percent of the loss of principal on a portfolio of qualified loans valued at up to $2 million. The Guarantee Agreement specified that no individual borrower could receive loans totaling more than $210,000[30] or less than $75,000 without prior USAID approval. The agreement also suggested tenors of up to one year for working capital (seasonal) loans and up to five years for investment loans. Table 2 summarizes characteristics of the Bank of Kigali DCA loan guarantee.

[28] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.
[29] Interviews with former employees of the ADAR and PEARL projects.
[30] Although the Guarantee Agreement specifies a maximum of $200,000, it allows the bank to exceed this maximum by 5 percent without prior USAID approval.

TABLE 2. SUMMARY OF DCA GUARANTEE CHARACTERISTICS

Authority	DCA
Type	Loan Portfolio Guarantee (LPG)
Guaranteed party	Bank of Kigali
Maximum portfolio amount	$2,000,000
USAID guarantee percentage	40%
Guarantee ceiling	$800,000
Term of guarantee	September, 2004 – September, 2012
Origination fee	1% of guarantee ceiling ($8,000)
Utilization fee	1% of outstanding principal per annum
Minimum loan amount	$75,000
Maximum loan amount	$200,000
Tenor	Working capital – up to one year Capital investments – up to five years
Qualifying borrowers	• USAID-supported agribusiness enterprises producing, processing and marketing strategic export commodities, including, but not limited to specialty coffee, passion fruit, chili pepper, cassava flour, essential oils, and fortified food, • Export-oriented agribusiness enterprises not presently receiving technical assistance from USAID or its implementing partners, provided prior written approval from USAID has been obtained by the Guaranteed Party, and • Export-oriented agribusiness enterprises not introduced to the Guaranteed Party by USAID or its implementing partners, provided prior written approval from USAID has been obtained by the Guaranteed Party.
Qualifying projects	Borrowing for short-term (up to one year) working capital and/or medium-term (up to five years) capital investment by USAID-assisted agribusiness enterprises producing, processing and marketing strategic export commodities.

Source: Bank of Kigali DCA Guarantee Agreement.

In March of 2007, the majority stakeholder in the Bank of Kigali sold its 50 percent share to the GoR. Combined with the GoR's existing 49 percent share, this made the GoR the majority stakeholder in the Bank of Kigali and breached the guarantee agreement. Consequently, USAID suspended the guarantee pending re-privatization of the bank. Although the bank's 2008 annual report implies that the bank re-privatized during 2008, this had not yet occurred at the time of the evaluation. Bank officials cited the global economic downturn as the cause of the bank's difficulty finding a buyer. Therefore, USAID has not restarted the guarantee and the bank has disbursed no guaranteed loans since the suspension.

During the 32 months that BK used the DCA guarantee, the bank disbursed 18 loans – 11 investment loans to build coffee washing stations and 7 working capital loans to operate the stations.[31] Working capital loans totaled $710,429 (41 percent of all loans) and averaged $101,490 in

[31] Credit Monitoring System (CMS) accessed October 21, 2009. Data confirmed by a BK Credit Analyst familiar with the DCA guarantee.

size. Investment capital loans amounted to $1,019,019 and accounted for 59 percent of the value of loans placed under the guarantee. Median tenors ranged from 10 months for working capital loans to 68 months for investment loans. The 18 loans represented 86 percent of the guarantee ceiling. Table 3 summarizes characteristics of the guaranteed loans.

TABLE 3. LOAN CHARACTERISTICS

Loan purpose	Number of loans	Total value ($)	Average loan size ($)	Median tenor (months)
Working capital	7	$710,429	$101,490	10
Investment capital	11	$1,019,019	$92,638	68
Totals	18	$1,729,448		

Source: EGAT/DC Credit Monitoring System, accessed, October 21, 2009.

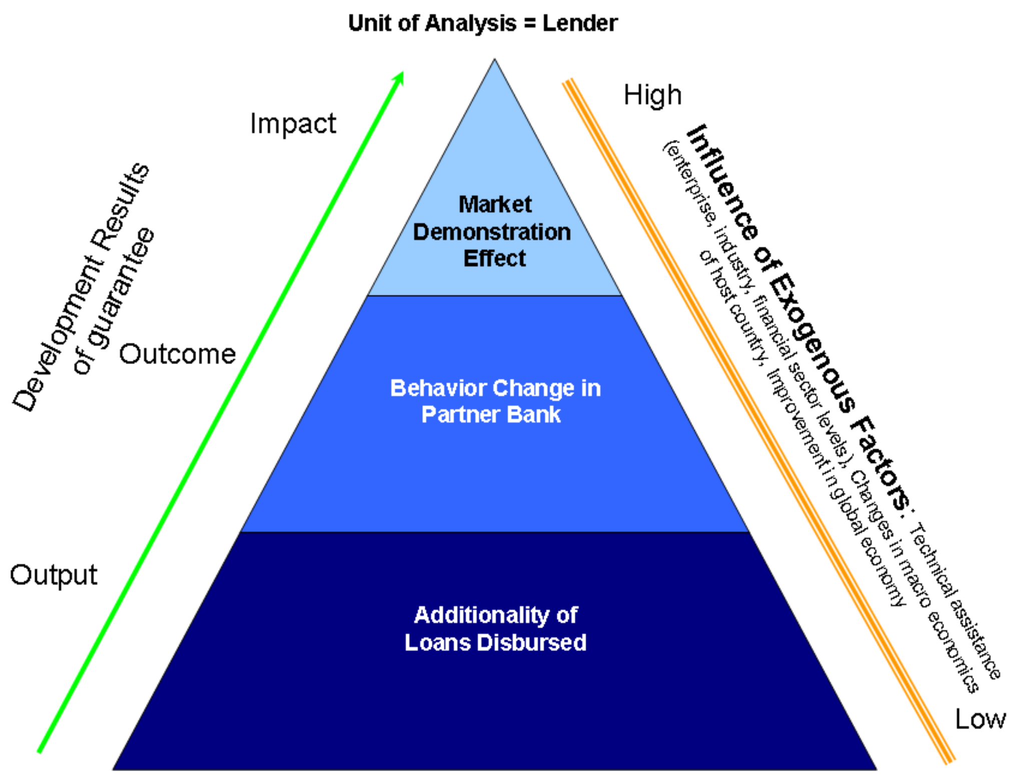
PURPOSE OF THE EVALUATION

The Bank of Kigali DCA loan guarantee evaluation is the sixth of a series of approximately 20 evaluations that USAID's Bureau of Economic Growth, Agriculture and Trade's Office of Development Credit (EGAT/DC) has commissioned of its Development Credit Authority (DCA) credit guarantees. Each of the individual evaluations assesses the performance of a guarantee, or set of guarantees, to a particular partner bank. A meta evaluation at the end of the four-year contract will synthesize results from the individual evaluations to address broad questions of the performance of the DCA program. The general evaluation framework developed by EGAT/DC and the contractor (SEGURA/IP3 Partners LLC) identifies four broad evaluation objectives to which both the individual evaluations and the meta-evaluation will contribute. These are:

- to demonstrate and communicate to DCA stakeholders (OMB, Congress, USAID Missions, etc.) the contributions of DCA loan guarantees to the achievement of development results in the countries in which guarantees are provided,
- to contribute to the dialogue about how to engage financial sector institutions as partners in development,
- to strengthen USAID's application of DCA as a tool for achieving development results, and
- to influence the project design of new guarantees.

The individual evaluations assess the performance of specific DCA loan guarantees at three levels. At the output level, the evaluations focus on the additionality of the guarantee. That is, did the guarantee promote lending behavior in the partner bank in addition to its usual practices? At the outcome level the evaluations examine whether the guarantee caused a change in the behavior of the partner bank outside of guarantee. The impact level asks whether the guarantees had any demonstration effect throughout the broader banking sector. Figure 4 illustrates USAID's criteria for assessing the performance of DCA loan guarantees.

FIGURE 4. HOW USAID MEASURES DCA SUCCESS



This evaluation assesses the performance of a DCA loan guarantee signed with the Bank of Kigali in Rwanda in September, 2004. The guarantee aimed to increase access to medium-term capital investment and short-term seasonal financing for export-oriented specialty agricultural crops in Rwanda including, but not limited to specialty coffee, passion fruit, chili pepper, cassava flour, essential oils, and fortified food. In practice, all of the loans disbursed under the guarantee went to the coffee sector. The evaluation thus examines:

Output level – Did the guaranteed loans represent a change in the Bank of Kigali's loan portfolio to the coffee sector relative to what the portfolio would have been without the guarantee?

Outcome level – Did the guarantee change the Bank of Kigali's lending behavior to the coffee sector outside of the protection of the guarantee?

Impact level – Did the guarantee have any demonstration effect that improved access to medium-term and short-term credit to investors in the coffee sector in the broader banking sector?

The scope of this evaluation thus extends only to the Bank of Kigali's behavior at the output and outcome levels and to the behavior of the broader banking sector at the impact level. The evaluation does not examine EGAT/DC's management of the guarantees nor does it attempt to assess the impacts of the loans on borrowers or on USAID/Rwanda's objectives.

EVALUATION METHODOLOGY

A two-person team conducted the evaluation between October 19 and November 20, 2009. Team members included Douglas Krieger, team leader and evaluation specialist, and Joseph Obi, EGAT/DC Portfolio Manager. Dr. Krieger designed the evaluation and led the interviews while Mr. Obi attended, and contributed to, interviews during the first week in Rwanda.

Evaluation activities began in mid October, 2009 when Dr. Krieger reviewed background documents in preparation for field work in Rwanda. The review focused on DCA documents, data relevant to the 2004 Bank of Kigali DCA, and on background documents on Rwanda's coffee and financial sectors and economy. The References section contains a complete list of documents reviewed for the evaluation. Dr. Krieger used the information gathered through this review to adapt the generic DCA Evaluation Framework to the specific requirements of the Bank of Kigali DCA evaluation. The adapted framework specified the evaluation questions, indicators, sources of data, and analyses that guided the evaluation. Annex A contains the evaluation framework adapted for the Bank of Kigali DCA evaluation.

Dr. Krieger then used the adapted evaluation framework to develop guides for structured interviews with key informants. The evaluation team learned of some informants only after its arrival in Rwanda and developed guides for those interviews in the field. Annex B contains the interview guides use for the evaluation.

The evaluation team conducted field work in Rwanda during a two-week period between October 26 and November 6, 2009. During the field work, the team conducted structured interviews with USAID/Rwanda, BK, three other commercial banks, six recipients of guaranteed loans, three technical assistance service providers to the coffee sector, the GoR's Rwanda Coffee Development Board (also known as OSIR-cafe), the Ministry of Agriculture and Livestock, Rwanda's Central Bank, the World Bank, the Rwanda Development Board, and a coffee export and trading company. In addition, the team also gathered quantitative data from a variety of sources to support the evaluation.

On his return to the United States, Dr. Krieger conducted additional interviews by email and telephone with Kofi Owusu-Boakye, DCA Regional Portfolio Manager – Africa, Timothy Karera, a former USAID/Rwanda employee familiar with the guarantee, and the former BK Senior Account Manager for coffee who worked at BK during the guarantee period.

Annex C contains a complete list of interviews conducted during the course of the evaluation.

Data Limitations

The lack of institutional memory of the DCA at both USAID and BK significantly limited the quantity and quality of data available for the evaluation. Because the evaluation design depended on these sources to supply the fundamental evidence of the rational for the DCA, how BK implemented the DCA, and how the DCA affected the bank's portfolio, the lack of sufficient data substantially restricted the depth of the analysis.

The paper trail (i.e., Action Memorandum, Guarantee Agreement, Biennial Review, CMS) and the ability to locate some USAID personnel who had moved on to other assignments made the problem less acute at USAID than at BK. To flesh out evidence about the start of the DCA gleaned from the Action Memorandum, the evaluator contacted Timothy Karera by email to shed light on USAID's interaction with BK and the bank's implementation of the DCA guarantee from USAID's perspective.[32]

The Bank of Kigali, however, presented more concrete obstacles to data collection. The three people at BK who were most involved in negotiating and implementing the DCA guarantee no longer work at the bank. These include the Managing Director, the Director of the Commercial Department, and the DCA contact person.[33] In fact, current bank management seemed to know little about the DCA. The evaluator first met with the Marketing Director and an Accounts Officer, neither of whom could answer detailed questions about why BK entered into the DCA agreement, how the bank had implemented the DCA, or how it had affected the bank's portfolio or lending strategy.

The evaluator later interviewed the Credit Analyst who had briefed the bank's management team on the DCA prior to the evaluator's visit. Because of time limitations, the Credit Analyst was unable to review each guaranteed loan in detail but he did provide the evaluator with additional information about the DCA loan portfolio and the bank's pre- and post-guarantee lending to the coffee sector. However, much of these data eventually proved inconsistent with other sources used to triangulate findings leaving results that relied on these data somewhat unreliable.

To fill in some of the gaps in BK's institutional memory, Dr. Krieger attempted to contact two former BK employees involved in the 2004 DCA guarantee by telephone and email. The Senior Account Manager for coffee at BK responded with very useful information that contributed substantially to the evaluation.

EXOGENOUS INFLUENCES ON GUARANTEE PERFORMANCE

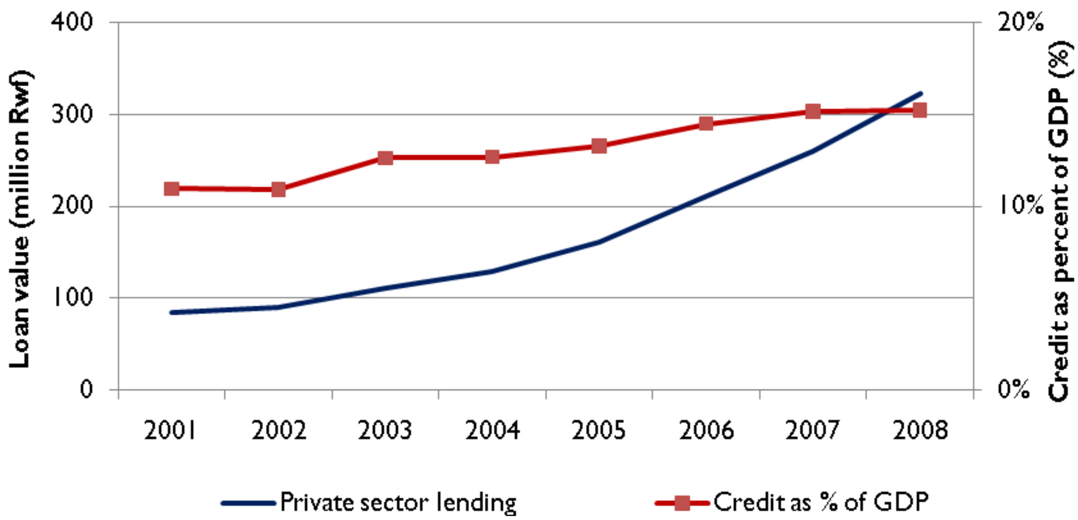
This brief chapter reviews factors exogenous to the guarantee that may have affected measures of guarantee performance at the output, outcome, and impact levels. At the output and outcome levels, these will be factors other than the guarantee that may have affected BK's lending to the coffee sector before, during, and after the guarantee. At the impact level, they will be factors external to the DCA guarantee that may have affected other bank's lending to the coffee sector.

A host of factors including government borrowing, inflation rates, interest rates, savings/deposit rates, and the global economic environment may affect banks' overall willingness to extend credit to any sector, including agriculture. However, data on bank lending to the private sector during the period before, during, and after the DCA guarantee show a steady increase in the (real) value of outstanding loans during the period. Expressed as a percentage of GDP to control for overall

32 The evaluator also sent questions by email to two key former employees of the Bank of Kigali but failed to get a response.
33 Personal communication with Timothy Karera.

growth in the economy, lending to the private sector increased over the period. This suggests that banks' general willingness or capacity to lend did not act as a constraint on lending to the coffee sector during the period of the DCA guarantee.

FIGURE 5. BANK LENDING TO THE PRIVATE SECTOR, 2001-2008



Source: NBR Annual Reports

Qualitative data suggest that the improving lending environment probably did not positively affect lending to the coffee sector either. The weight of evidence suggests that even in this positive environment, banks perceived of agricultural lending – and particularly lending to the emerging washing station sector – as particularly high risk.[34] The GoR's National Coffee Strategy report described the situation in the following terms:

"Financial mismanagement had damaged relationships with financial institutions and affected coffee washing stations (CWS)' access to credit. All these issues have negatively affected the way financial institutions deal with coffee washing stations. Financial institutions have resorted to giving out loans in installments out of concern that CWS will not mismanage the funds if they are given the whole and will not be able to reimburse them, and most are unwilling to provide new loans for the following year until the current one has been paid back. The giving out of a loan in installments, whereby the second installment is not given out until the first one has been accounted for means that even the best managed coffee washing stations are sometimes without funds in the middle of a coffee season. They are also reluctant to finance new CWS projects given the difficulty they have had in managing and monitoring the finances of the stations."

In addition, poor market conditions in 2001 led to large losses on working capital loans to smaller traders and caused banks to substantially restrict access to working capital loans for smaller coffee

[34] Reported by three of the five banks that the evaluator interviewed and all three technical assistance projects supporting the coffee sector.

sector investors.[35] This would most likely have inhibited lending to coffee station investors which runs counter to the observed increase in lending.

The GoR's emphasis on the coffee sector articulated in the 2002 National Coffee Strategy probably influenced bank lending to the sector – particularly to invest in coffee washing stations – more than any other single factor.[36] The strategy focused on positioning Rwanda as a producer of fine specialty coffees for world markets. Increasing the country's capacity to produce fully washed coffee was crucial to this strategy.[37] However, stringent collateral requirements at commercial banks coupled with a perception of high risk prevented potential private-sector investors in coffee washing stations (CWS) from accessing the credit necessary to finance construction of CWS or seasonal coffee purchases.[38]

In response to these constraints the GoR created the Coffee Season Guarantee Fund to support seasonal coffee purchases during the 2004/05 season. For the 2005/06 season, the National Bank of Rwanda (NBR) extended the Fund to cover both seasonal (working) capital and investment capital in the fully washed coffee sector. By the 2006/07 season the GoR created the Agricultural Guarantee Facility (AGF) which incorporated the 2005 Coffee Guarantee Fund and also opened use of the fund to a much broader range of agricultural activities including the coffee sector.[39]

The AGF is a loan guarantee administered by the NBR and implemented by partner banks. All banks are eligible but RDB accounted for over 70 percent of all loans under the AGF.[40] The AGF covers 30 percent of the loss of capital on short-term (seasonal) loans and 40-50 percent of the loss of capital on long-term loans.[41] The GoR and the Dutch Embassy in Kigali funded the AGF with an initial investment of 2.9 billion RWF in August, 2005.

In the period between 2004 and 2009, the AGF guaranteed over 11 billion Rwf ($20.4 million) in investment and working capital financing to the coffee sector.[42] The AGF and the two DCA guarantees (in 2004 with BK and in 2006 with BCR) provided the only guaranteed lending to the coffee sector and, along with donor-supported grants and lines of credit, probably accounted for almost all of the financing for CWS construction.[43] Of these three sources, the AGF supported about 88 percent of all investment. Table 4 documents guaranteed lending to the coffee sector between 2004 and 2009.

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35 Rwanda Revised National Coffee Strategy, 2009-2012 and Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr..

36 Interview with the Relationship Manager for Agriculture at BCR and the Manager, Special Funds and Lines of Credit at NBR.

37 Rwanda Revised National Coffee Strategy, 2009-2012.

38 Ibid.

39 Interview with Adelaide Kagwesage, Manager, Special Funds and Lines of Credit, National Bank of Rwanda.

40 Interview with National Bank of Rwanda personnel.

41 NBR Annual Reports, 2005-2008.

42 NBR Annual Reports, 2005-2008.

43 The Manager, Special Funds and Lines of Credit at NBR claimed that the AGF had financed *all* of the CWS constructed in Rwanda. This is clearly an exaggeration as ACDI/VOCA provided grants to build some CWS and the two DCA guarantees financed 12 additional CWS in which the AGF was not involved because of conditions in the Guarantee Agreements that barred use of the AGF, or any other guarantee, in conjunction with a DCA-guaranteed loan. Nevertheless, most, if not all, of the CWS required some sort of loan guarantee.

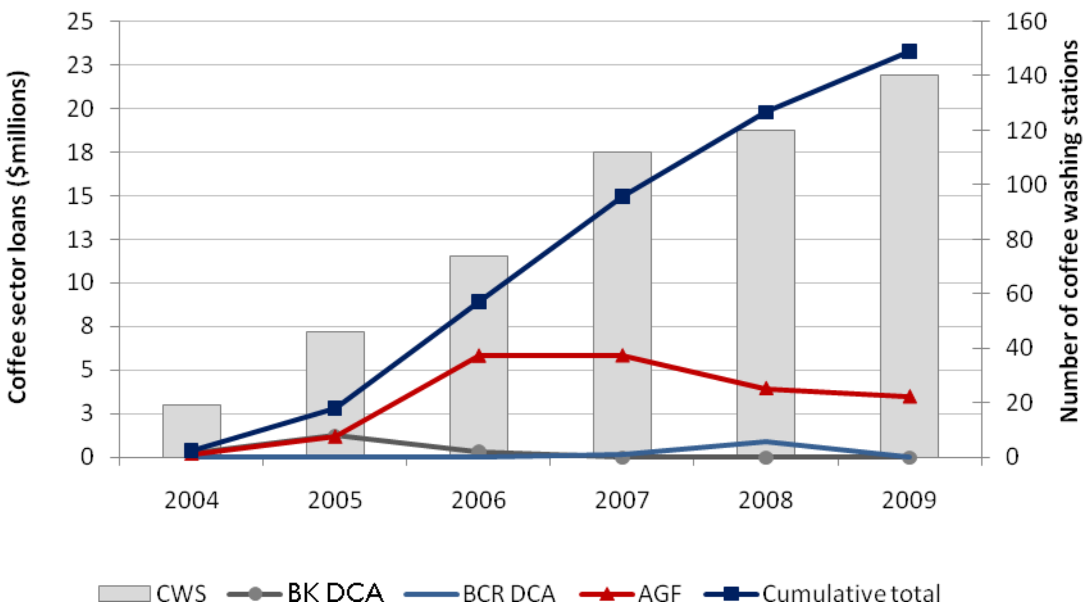
TABLE 4. GUARANTEED LENDING TO THE COFFEE SECTOR, 2004-2009 ($1,000)

Guarantee source	2004	2005	2006	2007	2008	2009	Total Value	Total Percent
AGF	$189	$1,173	$5,814	$5,822	$3,955	$3,477	$20,431	87.8%
BK DCA	$209	$1,241	$302	$0	$0	$0	$1,752	7.5%
BCR DCA	$0	$0	$0	$202	$879	$0	$1,082	4.6%

Source: Data obtained from National Bank of Rwanda (NBR), USAID Credit Management System (CMS)

Figure 6 illustrates the evolution of guaranteed lending to the coffee sector and construction of coffee washing stations. The growth in guaranteed lending closely tracks the washing station construction.

FIGURE 6. EVOLUTION OF COFFEE SECTOR LOAN GUARANTEES AND THE NUMBER OF COFFEE WASHING STATIONS



Source: Data obtained from National Bank of Rwanda (NBR), USAID Credit Management System (CMS)

Bank lending to the coffee sector – at least at the level of washing station investors – has not been widespread however. Although the National Bank of Rwanda (NBR) would not provide bank-specific data on lending to the coffee sector, it did reveal that the Banque Rwandaise de Développement (BRD) issued over 70 percent of the AGF-backed loans to the coffee sector and Banque Populaire du Rwanda (BPR) accounted for most of the remaining 30 percent.

CONCLUSIONS AND FINDINGS

This chapter presents the conclusions for each of the evaluation questions contained in the evaluation framework and the findings that support the conclusions. The chapter's three sections present conclusions and findings at the output, outcome, and impact levels separately. Each section first reviews the relevant evaluation questions and then presents conclusions and supporting findings for each question.

Output Level – Did Bank of Kigali's use the guarantees conform to guarantee objectives and specifications as described in the Guarantee Agreements?

Outcome Level – Did Bank of Kigali's experience with the guarantees improve access to credit for borrowers in the target sectors outside of the DCA coverage?

Impact Level – Did the guarantees have a demonstration effect that resulted in other banks improving access to credit for borrowers in the target sectors?

Output Level Conclusions and Findings

At the output level the evaluation assessed the extent to which the Bank of Kigali used the DCA guarantee to provide short- and medium-term credit to the coffee sector that it would not have provided without the guarantee. The evaluation framework specifies the following output level questions.

Question 1a. Why did Bank of Kigali (BK) enter into the guarantee agreement?

Question 1b. How did BK implement its lending program to the coffee sector? (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?

Question 2a. What was the additionality of the guarantee?

Question 2b. What was the extent to which the DCA guarantee influenced changes in BK's portfolio characteristics? How and Why?

Conclusions and Findings for Question 1a

Ideally, bank documents and interviews with bank personnel involved in initiating and administering the DCA guarantee would provide evidence of the bank's rationale for entering into the DCA guarantee agreement. However, none of the people involved in the DCA guarantee remain at the bank and the evaluator was not able to contact them. The bank's annual reports and interviews with three bank personnel (the Marketing Manager, a Commercial Accounts Officer, and a Credit Analyst) who had no direct experience with the guarantee provided the sole sources of evidence to answer this question.

Conclusions: The Bank of Kigali did not have a documented strategy to enhance its lending to the coffee sector. However, the GoR strongly encouraged banks to support the strategically important sector and it is likely that the Bank of Kigali viewed the DCA guarantee as a way to limit its risk while complying with this request. The bank viewed the guarantee as a way to reduce risk while increasing its agricultural portfolio and attracting much needed cash deposits.

Findings: The evaluator uncovered no evidence that the Bank of Kigali had any specific strategy for lending to the coffee sector. The bank's annual reports (2005, 2007, and 2008) contain no specific mention of agriculture or coffee nor do they note any specific strategy for agricultural or coffee sector lending. Furthermore, the bank has no loan officers specifically trained to evaluate or monitor agricultural or coffee sector loans. Beyond stating that coffee was a very important sector of the Rwandan economy and that the bank was committed to supporting the sector, the bank's Marketing Manager cited no particular rationale for the bank entering into the guarantee agreement. The bank's Senior Account Manager for coffee reported that BK's interest in the guarantee stemmed from its desire to increase its agricultural portfolio to attract additional deposits.

In the absence of any documented evidence that the Bank of Kigali had a specific interest in the coffee sector, it seems likely that the bank also viewed the guarantee as way to reduce its risk while complying with a government request to support the sector. The GoR encourages banks to lend to agriculture with a special emphasis on the coffee sector. Each of the four commercial banks that the evaluator interviewed confirmed the GoR's interest in promoting lending to agriculture. In fact, both the Banque Populaire du Rwanda (BPR) and the Banque Commerciale du Rwanda (BCR) reported that the GoR had made the banks' commitment to increase lending to agriculture a condition of approval for recent changes in bank ownership. The National Bank of Rwanda (NBR) also manages a guarantee fund (the Agricultural Guarantee Facility) that it makes available to commercial banks to encourage lending to the agricultural sector.

Conclusions and Findings for Question 1b

This question asks what the Bank of Kigali did to utilize the guarantee. Interviews with bank personnel (the Marketing Manager, a Commercial Accounts Officer, and a Credit Analyst), six borrowers, and two technical assistance providers to the coffee sector provided evidence to answer this question.

Conclusions: The bank did not alter its normal lending procedures to implement the DCA guarantee. It did not actively market guaranteed loans, develop special products to utilize the guarantee, or train loan officers to use the guarantee. The close coordination of the DCA guarantee with USAID-supported technical assistance projects targeting the coffee sector made actively marketing the loans unnecessary because the technical assistance projects referred enough creditworthy customers to the bank to utilize the guarantee.

Findings: All three BK personnel that the evaluator interviewed agreed that the bank did nothing to actively market the guarantee. They also said that the bank did not specifically train loan officers to use the guarantee. The bank's Marketing Manager said that the bank informed credit analysts of the guarantee and instructed them to consider using it for otherwise creditworthy prospective borrowers in the coffee sector who had insufficient or inappropriate collateral to qualify for the desired loan.[44]

The tight integration of the DCA guarantee with USAID-supported technical assistance to the coffee sector made marketing the guarantee unnecessary because potential borrowers approached the bank seeking a guaranteed loan. The technical assistance providers helped the borrowers develop business plans, informed them of the guarantee facility with BK, and directed them to the bank. A former ADAR employee who now works for SPREAD told the evaluator that all of the 11 DCA borrowers were recipients of USAID-supported technical assistance. Bank personnel confirmed this stating that the technical assistance projects had referred all of the borrowers to the bank. All six borrowers that the evaluator interviewed also said that they had received technical assistance from USAID-supported projects and had approached BK seeking guaranteed loans.

The technical assistance provided by USAID-supported projects was crucial to the borrowers' success in obtaining the loans. The bank's Marketing Manager said that the bank did not explicitly consider the technical assistance when evaluating loan applications. However, the bank did place great emphasis on the quality of applicants' business plans and these were a product of the technical assistance. A former ADAR employee confirmed that all 11 loan recipients had received assistance in writing their business plans. The six borrowers that the evaluator interviewed also said that USAID-supported projects had helped them write business plans and that these were critical to their success in receiving the loans.[45]

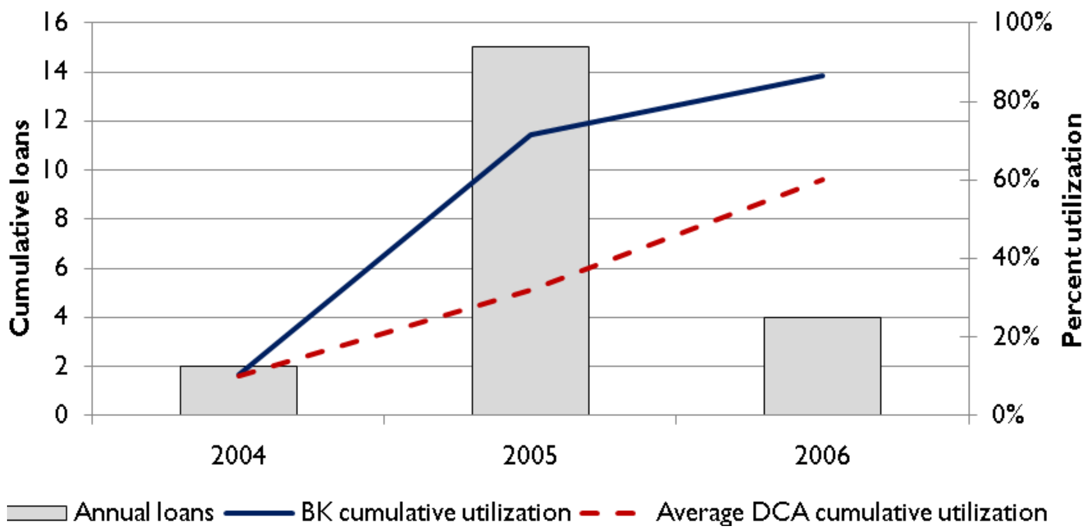
The close coordination of the DCA guarantee with USAID-supported technical assistance projects allowed the bank to utilize the guarantee extraordinarily rapidly, fully, and appropriately even without a specific strategy or marketing effort. The biennial review of September, 2007 concluded that the Bank of Kigali had used the guarantee well and appropriately and the evaluation concurs with this conclusion. Between September, 2004 and April, 2007 when USAID suspended the guarantee due to a change in ownership of the bank, BK guaranteed loans valued at $1,729,449 thereby utilizing 86 percent of the $2 million guarantee ceiling. The bank also began using the guarantee extraordinarily quickly, utilizing more than ten percent of the guarantee in just four months (September – December, 2004) and 72 percent by the end of 2005 – just 16 months into the guarantee agreement.[46] Figure 7 charts the evolution of utilization and loan numbers over the 32 months during which the guarantee was active. It also shows average utilization over the entire DCA portfolio.

[44] The bank requires at least 100 percent collateral on loans and strongly prefers relatively liquid urban property to less liquid rural property (e.g., coffee washing stations).

[45] In at least one case, the technical assistance provided by ADAR had a lasting effect. One borrower had applied for a loan from another bank since receiving the guaranteed loan from BK. He said that he used the training he received from ADAR to write a new business plan and that the other bank had accepted the plan.

[46] EGAT/DC reports that, on average over the 225 guarantees in its active and inactive portfolio, partner banks utilized about 10 percent of the guarantee in the first year and 30 percent by the end of the second year.

FIGURE 7. EVOLUTION OF LOANS AND UTILIZATION



USAID designed the guarantee specifically to compliment USAID-supported technical assistance projects, and specifically those targeted to the coffee sector. The Action Memorandum designates "USAID-supported agricultural enterprises producing, processing and marketing value-added agricultural products in strategic export-oriented sectors" as the highest priority to receive guaranteed loans. It also states that "the facility will initially target the coffee sector, aiming to provide financing of coffee washing stations..." Because the technical assistance projects referred all of the borrowers to the bank, the subsequent loans satisfied the criteria for qualified borrowers and were thus appropriate given the stated objectives of the Guarantee Agreement. In fact, all of the guaranteed loans supported the construction of coffee washing stations or provided working capital for their operation.

Conclusions and Findings for Question 2a and 2b

Questions 2a and 2b ask whether the Bank of Kigali changed its lending behavior in a manner consistent with guarantee objectives and the extent to which the DCA guarantee influenced any observed change. The two questions are so closely related that it is easier to address them together.

The evaluation framework specifies a quantitative comparison of the bank's portfolio characteristics before and during the guarantee as the indicator of changes in the bank's portfolio. However, the bank did not provide sufficiently detailed portfolio data for a rigorous quantitative comparison. The following analysis relies on the limited quantitative data that the bank did provide supported by qualitative evidence from BK's former Senior Account Relationship Manager for coffee.

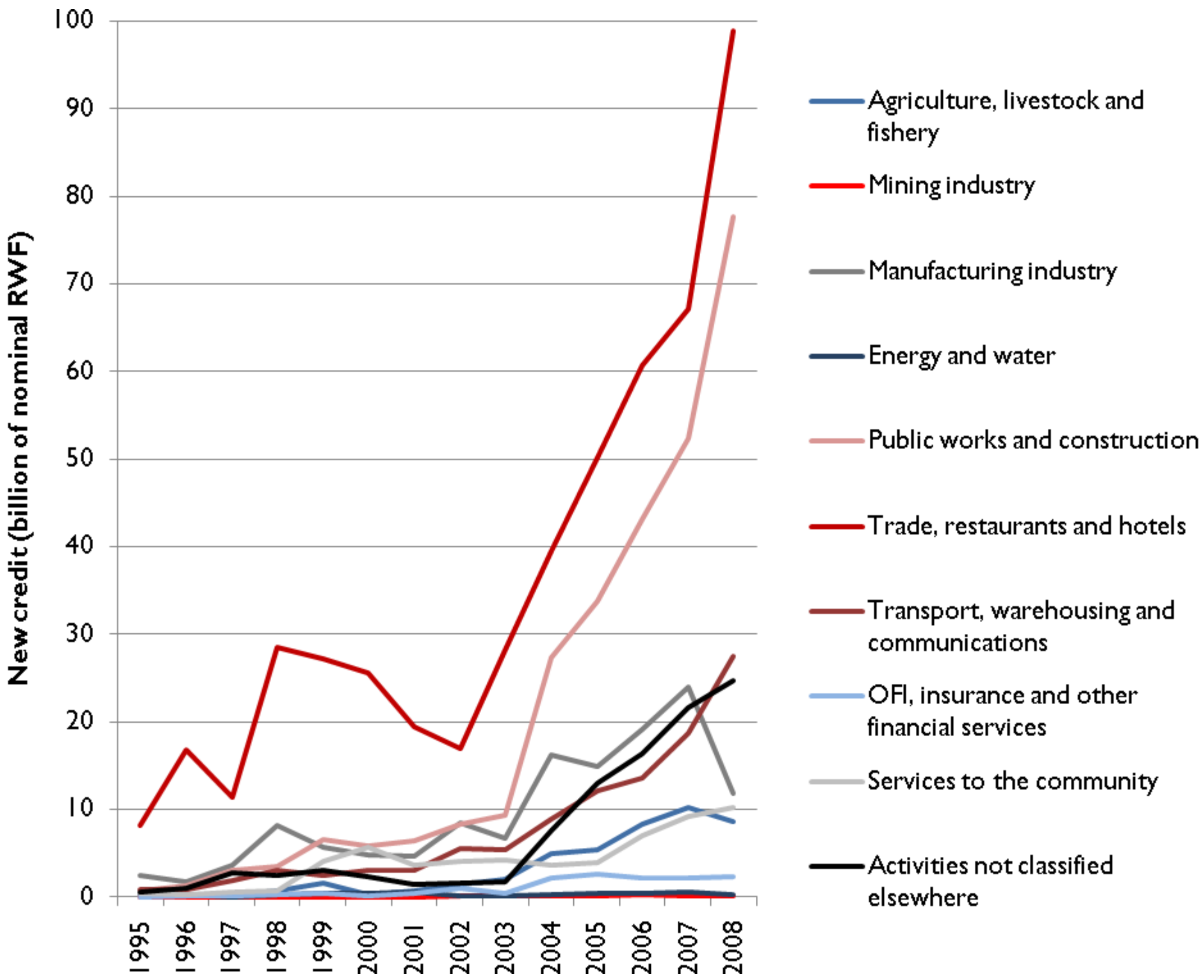
The DCA guarantee aimed to increase access to credit to investors in the coffee sector – specifically access to medium-term investment loans to build coffee washing stations and short-term seasonal loans for operating expenses. The Action Memorandum identified insufficient collateral as the chief barrier to credit and designed the guarantee to address this constraint. It did not specifically aim to reduce interest rates. The relevant metrics on which to assess the bank's performance are thus the guarantee's effects, if any, on the volume of loans to the coffee sector and the tenor and collateral requirements of guaranteed loans.

Conclusions: The Bank of Kigali substantially increased its working capital and investment capital lending to the coffee sector under the DCA guarantee. It made only one working capital and one investment capital loan to the sector prior to the DCA guarantee and then placed 11 investment loans and 7 working capital loan under the guarantee between 2004 and 2006. Since BK placed all of its loans to small coffee sector investors under the DCA guarantee, the guarantee is entirely responsible for the substantial increase in the bank's lending to the sector during the guarantee.

Findings: The DCA guaranteed loans represented only a small portion of the Bank of Kigali's total loan portfolio (from 2.0 percent in 2004 to 0.4 percent in 2008). The outstanding value of DCA loans declined steadily from a peak of 662 million Rwf in 2005 to 284 million Rwf in 2008.[47] Because the value of the bank's total loan portfolio more than doubled over the same period, the DCA loans accounted for a smaller percentage of the portfolio value over time. The Bank of Kigali did not provide detailed information about changes in its loan portfolio and its annual reports contain no consistent reporting of the distribution of its portfolio. However, aggregate data for the banking sector as a whole published by the NBR reveal that lending in trade, restaurants, and hotels and in public works and construction have accounted for most of the growth in lending nationwide during the 2005 through 2008 period (Figure 8).

[47] Reported as the outstanding value of DCA-guaranteed loans in each year to be consistent with the way the bank reports loan portfolio values.

FIGURE 8. DISTRIBUTION OF NEW CREDIT IN RWANDA, 1995-2008 (BILLIONS RWF)



While they represented a small portion of BK's total loan portfolio value (a maximum of 2 percent in 2005), the DCA loans represented a large share of the bank's loans to the coffee sector (a maximum of 32.8 percent in 2006.)[48] The DCA guarantee thus had a potentially greater influence on the bank's lending to the coffee sector than on its overall portfolio.

Table 5 summarizes selected characteristics of the bank's portfolio characteristics during the period of the DCA guarantee.

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48 The value of DCA loans represents the outstanding value of all DCA loans as of September 30 of a given year. Reporting the outstanding value, instead of the value of loans issued in a given year, is consistent with the way the bank reports portfolio values. While the September reporting date is not consistent with the December 31 reporting date for total portfolio amounts, it is the closest date on which the Bank of Kigali reported DCA loan statistics. It is also a date when seasonal loans are still outstanding (they would often be repaid by December) and thus provides a more accurate indication of annual guaranteed lending.

TABLE 5. BANK OF KIGALI LOAN PORTFOLIO CHARACTERISTICS

Year	Portfolio value of all loans (million Rwf)	Portfolio value of coffee sector loans (million Rwf)	Outstanding value of DCA loans (million Rwf)	DCA loans as percent of total portfolio value	DCA loans as percent of total coffee portfolio value
2005	33,007	4,446	662	2.0%	14.9%
2006	37,841	1,220	400	1.1%	32.8%
2007	48,659	2,634	334	0.7%	12.7%
2008	72,094	3,175	284	0.4%	8.9%

Within the coffee sector, the DCA guarantee sought to increase access to two distinct types of loans – short-term working capital loans and medium-term investment loans. The bank issued both types of loans under the guarantee (11 investment loans and 7 working capital loans) but the guarantee had very different impacts on the bank's lending behavior for the two types of loans. The following two sections discuss findings for the two types of loans separately.

Investment Loans: In the context of the DCA guarantee, investment loans are medium-term (up to five years) loans to finance capital investments. The Senior Account Relationship Manager in charge of coffee at BK at the time that USAID signed the DCA agreement with BK reported that BK had made one investment loan to the coffee sector prior to the DCA guarantee. It disbursed the loan to Cooperative Pour La Promotion Des Activities-Cafe (COOPAC), an established coffee cooperative in Gisenyi that already owned one coffee washing station built with a USAID-supported grant through ACDI/VOCA.[49] Additional evidence suggesting that BK had very limited exposure to coffee sector investment loans prior to the DCA guarantee includes:

- Only one of the six DCA borrowers (COOPAC) that the evaluator interviewed reported that they had received loans for coffee sector investments from BK prior to 2004.
- When asked specifically about sources of credit to the coffee sector prior to 2004, former employees of the two main USAID-supported technical assistance projects to the sector did not mention BK. A former PEARL project employee, who now works for the SPREAD project, reported that BRD, BPR (the two Rwandan banks that conduct a vast majority of the agricultural lending in Rwanda), and Root Capital (a U.S.-based nonprofit social investment fund) were the only institutions financing washing station construction prior to the DCA guarantee. Similarly, a former ADAR project employee, who has since built a coffee washing station, reported that it was "impossible" to get coffee sector investment loans from commercial banks prior to the DCA (he did not classify BRD as a commercial bank).

[49] Interview with the Assistant President and Export Manager of COOPAC.

- Two of the three BK employees that the evaluator interviewed[50] said that, in general, potential coffee sector investors did not have sufficient collateral to obtain loans of the size required for coffee washing stations without a guarantee facility. They implied that the bank had not made any investment loans to build coffee washing stations outside of the DCA guarantee.

The bank's limited investment financing to the coffee sector prior to the DCA guarantee and its substantial lending under the guarantee suggest that the guarantee is entirely responsible for the change in lending behavior. Bank personnel, and all six borrowers, that the evaluator interviewed, confirmed this. The bank's Marketing Manager stated that potential coffee sector borrowers who approached the bank did not have sufficient collateral for the size of loan required for the investment and that the DCA guarantee was crucial to closing this gap and providing access to credit for otherwise creditworthy borrowers.[51] All six of the borrowers that the evaluator interviewed also said that insufficient collateral was the main barrier they faced in obtaining credit and that the DCA guarantee with BK addressed this constraint.

Working Capital Loans: Working capital loans are relatively short-term loans (up to one year) that finance coffee washing station owners' purchase of coffee cherries from producers.[52] The loans bridge the gap between the purchase of coffee cherries and the sale of processed coffee – a period of up to ten months. The Senior Account Relationship Manager in charge of coffee at BK at the time that the bank entered into the DCA agreement reported that BK had issued only one working capital loan to the coffee sector prior to the DCA guarantee. The bank made this loan to COOPAC to support the investment loan it provided to the organization.[53] The seven working capital loans valued at over $1 million thus represent a substantial increase in the bank's working capital lending to small coffee sector investors.

The BK Credit Analyst that the evaluator interviewed reported that BK placed all of its working capital loans to coffee washing station investors under the DCA guarantee. However, he also reported that BK issued non-guaranteed working capital loans to the coffee sector between 2004 and 2006. This is consistent with evidence from other banks and from NBR who reported substantial non-guaranteed lending in support of the annual coffee campaign. In general, banks offer these loans to large established traders with whom they have a relationship. The non-guaranteed loans thus serve a different segment of the coffee sector than the guaranteed loans. Lending data for

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[50] The third was the Credit Analyst who gave contradictory information about the bank's lending to the coffee sector before and after the DCA guarantee.

[51] The Senior Account Relationship Manager in charge of coffee at BK at the time that the bank entered into the DCA agreement reported that the bank's loans were always 100 percent secured by tangible collateral owned by the borrower. The DCA guarantee reduced the bank's risk because it was often difficult and time-consuming for the bank to recover assets in court in cases of default. The DCA guarantee attenuated this risk to the extent that it covered losses if the bank was unable to recover assets through the courts.

[52] Commercial banks also extent working capital loans to established traders to bridge the gap between purchasing coffee and exporting it. According to bank officials and NBR personnel, working capital loans to traders are generally relatively large loans and are not place under a guarantee facility.

[53] The Assistant President and Export Manager of COOPAC confirmed this in an interview with the evaluator.

the coffee sector as a whole provided by NBR support the substantial increase in non-guaranteed working capital loans throughout the banking sector between 2004 and 2008. Bank personnel, and others, attribute the increase largely to GoR encouragement to support the annual coffee campaign. The Credit Analyst also reported that BK placed some coffee sector loans under the GoR's Agricultural Guarantee Facility (AGF) between 2005 and 2008 although larger traders were also the likely recipients of these loans.

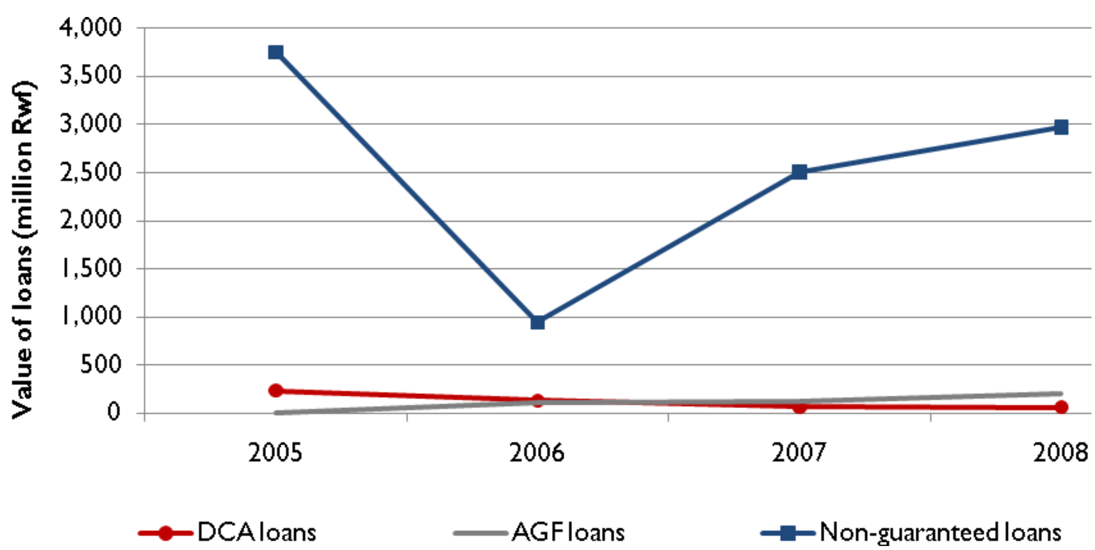
Table 6 shows the bank's reported working capital lending between 2005 and 2008 – the only years for which the bank provided data – and illustrates that guaranteed loans accounted for a relatively small percentage of all working capital loans –11.1 percent to 1.9 percent placed under the DCA guarantee and 0.0 percent to 9.3 percent under the AGF.

TABLE 6. BANK OF KIGALI WORKING CAPITAL LENDING, 2005-2008 (MILLION RWF)

Year	All Working Capital Loans	DCA Value	DCA Percent	AGF Value	AGF Percent
2005	3,988	234	5.9%	0	0.0%
2006	1,187	132	11.1%	110	9.3%
2007	2,701	68	2.5%	125	4.6%
2008	3,236	61	1.9%	200	6.2%

The variability of the bank's non-guaranteed lending caused substantial variability in the proportion of the working capital loan portfolio that was under some sort of guarantee facility. Figure 9 depicts working capital lending graphically.

FIGURE 9. BANK OF KIGALI WORKING CAPITAL LENDING, 2005-2008 (MILLION RWF)



The limited data provided by BK suggests that the guarantee did not substantially change the bank's working capital lending to the coffee sector in terms of the value of loans. It did, however, represent a significant change in lending behavior to smaller coffee station investors who had limited, if any, access to credit through commercial banks prior to the guarantee.

Evidence from the six DCA borrowers that the evaluator interviewed provided another perspective on how the DCA guarantee affected access to working capital loans. Each of the six said that BK, and other banks, required 100 percent collateral for loans and that limited collateral restricted their access to adequate levels of financing. By subsidizing the collateral, the DCA guarantee allowed these borrowers to access larger amounts of seasonal credit and ease that constraint on their businesses. Nevertheless, three of the six DCA borrowers that the evaluator interviewed reported that they could still not access enough seasonal credit to fully meet their needs even with the DCA guarantee. The former Senior Account Manager for coffee at BK stated that, even under the DCA guarantee, BK required borrowers to provide 100 percent collateral in the form of tangible assets. The DCA guarantee reduced the bank's risk by providing a quicker alternative to the slow court system for colleting at least part of the loan value in case of default. This is consistent with statements by the other BK personnel that the evaluator interviewed.

The Bank of Kigali also seemed to provide better service to coffee sector clients than BRD – the major provider of loans to the coffee sector and the single largest user of the AGF. Three of the six DCA borrowers said that BK offered easier and quicker loan application procedures and, consequently, more timely access to seasonal financing.

Outcome Level Conclusions and Findings

At the outcome level the evaluation assessed the extent to which the DCA guarantee affected the bank's non-guaranteed lending to the coffee sector since the DCA guarantee. The evaluation framework specifies the following evaluation questions at the outcome level.

Question 3a. To what extent were desired outcomes achieved, and sustained, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantee (e.g., through increased BK lending to the coffee sector and changes in loan amounts, types, interest rates, and tenors)?

Question 3b. What factors at BK were responsible for achieving desired outcomes (e.g., DCA, TA; bank staff training; revised bank strategy, procedures and structure; new management, external funding, technology, etc.)?

The Action Memorandum defines the desired outcome of the DCA guarantee as "expand[ing] access to credit to agricultural enterprises in strategic export-oriented sectors." It also identifies the coffee sector as a key initial target and BK issued all of the guaranteed loans to coffee sector investors.

The following analysis attempts to determine whether BK used the guarantee to increase access to credit for coffee sector investors. To do so, it examines how the bank's non-guaranteed lending to the coffee sector after the guarantee differs from what it would have been had the bank not received the guarantee. In the absence of quantitative portfolio data from BK, the following analysis relies on limited quantitative data supported by qualitative data from BK, borrowers, and other knowledgeable parties.

Conclusions and Findings for Question 3a and 3b

Conclusions: There is no evidence that the Bank of Kigali has changed its lending practices for investment loans to the coffee sector outside of the guarantee as a result of the DCA guarantee. It has provided no investment loans to the sector since USAID suspended the guarantee. It has provided working capital loans to some DCA borrowers outside of the guarantee but said that it did not change its usual lending practices when making the loans – that is, it required 100 percent collateral. Evidence suggests that some DCA borrowers accumulated 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: As with the previous questions, BK seems to have pursued different strategies for working capital and investment loans since the guarantee. This section thus examines working capital and investment capital loans separately.

Investment Loans: According to the bank's Credit Analyst, BK has made no investment loans to the coffee sector since late 2006 when the GoR assumed control of the bank and USAID suspended the guarantee agreement. Evidence suggests that the bank is still interested in lending to the sector and has the opportunity to extend investment loans to coffee sector investors but is, apparently, unwilling to do so without a guarantee facility. This evidence includes:

- The Bank of Kigali was negotiating a second DCA guarantee in 2006 which indicates that it had an interest in expanding its guaranteed lending to the sector and saw opportunity in doing so.
- Four of the six borrowers that the evaluator interviewed reported seeking additional investment loans to expand their operations since the guarantee suspension. Two reported applying to BK but said that the bank has not yet approved the loans. One obtained a loan from BRD that is guaranteed by the AGF. The fourth has not yet applied for a loan but expects to apply to BK. The loan applications to BK represent an opportunity for the bank to continue providing investment loans to washing station investors outside of the guarantee.
- The almost 40 percent utilization of a 2006 DCA guarantee with BCR targeted to the same sector also suggests that there was a market for the loans after 2006 (although only one of the BCR loans was for investment).

The fact that BK has not yet chosen to provide non-guaranteed investment loans to the coffee sector in spite of apparent interest and demonstrated opportunity suggests that the bank is not yet willing to extend investment loans to build coffee washing stations without a guarantee.

Working Capital Loans: Three of the six DCA borrowers that the evaluator interviewed said they had received non-guaranteed working capital loans from BK since the guarantee. Two said that they had been able to accumulate assets and were now able to access larger loans than they had under the DCA guarantee while the other borrower said that his non-guaranteed loan was smaller because he had not been able to provide sufficient collateral. This evidence suggests that BK has changed its working capital lending to small coffee station investors since the guarantee but the bank was not able to provide any credible quantitative evidence of the extent of its non-guaranteed lending outside of the guarantee.

Bank personnel and borrowers all agreed that BK had not changed its collateral requirements as a result of the guarantee. Consequently, borrowers who were unable to increase their collateral positions during the guarantee had no better access to credit from BK after the guarantee. Conversely, borrowers who were able to accumulate assets, and establish a relationship with BK, during the guarantee are able to access larger loans since the guarantee than they did under the guarantee.

The bank's Marketing Manager said that the bank evaluates loan applications based on the quality of the business plan, the borrower's ability to meet collateral requirements, and the relationship the bank has with the borrower and that these criteria have not changed since the DCA guarantee. So, the DCA guarantee does not appear to have changed BK's usual lending practices but, to the extent that the loans were responsible for some investors being able to accumulate collateral and develop a relationship with the bank, the guarantee increased the capacity of some borrowers to access credit.

Impact Level Conclusions and Findings

At the impact level, the evaluation assesses the extent to which a demonstration effect associated with the DCA guarantee affected other banks' lending to the coffee sector. The evaluation framework specifies the following specific impact level questions.

Question 5a. Have other, non-partner, banks initiated or increased lending to the coffee sector since the guarantee? How?

Question 5b. If so, what role did the DCA guarantee play as a demonstration model?

Question 5c. Have the terms of credit for export-oriented agribusiness enterprises changed since the guarantee? How?

Question 5d. If so, what role did the DCA guarantee to BK play as a demonstration model?

Questions 5a and 5b ask whether other banks' lending to the coffee sector has changed since the DCA guarantee and the extent to which a demonstration effect associated with the guarantee affected any observed change. Questions 5c and 5d ask whether the terms at which other banks lend to the coffee sector has changed since the guarantee and the extent to which the DCA guarantee affected the change. The first of the following two sections addresses questions 5a and 5b together. The second addresses questions 5c and 5d.

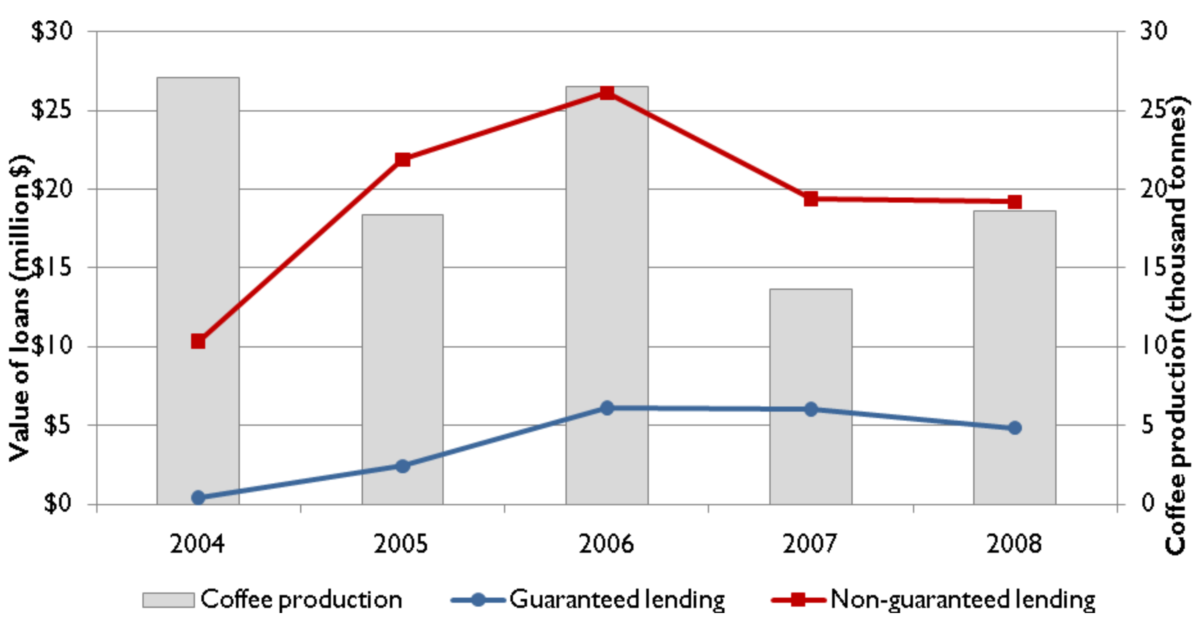
Conclusions and Findings for Question 5a and 5b

The following analysis relies primarily on sector-wide quantitative data on lending provided by the NBR supported by qualitative data collected from banks, borrowers, and reports on the coffee sector.

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 to the target sectors under one of three guarantee facilities available to the coffee sector or used donor-supported credit lines. There is no evidence that banks are providing non-guaranteed loans to support investment in coffee washing stations or to provide working capital to operate the stations. Banks still seem unwilling to lend to this sub-sector of the coffee sector outside of the protection of a guarantee or credit line.

Findings: Bank lending to the coffee sector has increased substantially since 2004. The National Bank of Rwanda (NBR) compiles data on commercial banks' lending. It also administers the Agricultural Guarantee Facility (AGF) – a GoR guarantee facility that provides loan guarantees to the agricultural sector. Data provided by the NBR reveal a substantial increase in commercial banks' lending to the coffee sector between 2004 and 2008. Figure 10 illustrates the evolution of guaranteed and non-guaranteed lending to the coffee sector between 2004 and 2008. The "guaranteed lending" series includes lending under the two DCA guarantees that supported the coffee sector – the 2004 guarantee with BK and the 2006 guarantee with BCR – and lending under the AGF.

FIGURE 10. BANK LENDING TO THE COFFEE SECTOR, 2004-2008



Source: NBR and Credit Monitoring System

The two data series in Figure 9 represent different types of loans with non-guaranteed lending focusing largely on seasonal loans to large traders and exporters. Both the GoR's coffee strategy[54] and USAID's assessment of the coffee sector[55] reported that Rwanda's commercial banks generally restrict (non-guaranteed) lending to the coffee sector to large working capital loans to established coffee traders. The Relationship Manager for Agriculture at BCR confirmed this stating that the bank placed about 80 percent of its coffee sector loans under the AGF and that its non-guaranteed loans were primarily working capital loans to large traders with which the bank had a relationship.

Limited portfolio data from BK and one other bank that provided data confirm that guaranteed and non-guaranteed loans serve very different markets. According to limited data provided by BK, the bank's average non-guaranteed loan to the coffee sector between 2005 and 2009 (the years for which the bank provided data) was over $1.9 million. This is far larger than the working capital loans placed under the DCA guarantee which ranged from $64,295 to $207,572 with an average of $101,490. Another commercial bank that the evaluator interviewed reported average non-guaranteed loan sizes of about $3.5 million. The much larger average loan size suggests that the non-guaranteed loans generally serve a very different type of client than those targeted by the DCA guarantee.

Both guaranteed and non-guaranteed lending increased since 2004. However, based on the preceding analysis, non-guaranteed loans probably did not serve the market for smaller loans to coffee washing stations targeted by the DCA guarantee. Therefore, growth in lending to the targeted sectors probably took place almost entirely under the three guarantee facilities (two DCA facilities and the GoR's Agricultural Credit Facility). Figure 6 illustrates the evolution of guaranteed lending to the coffee sector and construction of coffee washing stations. The growth in guaranteed lending closely tracks the washing station construction.

Figure 6 illustrates the separate contribution of the three guarantees. According to a Credit Analyst at BRD, the state-owned bank that accounts for a vast majority of agricultural sector lending, the GoR's policy of strongly encouraging commercial bank lending to the coffee sector coupled with the credit lines and loan guarantees developed to support the sector are the two factors most responsible for the increase in lending to the target sectors. None of the four banks other than BK that the evaluator interviewed said that the DCA guarantee had influenced their lending to the coffee sector. In fact, the BRD said that, as the leader in agricultural lending, its lending behavior in the sector influenced that of other banks.

If the DCA guarantee influenced lending to the coffee sector at all, it was through building the capacity of some borrowers to access credit. Nine of the 11 DCA borrowers have obtained additional loans outside of the DCA guarantee – five with BK and four with other banks. In at least two cases with BK borrowers, these loans have been larger than the previous guaranteed loans because the borrowers had been able to accumulate the collateral necessary to qualify for larger loans.

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[54] Rwanda Coffee Strategy Update, 2009-2012.

[55] Chemonics International. Assessing USAID's investments in Rwanda's coffee sector - best practices and lessons learned to consolidate results and expand impact; 2006 Apr.

Conclusions and Findings for Question 5c and 5d

The Action Memorandum for the 2004 DCA guarantee states that the objective of the guarantee is to increase access to short- and medium-term credit for investors in strategic, export-oriented sectors. It identifies collateral requirements and banks' aversion to the perceived risks associated with agricultural loans as the primary constraints to obtaining credit. The Action Memorandum did not address other aspects of access to credit such as interest rates. Therefore, this section focuses only on assessing whether banks have eased collateral requirements for prospective borrowers in the coffee sector.

Conclusions: The DCA guarantee focused on increasing access to credit by reducing collateral requirements and attenuating bank's risk –key constraints to credit for most coffee washing station investors. While borrowers under the three guarantee facilities available to the coffee sector received larger loans than they would have otherwise (i.e., experienced improved access to credit), there is no evidence that banks have reduced collateral requirements for loans outside of a guarantee.

Findings: There are a number of ways that banks can ease collateral requirements for coffee sector loans. These might include 1) considering rural property such as washing stations as collateral, 2) developing procedures that focus more on cash flow and less on collateral to demonstrate borrowers' creditworthiness, or 3) developing loan products that rely less on collateral than on demonstrated markets (e.g., coffee delivery contracts).[56]

The available evidence suggests that Rwanda's banking sector has not eased collateral requirements for coffee sector investors. This evidence includes:

- 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 consider rural property as collateral.
- Five of the six DCA borrowers that the evaluator interviewed agreed with this assessment of the lending environment. One however said that BCR was willing to consider a rural coffee washing station as partial collateral for a loan. The evaluator was not able to confirm this particular loan with BCR but during the evaluator's interview with the bank, the Relationship Manager for Agriculture said that the bank required 100 percent collateral for all non-guaranteed loans and used guarantees when an otherwise creditworthy borrower did not have sufficient collateral.
- Of the other parties knowledgeable of coffee sector financing that the evaluator interviewed, none said that local banks had eased collateral requirements. Two (the Coffee Processing Manager of Rwanda Coffee Development Board and the Professional in Charge of

[56] Many people who the evaluator interviewed (i.e., the SPREAD Chief of Party, the TechnoServe Coffee Initiative Director, four of six DCA borrowers) had either obtained financing for themselves or their clients from social investment funds (Root Capital, a US-based social investment fund, was the one most often mentioned) that use delivery contracts as one form of collateral for coffee sector loans. Root Capital also uses other novel approaches to ensure repayment of loans.

Agricultural Finance and Fund Mobilization at MINAGRI) specifically said they believed that banks still required loan guarantees to continue financing coffee washing stations.

Interest rates for coffee sector loans vary across banks but bank officials said that they have not changed the way they set interest rates for coffee sector loans since the guarantee. In fact, none of the five banks the evaluator interviewed said that they treat coffee sector loans differently than other loans when setting interest rates. According to three borrowers, the BRD offered lower interest rates than BK but the application process was complicated and lengthy which, it at least two cases, led to delays in receiving working capital funds and consequent delays in buying coffee cherries.

The Guarantee Agreement specified a tenor of less than five years for investment loans. On technical service provider (ADAR) and one borrower, however, said that this was not long enough to make payments affordable for many coffee washing stations.

SUMMARY OF CONCLUSIONS

Output

Even though the guarantee did not fit into any documented lending strategy at the Bank of Kigali, the bank used the guarantee extraordinarily rapidly and appropriately. The guarantee was largely, if not entirely, responsible for the substantial increase in the bank's lending to finance coffee washing station construction and the subsequent operation of the stations.

The close coordination between the guarantee and USAID-supported technical assistance projects also contributed to the high utilization rate of the guarantee and significantly reduced the bank's costs in implementing the guarantee. Technical assistance providers helped borrowers develop business plans and directed them to the bank to apply for guaranteed loans. Consequently, creditworthy customers approached the bank and the bank did not have to actively market the loans.

Outcome

This 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 but insufficient data exist to determine the extent of the lending. Evidence from former DCA borrowers suggests that their ability to accumulate capital during the guarantee period and the relationship that they built with the bank were instrumental to their success in obtaining non-guaranteed loans. The bank has not changed its usual lending practices when making the loans outside of the guarantee – 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.

Impact

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 to the target sectors under one of three available guarantee facilities or used donor-supported credit lines. There is no evidence that banks are providing non-guaranteed loans to support investment in coffee washing stations or to provide working capital to operate the stations. Banks still seem unwilling to lend to this segment of the coffee sector outside of the protection of a guarantee or credit line.

ANNEX A. BANK OF KIGALI DCA GUARANTEE EVALUATION FRAMEWORK AND INDICATORS

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTPUT LEVEL		
1a. Why did Bank of Kigali (BK) enter into the guarantee agreement? Prior to the guarantee, what was BK's lending strategy? Did it include a specific focus on export-oriented agricultural enterprises? Since the guarantee, what percent of all loans to export-oriented agricultural enterprises did BK make with and without the guarantee? Why was the guarantee necessary for BK to increase lending to the sector? 1b. How did BK implement its lending program to export-oriented agribusiness enterprises dealing in strategic export commodities? (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why? How did BK find borrowers? Did it market the guaranteed loans? If so, how? How, if at all, did BK inform loan officers about the guarantee? Did BK assess borrowers differently for guaranteed loans? How?	1a. Quantitative comparison of observed/articulated bank lending strategy to guarantee objectives Number and value of loans by sector (including agriculture and strategic export-oriented agricultural enterprises). Number and value of loans by use (i.e., capital investment, working capital) Number of loans by tenor (i.e., less than one year, less than five years) and by sector (including agriculture and strategic export-oriented agricultural enterprises). 1b. Qualitative comparison of guaranteed lending relative to usual practices on the basis of: Marketing Borrower assessment Loan approval process Loan officer information or training	Compare indicator values pre- versus post-guarantee and change in indicator values over time (trend) Statistical analysis (measures of central tendency and dispersion) Qualitative analysis of interview notes and bank documents (for lending strategy)
2a. What was the additionality of the guarantee? How did BK's lending to agricultural enterprises change under the guarantee (e.g., number, value, size, tenor, collateral requirements)	2a. Quantitative comparison over time of BK loan portfolio characteristics disaggregated by sector (total portfolio, agriculture, target sector), guaranteed/not guaranteed, and loan purpose (capital investment/working capital/other) Number of loans approved (annual)	Comparative (pre- versus post-guarantee, target sector versus total portfolio, target sector versus all agriculture, guaranteed versus non-guaranteed) Statistical analysis (measures of central tendency and dispersion)

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
2b. What was the extent to which the DCA guarantee influenced changes in BK's portfolio characteristics? How and Why?	Value of loans approved (annual) Value of outstanding loans (cumulative) Average loan tenor (annual) Average collateral requirement (annual) Average interest rate (annual) Percentage non-performing (cumulative) 2b. Number of BK personnel with relevant institutional memory who say that the guarantee was an important determinant of changes in portfolio characteristics (by characteristic (sector concentration, tenor, value, collateral requirement, interest rate)	Qualitative analysis of interview notes and bank documents (2b, how and why?)
OUTCOME LEVEL		
3a. To what extent were desired outcomes achieved, and sustained, as intended in Action Package and/or Legal Agreement, outside the protection of the DCA guarantee (e.g., through increased BK lending to export-oriented agricultural enterprises and changes in loan amounts, types, interest rates, and tenors)? Has BK continued to lend to guaranteed borrowers outside of the guarantee? Has BK issued loans to new borrowers in export-oriented agricultural enterprises outside of the guarantee? Has BK's portfolio of loans to export-oriented agricultural enterprises grown relative to the size of the entire portfolio since the guarantee? 3b. What factors at BK were responsible for achieving desired outcomes (e.g., DCA, TA; bank staff training; revised bank strategy, procedures and structure; new management, external funding, technology, etc.)?	3a. Same as 2a. 3b. Narrative description of factors responsible for increased short- and medium-term lending to target sectors…	Comparative (pre- versus post-guarantee, target sector versus total portfolio, target sector versus all agriculture, guaranteed versus non-guaranteed) Statistical analysis (measures of central tendency and dispersion) Qualitative analysis of interview notes and documents/report.

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
IMPACT LEVEL		
5a. Have other, non-partner, banks initiated or increased lending to export-oriented agricultural enterprises since the guarantee? How? 5b. If so, what role did the DCA guarantee play as a demonstration model? 5c. Have the terms of credit for export-oriented agribusiness enterprises changed since the guarantee? How? 5d. If so, what role did the DCA guarantee to BK play as a demonstration model?	5a. Number of other banks that initiated or increased lending to export-oriented agribusiness enterprises dealing in strategic export commodities since start of guarantee. 5a. Comparison over time (trend) in percent of target sector business with short- and medium-term loans (by partner/non-partner bank and guaranteed/not-guaranteed). 5b. Number of other bank officials who say that the BK's lending was responsible for their decision to increase short- and medium-term lending to export-oriented agricultural enterprises. 5c. Change over time in terms of loans to export-oriented agricultural enterprises. 5d. Number of other bank officials who say that BK's lending was responsible for changes in loan terms.	Comparison of pre- and post-guarantee lending of other banks to target sector. Analysis of responses to mini survey of bankers (if feasible) Qualitative analysis of interview notes.
EXOGENOUS FACTORS		
7a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, overall CIB changes, etc.) that may have affected access to short-term and medium-term credit for export-oriented agribusiness enterprises dealing in strategic export commodities? 7b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?		

ANNEX B. INTERVIEW GUIDES

Loan Recipient Interview Guide

1. What kind of credit was available to you before you received the loan from BK (OCIR-cafe, cooperatives, associations, in-kind, etc.)? What were the terms of the credit?
2. Before you received the loan from BK, did you have problems obtaining credit? If yes, explain.
3. Before you received the current loan from BK, had you ever received another loan for your agricultural enterprise?
   a. If yes, who did you borrow from and on what terms? Was the loan you received what you needed? Explain.
   b. If not, had you ever applied for a loan?
      i. If not, why not?
      ii. If yes, why did you not receive the loan?
4. Since you received the loan from BK, have you received other loans for an agricultural enterprise?
   a. If yes,
      i. Who did you borrow from and how did the terms compare to the loan you got from BK?
      ii. Do you think the loan from BK helped you get the next loan? If yes, how?
   b. If not, had you ever applied for a loan?
      i. If not, why not?
      ii. If yes, why did you not receive the loan?
5. How did you hear that BK might give you a loan?
6. How did you apply for the loan you received from BK (did you go to the bank yourself to ask for the loan or did ____________ (TA provider) help you obtain the loan)?
7. What were the main reasons you think you got the loan from BK?

USAID

1. Can you please briefly explain the history of the DCA guarantee (e.g., why was it needed, how does it fit into the mission's strategy, how has it performed in your view, have there been any particular issues with the guarantee, etc.)?
2. The guaranteed loans were targeted to USAID-supported projects. How did the mission engage the TA providers in the guarantee process (i.e., TA providers requested the guarantee, USAID marketed guarantee to TA providers, etc.)?
3. Why did USAID authorize so many loans below $75,000? What unexpected needs did this serve?
4. Why were so many of the loans for longer than anticipated tenors? What unexpected needs did this serve?
5. Does the Guarantee Agreement *require* that working capital loans be for less than one year and that capital expenditure loans be for less than five years (Item 15)? If so, then why are so many loans out of the required tenor range? What unexpected situation arose that made different loan terms more suitable?
6. Has Bank of Kigali been re-privatized? If so, when?
7. Why has the bank guaranteed no loans since it was re-privatized?
8. Contacts & details
    a. TA providers – who, where, and contact person
    b. Travel arrangements outside Kigali

Bank of Kigali Interview Guide

Intro: Evaluating USAID's loan guarantee program – not the performance of the Bank of Kigali. Interested in how the bank has used the guarantee, whether the guarantee has promoted additional lending outside of the guarantee coverage, and whether other bank have moved into the target sectors as a result of the experience of Bank of Kigali.

Roster of interviewees – name and position.

Questions 1a

1. What was Bank of Kigali's history of loans to agricultural enterprises before the guarantee (number, value, percent of portfolio, amount, tenor, uses, collateral)?
2. Did the bank have any specific strategy to increase lending to the agricultural sector?
    a. If yes, is the plan/strategy documented and could we obtain a copy of the documentation?
3. What constraints did the bank face in lending (or increasing lending) to the agricultural sector before the guarantee (lack of experience, high perceived risk, etc.)?
4. Did the guarantee help the bank address these constraints? If so, how?

Questions 1b

1. How did the bank identify recipients of guaranteed loans (did the bank actively seek out clients, did USAID refer clients to the bank, etc.)?
2. Did the bank use the same processes and criteria to assess and approve guaranteed loans as non-guaranteed loans? If not, how did the process and criteria differ and why?
3. Were the clients aware that the loans were guaranteed? If so, did this affect their behavior in any way?
4. Did the terms (i.e., interest rate, tenor, amounts, collateral requirements) for guaranteed loans differ from non-guaranteed loans that the bank was making at the same time? If so, how and why?
5. Did the bank train personnel specifically to handle the guaranteed loans? If so, who and how (e.g., training risk assessment, etc.)?

Questions 2a_2b

1. Has the bank been re-privatized? If so, when?
2. Why has the bank made no guaranteed loans since it was re-privatized?
3. Did the guarantee change the way the bank views and makes loans to the agricultural sector (e.g., different terms, different ways of assessing risk, different criteria for evaluating loans, etc.)? If yes, how and why?
4. Can you verify that the following data taken from the CMS is approximately correct? What do the zero values indicate?
5. Why were so many loans made under the minimum loan size of $75,000? What unanticipated need did this serve?
6. Why were so many loans made for longer than expected tenors (i.e., less than one year for working capital loans and less than five years for capital investment loans)? What unanticipated need did this serve?
7. Would the bank have made loans to these clients without the guarantee?
    a. If not, why not?
    b. If yes, would the terms have been different if they were not guaranteed loans? If yes, how and why?
8. Had the bank loaned money to any of these clients before the guarantee?
9. Has the bank loaned money to any of these clients since the guarantee? If yes, what were the terms of the loan compared to the terms of the guaranteed loan? If different, how and why?

Question 3a and 3b

1. Have the characteristics of the Bank of Kigali's loan portfolio changed since the guarantee (e.g., percent of loans by sector, collateral requirements, average size, average tenor, uses, etc.)? If yes, how and why?
2. What were the main causes of the change in portfolio characteristics?
3. To what extent was the guarantee responsible for the change (i.e., important determinant, not an important determinant)? How and why?
4. What constraints did/does the bank face in extending its lending more broadly into the agricultural sector?
5. Can you please provide the following data for each sector and year?
    a. For what sectors can the bank break out loans?

	By sector and year (2003 – 2009)
Number of loans disbursed in year	
Value of loans disbursed in year ($)	
Cumulative value of all outstanding loans ($)	
Average tenor of loans disbursed in year (months)	
Average collateral requirement of loans disbursed in year (%)	
Average annual interest rate of loans disbursed in year (%)	
Percentage of total loans non-performing (%)	
Percentage of total outstanding loan value non-performing (%)	

Beneficiary Name	Tenor (months)	Purpose Of Loan	Local Currency Amount	US Dollar Amount	Total Disbursement
KUBWIMANA Chrysologue	87	Coffee processing and export	73,220,000	$127,353	$127,353
KUBWIMANA Chrysologue	15	Working capital	47,516,560	$82,647	$82,647
COOPAC	71	Coffee processing and export	119,586,600	$210,000	$210,000
KANINGU Christian	68	Coffee processing and export	42,470,000	$74,579	$74,579
KANINGU Christian	12	Working capital	52,430,000	$92,070	$92,070
Multisectorielle d'investissement de Gikongoro (MIG)	74	Coffee processing and export	54,645,000	$95,959	$95,959
RUKUNDO Jean Bosco	67	Coffee processing and export	21,335,000	$37,465	$37,465
RUKUNDO Jean Bosco	12	Working capital	40,477,000	$71,080	$0
GATSINGA Jean Dieudonne	68	Coffee processing and export	46,830,000	$82,236	$82,236
GATSINGA Jean Dieudonne	11	Working capital	45,640,000	$80,146	$80,146
NZIRASANAHO ANASTASE	9	working capital	36,270,000	$64,295	$64,295
NZIRASANAHO ANASTASE	59	Coffee processing and export	38,174,000	$67,670	$67,670
COFII	69	Coffee processing and export	29,795,000	$52,817	$52,817

Beneficiary Name	Tenor (months)	Purpose Of Loan	Local Currency Amount	US Dollar Amount	Total Disbursement
COFII	9	working capital	46,830,267	$83,015	$0
NKORA COFFEE	9	working capital	117,095,580	$207,572	$207,572
BAVUGAMENSHI THEOBALD	8	working capital	50,000,000	$88,634	$88,634
ASSOCIATION MIG-KOAKAKA	56	Coffee processing and export	58,531,000	$103,756	$103,756
BAVUGAMENSHI THEOBALD	58	Coffee Washing Station	50,000,000	$90,396	$90,396
CAFERWA	48	working capital	51,000,000	$92,204	$92,204
CAFERWA	6	Working Capital	64,500,000	$116,611	$116,611
CAFERWA	0	Working Capital	0	$0	$0
Totals			$1,086,346,007	$1,920,505	$1,766,410

Questions 5a and 5b

1. Do other banks lend to the agricultural sector? If so, how does their lending compare to that of the Bank of Kigali (i.e., percent of portfolio, size of loans, use of loans, interest rates, collateral requirements, etc.)?
2. Do other banks offer non-guaranteed loans to the agricultural sector?
3. Have other banks increased their lending to agriculture since the guarantee? If so, how and why?
4. To what extent do you believe that the Bank if Kigali's lending in the target sector was responsible for the increased lending by other banks (i.e., an important determinant, not an important determinant)?

Questions 7a and 7b

1. What are the main factors that affected the Bank if Kigali's lending to the target sectors?
2. How important have these factors been in determining the Bank if Kigali's lending to the target sector within the guarantee and outside the guarantee? Explain?

BK Credit Analyst

1. Why did BK enter into the DCA agreement? How did the DCA contribute to BK's business strategy?
2. Review each loan and explain zeros.
3. Why were so many working capital loans smaller than the anticipated $75,000?
4. How do the businesses that received DCA loans compare to those that receive non-guaranteed loans (i.e., larger businesses, trading/export versus processing, etc.)?
5. Has BK used the Agricultural Guarantee Fund (AGF) to partially guarantee coffee sector loans?
6. If yes, why did BK choose to place the DCA loans under the DCA rather than under the AGF?
7. Is BK able to use multiple guarantees on a loan? Did it with the DCA loans?
8. What is BK's experience with the AGF (i.e., loan approval process, payment of claims, etc.)?
9. Would BK have placed the DCA loans under the AGF if it had not had the DCA available? If not, why not?
10. What, if any, training did BK provide to relationship managers or credit analysts to determine when and how to use the DCA guarantee?
11. Did BK have to actively seek out customers for the DCA loans or did all of the customers approach the bank asking for the DCA loans?
12. What factors were most important to BK when deciding whether to place a loan under the DCA guarantee?
13. Did BK reject any applications from clients who came to the bank specifically asking for DCA guaranteed loans? If so, why?
14. Does BK have any loan officers or credit analysis with specific training or expertise in agricultural lending? How many? Describe.
15. Has BKs loan portfolio in the coffee sector increased or decreased since 2004? What are the main reasons for the increase/decrease?

Other Banks

1. Does this bank make loans to the coffee sector? If yes...
2. Does it make capital investment and/or working capital loans?
3. How many of these loans are fully guaranteed by the client and how many are partially guaranteed by some type of guarantee facility? What facilities does the bank use?
4. Has the bank's lending to the coffee sector increased or decreased since 2004?
5. Can you provide the following data on the bank's loan portfolio?
6. If increasing/decreasing percent of loans to the coffee sector, what is the main reason?
7. What are the main factors that affect the bank's lending to the coffee sector? How have these factors affected lending since 2004?
8. To what extent does the lending experience of other banks in the coffee sector affect your bank's decisions to lend in the sector (an important determinant, not an important determinant)? Can you think of specific examples of other bank's successful lending to the sector that have influenced your bank's lending? Explain.
9. If no lending to the coffee sector, why not?

VALUE OF OUTSTANDING LOANS BY SECTOR (RWF X 1,000)

	2003	2004	2005	2006	2007
Total portfolio					
Working capital loans to the coffee sector					
Where client provided entire guarantee					
Where client did not provide entire guarantee					
Capital investment loans to coffee sector					
Where client provided entire guarantee					
Where client did not provide entire guarantee					

NBR

1. From 2003 to the present, what is the history of lending to the coffee sector – both for capital investment and working capital?
2. In each year, what percent of the investment was covered under some sort of loan guarantee program – both for capital investment and working capital?
3. Does NBR have these data by bank?
4. What is the record of performance (i.e., percent of delinquencies) for loans to the coffee sector?
5. What is the primary cause of delinquencies?
6. Starting in about 2000, how has the Government of Rwanda supported the coffee sector in terms of loan guarantees or other tools to enhance access to credit?
7. What is the record of delinquencies for loans under these guarantees? Is it different than those which are not under some sort of guarantee? If so, why?
8. What is the breakdown of lending in the coffee sector by type of borrower (e.g., large trader, cooperative, coffee washing station, etc.)?
9. I understand that the Government of Rwanda encourages bank to lend to the coffee sector. What, exactly, constitutes "encouragement"?
10. How receptive have banks been to lending to the sector? What has held some banks back?
11. Has access to capital for borrowers in the coffee sector changes since 2002? If so, how and why?

ACDI/VOCA

1. Please describe the types of support that ACDI/VOCA has provided to the coffee sector since 2002.
2. How many CWS has ACDI/VOCA supported with grants in each year?
3. How did the grant program work?
4. Has access to credit improved for the coffee sector since 2004? If so, how and why (capital investment, working capital, types of firms, etc.)?
5. How have coffee sector loans in general performed (by type of activity) historically?
6. What are the major constraints affecting growth of Rwanda's coffee sector?

World Bank

1. Overview of constraints to credit in the coffee sector (fully washed coffee) – 2003 to present.
2. What types of support has the specialty coffee sector received to ease credit constraints since 2004?
    a. WB support to the specialty coffee sector (fully washed coffee).
    b. Guarantee facilities?
    c. Etc.
3. Can you help me fill in gaps in the following table that shows the guarantee funds available to the coffee sector?

Fund	Purpose	Ceiling	Managed by	Disbursed by:	Funded by:	Period
Agricultural Guarantee Facility			NBR/BPR	BPR		
Rural Investment Facility		5.62 million SDR	NBR	Participating Financial Institutions?		2001-?
Coffee Season Guarantee Fund	Working capital and investment for FW coffee					2004/05
Others?						

What other factors were important in affecting access to credit between 2004 and 2007?

TA Providers

1. Can you describe your project's support to the agricultural sector?
2. In 2004, what was the situation regarding access to credit for the export-oriented agricultural enterprises (available at all, **from whom**, at what terms, etc.)?
3. What were primary constraints your clients faced gaining access credit?
4. How, if at all, has that situation changed since 2004?
5. What caused the change?
6. Have you observed other banks increasing lending to agriculture? If yes, are these guaranteed loans or non-guaranteed loans?
7. Are you aware of any non-guaranteed lending to export-oriented agricultural enterprises? If not, why not?

Suggestions for site visits?

ANNEX C. LIST OF INTERVIEWEES

Name	Title	Organization
Dennis Weller	Mission Director	USAID/Rwanda
J. Bosco Seminega	Director	Kivu Arabica Coffee Company
Clare Karemera		Banque Rwandaise de Développement (BRD)
Emmanuel Harelimana	Deputy Managing Director	CAFERWA
Jean Claude Kaysinga	Chief of Party	SPREAD
Edwige Musabe	Assistant Director of Programs	SPREAD
Emmanual Maniragaba	Coffee Processing Manager	Rwanda Coffee Development Authority
Kana Martin Mulisa	Marketing Manager	Bank of Kigali
Alice Gaju Karema	Accounts Officer	Bank of Kigali
Christian Kaningu	Director	Kay.Co Mountain Coffee
Amede Barundi Equmene	Assistant President	COOPAC
Jean Paul Niyomwungera	Export manager	COOPAC
Jean Bosco Rukundo	General Director	Shenga Coffee
Phillipe Kubwimana	Owner/operator	Socor Café
Justin Nsima	Head of SME Lending	COGEBANK
Innocent Musominari	Credit Analyst	Bank of Kigali
Valens Mwumvaneza	Agriculture Specialist	The World Bank
Renee Kayitayire	Relationship Manager/Agriculture	Banque Commerciale du Rwanda
Ben Kalkman	Chief Executive Officer	Banque Populaire du Rwanda
Christine Nyirumuringa	Senior Commercial Officer	Banque Populaire du Rwanda
Gerard Mutimura	Program Lending Manager	Banque Populaire du Rwanda
Adelaide Kagwesage	Manager, Special Funds and Lines of Credit	National Bank of Rwanda
Robert Rosengren	National Representative	ACDI/VOCA
Rhoda Rubaiza	Professional in Charge, Agricultural Finance and Fund Mobilization, Planning Unit	Ministry of Agriculture and Livestock
John Ndikuwera	Enterprises Support Services Executive	Rwanda Development Board
Paul Stewart	Coffee Initiative Director	Technoserve
Fina Kayisanabo		USAID/Rwanda
James Dargen		Rwanda Trading Company
Matt Smith	Financial Director	Rwanda Trading Company
Joe Nsano	Former Senior Account Manager for Coffee	Bank of Kigali

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