ACCESS TO FINANCE RWANDA

IMPACT ASSESSMENT OF THREE PHASE 1 PROJECTS

Introduction

Genesis Analytics, the Springfield Centre and IB&C Consulting were contracted to conduct three assessments of AFR's Phase I projects.

- Tea SACCO development project
- Promotion of agriculture insurance project
- Youth financial and non-financial services scale up project

Purpose of the evaluations

- **Comment on the degree to which the projects shifted the market**
- **Assess the effect of the projects on their beneficiaries**
- **Capture lessons that can be used to inform AFR's second phase and the broader ecosystem.**

Evaluation methods

The evaluations use the ADOPT, ADAPT, EXPAND, and RESPOND framework for systemic change to organise and analyse that data collected through focus group discussions, document reviews, and surveys.

Adopt – Adapt – Expand – Respond

PROJECT BACKGROUND
WEATHER INSURANCE

SMALLHOLDER FARMERS IN RWANDA face excessive or erratic rains and drought, which threaten their livelihoods. Farmers who farm on two hectares or less are among the most adversely affected by weather-related risks in the country. A bad season can result in the loss of an entire harvest, leaving the farmers indebted and lacking the funds to buy quality seeds to start the next growing season. Without access to agricultural insurance, farmers are unable to mitigate against agricultural losses and hence are reluctant to invest more in their farm and never make full productive use of their scarce land resources.

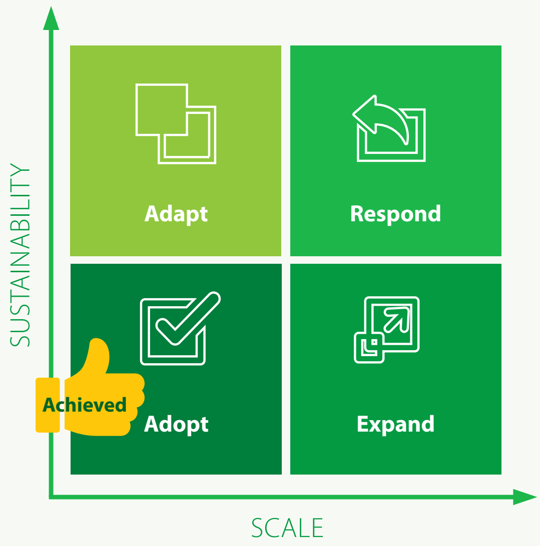
AFR together with the Syngenta Foundation for Sustainable Agriculture (SFSA) piloted an agriculture insurance project in Rwanda in early 2013. The primary objective of this project was to provide farmers with opportunities to manage the many risks that result in crop failure, through mitigating and transferring agricultural risks. It was envisaged that this would assist farmers reduce their risk profiles, mitigate income shocks, improve their confidence, and increase investments in their farming activities, leading to greater incomes. A weather index-based insurance (WIBI) product was selected as the primary risk mitigation mechanism sold to farmers. The support from AFR ended in December 2015 after selling 291 449 policies over seven seasons. At time of drafting this evaluation approximately two years have passed since the closeout of the Project.

Impact • Weather insurance

At the time of the investment, there were constraints preventing the development of a suitable insurance product for smallholder farmers. These included a lack of risk appetite from domestic insurance companies; a lack of capacity in the insurance sector to design and price suitable products; farmer knowledge; aggregation for sales and service; and, available data and technology.

Market impact

The below diagram illustrates how the Project has fairs against the AAER framework in terms of market systems change:



Although the intervention did not critically change the behaviours or practices of the partners it worked through, with the exception of a microfinance institution, AFR did assist Kilimo Salama, which was already operating similar models in other geographies, enter into Rwanda, potentially bringing in more competition into the market.

However, given the subsequent collapse of the weather index insurance product and the reversion and divergence within the insurer and aggregators respectively, we cannot conclude that the intervention has resulted in a sustainable change within the organisations post support.

Nevertheless, AFR and the Government of Rwanda are now investigating a new insurance scheme, taking cognisance of the lessons from this project.

End user impact

Theory

Farmers access the insurance product, which helps them mitigate weather related. This protection reduces their risk of experiencing the direct effects of crop failure, and in time builds their confidence in agricultural production, changing their risk perception, which increases their investments in agriculture. The insurance allows them to access (more) credit, as their agricultural investments are seen to be less risky to lenders. This in turn leads to greater farming intensity and crop yields, resulting in increased availability of food, as well as increased income from the sale of surplus produce.

Reality

- **Reach:** 98 728 in one season at its peak
- **Use:** the cumulative loss ratio for the product was 50.7%
- **Expanded access to finance:** a small proportion of farmers were able to access finance for the first time
- **Increased confidence and security:** farmers insured through cooperatives showed improved confidence
- **Reduction in financial distress:**

USD 452 815

paid out to farmers suffering from weather related crop failure

- **Better planning and more investment:** there was limited evidence of greater investment in agriculture related activities

Lessons from project

Well-informed clients: It was found that clients were not clear on the specifics of the insurance product, the terms and conditions of payout, what losses were covered, and what premiums they paid, in spite of having a reasonable understanding of the general concept of insurance. While these product matters are not only important in terms of consumer protection; a better understanding of the product could improve uptake and usage and would lead to improved farmers' confidence and decision-making on investments in their agricultural activities.

No sufficient weather index, for now: Contemporary technology will not allow for weather index insurance to be affordably rolled out in Rwanda, due to its topography and propensity to have microclimates. Until a time when weather can be tracked and indexed with greater accuracy able to take into account microclimates at an affordable price, insurance reliant on weather station data should be avoided in Rwanda.

There is a need to diversify the customer base: The previous evaluation found that the 'portfolio-lite' distribution model of the insurance was the most cost-effective manner in delivering an index-based agricultural insurance in Rwanda. We find that without One Acre Fund, which was the only 'portfolio-lite' distributor, this product would have only reached approximately 2% of the farmers it insured. Reliance on a single client for almost all sales is generally unsustainable, as the success of the product will rely entirely on the whims of that client.

Farmers need choice to invest: The logic behind increasing individual investment in agricultural activities is reliant on farmers improving their confidence in investing and being able to make that choice. Relying on an aggregator to make the investment decisions limits the strength of this impact pathway.

PROJECT BACKGROUND
TEA SACCO DEVELOPMENT

TEA IS ONE OF RWANDA'S MOST IMPORTANT CROPS. Not only is tea Rwanda's second largest agricultural export by revenue, it is also one of its largest employers. In 2013, the tea sector was the third largest employer behind coffee and the public sector. The Gatsby Foundation estimates that approximately 60 000 households gain their livelihoods through tea in the country, with 65% of the tea being grown by smallholder farmers. However, the National Agricultural Export Board (NAEB) asserts that tea production is still sub-optimal, and yields can still be significantly increased, meaning incomes of farmers can still be increased. The Wood Foundation (TWF) suggests that this sub-optimal production is a result of smallholder tea farmers not consistently plucking their plantations. TWF found that one reason behind this adverse tea plucking behaviour was a result of delays in the payments for green leaf resulting from inefficient financial intermediaries: the delay in payment made it difficult for farmers to anticipate their income flows and incentivised them to shift to other income generating activities during the month.

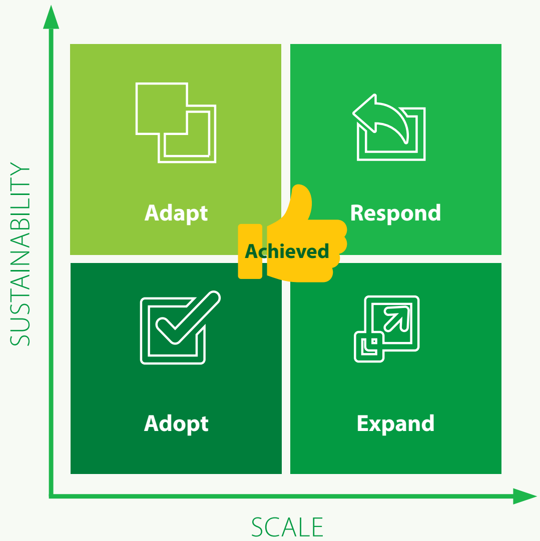
In October 2014, AFR initiated a project with the Wood Foundation, TIGO, and three SACCOs. The aim of the project was to build the capacity of three SACCOs, provide them with an electronic banking system and support the development of an e-Mobile Wallet service (e-wallet), to enhance the payment efficiencies in the disbursement of green leaf payments. This project was closed out in July 2016.

Impact • Tea SACCO strengthening

At the time of the investment, there were constraints preventing the development of a suitable insurance product for smallholder farmers. These included a lack of risk appetite from domestic insurance companies; a lack of capacity in the insurance sector to design and price suitable products; farmer knowledge; aggregation for sales and service; and, available data and technology.

Market impact

The following diagram illustrates how the Project has fairs against the AAER framework in terms of market systems change:



The project successfully changed the behaviours of the market players it targeted, in that the SACCOs now use the new banking software, tea factories pay for their leaf through an electronic system, and TIGO provides its e-wallet service through the SACCOs. However, there are some concerns around the sustainability of the use of the software in the two underperforming SACCOs, where the costs of maintaining the system are perceived as being too high. One SACCO did innovate to a degree, but quickly reached a new equilibrium where they wait for additional support. While the tea factories have also taken advantage of the new system and plan to innovate further leveraging the infrastructure laid out by the initiative.

Due to the issues with capacity within boards of SACCOs that were illuminated by this project, a law has changed that required the SACCO boards to be made exclusively of SACCO members. Now with the new law, any one can be a board member of a SACCO, which assists with the stated issue.

End user impact

Theory

It was envisaged that the improvements in SACCO efficiency and the uptake of a mobile payment system would mean that farmers would receive their payments on time and with greater predictability and have improved access to their funds. With these changes in payment predictability and ease of access, farmers would become more motivated, and be able to pluck green leaf and tend to their bushes on a continuous basis, increasing yields and quality.

Reality

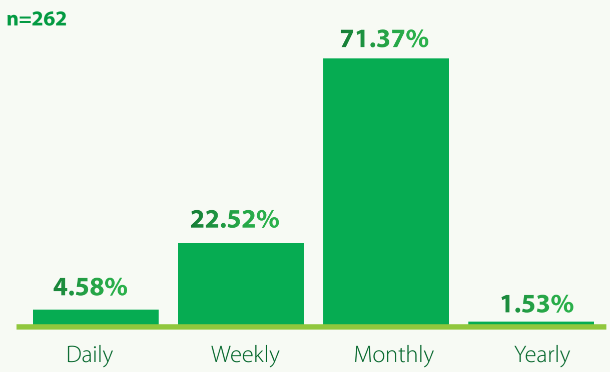
Access: One of the three SACCOs effectively provided access to the e-wallet services, while all three digitised

Use: 92% of those with access used the e-wallet services for receiving payments

Expanded access to finance: While having many other benefits, this project has not driven access to new products

Access to more services: the e-wallet take up has significantly driven the uptake of other mobile money services

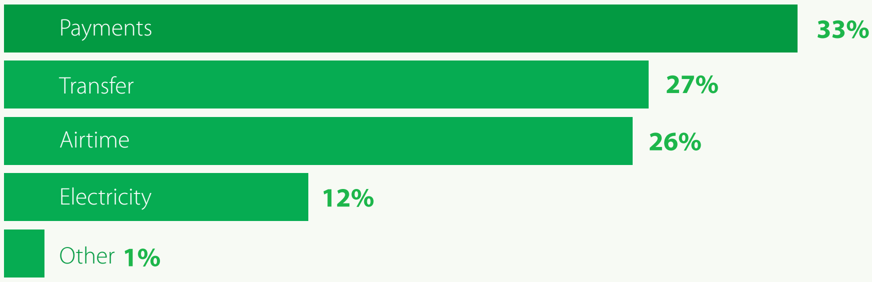
FREQUENCY OF USING MOBILE MONEY



End user impact continued

56% to 93% use mobile money

Percentage of survey respondents reported using mobile money for:



Time: delays in payments have been reduced AND 2 to 5 days are saved every month because of the new system

TIME SAVED PER MONTH

Weaker SACCOs 2.5 days

Stronger SACCOs 3.2 days

Difference 0.7 day

Significant at 5% level: Yes

Men 3.2 days

Women 2.2 days

Difference 1 day

Significant at 5% level: Yes

Farming:

53% farmers report to be better able to purchase inputs because of the new system

37% farmers report being able to spend more time on their farms

22.5% farmers report being able to plan better financially

Unintended impact: Survey data show that 70% of female respondents reported that they have more privacy as a result of the new payment system.

Lessons from project

Upgrading the green leaf payment systems has bared fruit: We find qualitative and quantitative evidence that upgrading the tea factories methods of paying smallholder farmers for their green leaf deliveries has contributed to positive outcomes. These positive outcomes extend to the SACCOs and factories.

Not all SACCOs were created equal: The inconsistency of benefits across the SACCOs is a result of two SACCOs being substantially weaker institutions. These SACCOs suffered and still suffer from internal capacity, governance, client centricity and reputation issues.

Digitising a weak institution will not make it a strong institution alone: While digitisation of SACCOs is an imperative step for their future effectiveness and efficiency among competition, it is not a panacea to issues of governance and non-transparent practices.

PROJECT BACKGROUND
YOUTH FRIENDLY PRODUCTS

APPROXIMATELY ONE FIFTH OF THE WORLD'S YOUTH LIVE ON THE AFRICAN CONTINENT, with this proportion expected to increase to as much as one third by 2050. With the proportion of youth growing rapidly it is concerning that in spite of the recent strong economic growth, the economies of the continent have failed to absorb the youth into their labour markets. This is especially true for Rwanda, where although there has been a high average GDP growth rate over the past ten years, youth unemployment has remained stubbornly high. What is more surprising is that enrolment in tertiary education has been increasing in this country over the past decade. This means that even with greater investments in human capital, youth are still unable to find employment. The youth of Rwanda have little or no access to formal credit or affordable saving opportunities, as the monthly fees and minimum balance requirements are often too great a financial barrier, which compounds these issues.

Umutanguha is a microfinance institution focused on reaching the youth and woman. In 2013, AFR provided funding for Umutanguha to scale up loan and saving products and services to 45 000 youth in three provinces of Rwanda (East, South and North). The overall objectives of this scale up project were to increase the levels of financial education among the youth, increase the Umutanguha youth clientele base and introduce innovative financial products tailored for youth including mobile saving products. The project was closed out in January 2016.

Impact • Youth friendly products

At the time of the investment, there were constraints preventing the development of a suitable insurance product for smallholder farmers. These included a lack of risk appetite from domestic insurance companies; a lack of capacity in the insurance sector to design and price suitable products; farmer knowledge; aggregation for sales and service; and, available data and technology.

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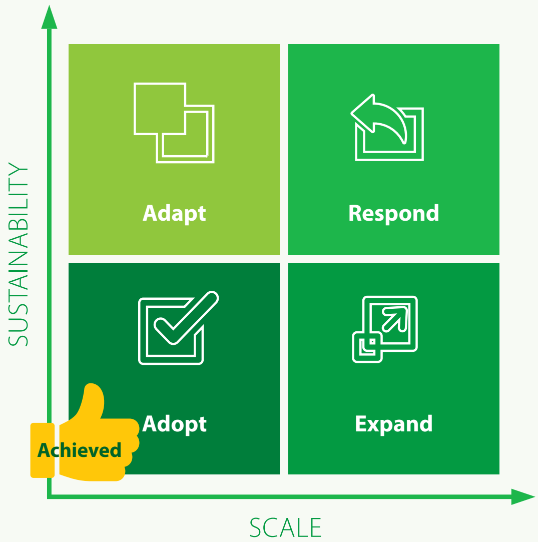

The Project has not fundamentally changed the behaviours or practices of Umutanguha. Regardless, Umutanguha continues to offer its youth-centred products and is doing well financially. The peer-to-peer financial education training model used for the project continues to be rolled out, but at a slower pace. There has been limited to no innovation post support of Umutanguha's youth offering. Umutanguha is exploring agency banking as an alternative to the mobile solution originally conceived; however, this is not youth specific and is rather part of a broader institutional strategy.

Without the behaviours of Umutanguha fundamentally changing or adapting post-intervention, the Project had a limited impact on the market, but rather lead to a discrete expansion of Umutanguha's youth client base.

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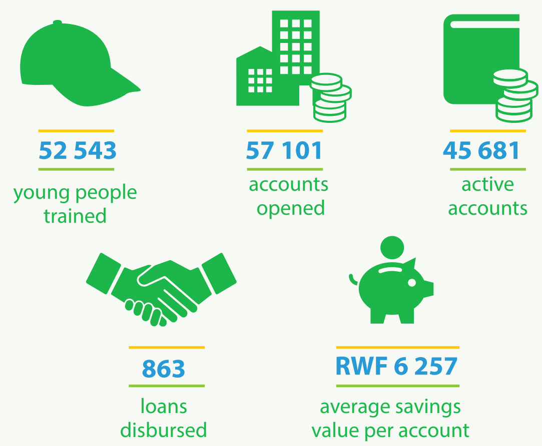
End user impact

Theory

The primary objective of this project was to expand of an already successful Project. The original project's vision was to expand access of financial products to the youth, while educating them on how best to manage their finances. The addition of the mobile solution and the digital finance module to the financial education content was meant to drive further uptake of loans, savings and leasing products from Umutanguha amongst the youth.

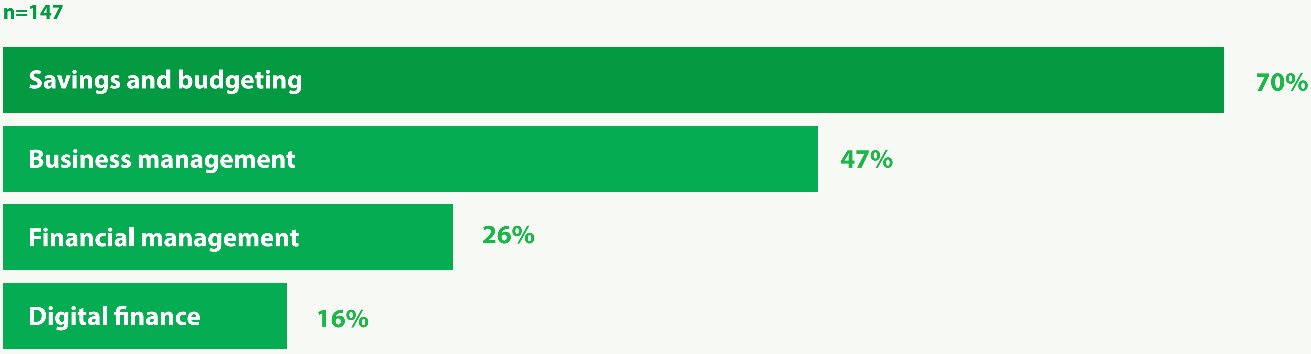
Reality



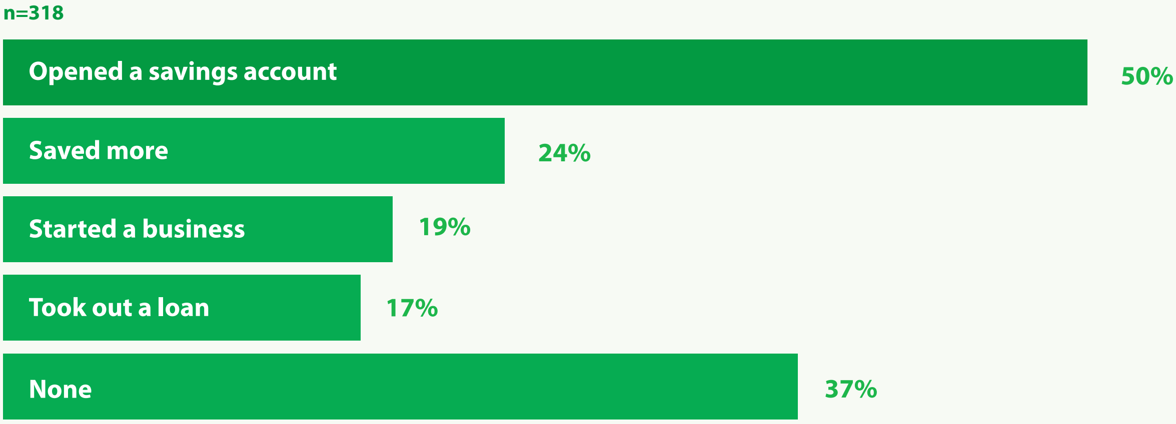
- **Reach:** 52 543 your trained and 57 101 opening savings accounts
- **Use:** of these accounts, 45 681 are active with an average of RWF 6 257 per account
- **Expanded access to finance:** 863 loans disbursed to youth
- **Mobile money:** the mobile savings product was not launched

End user impact continued

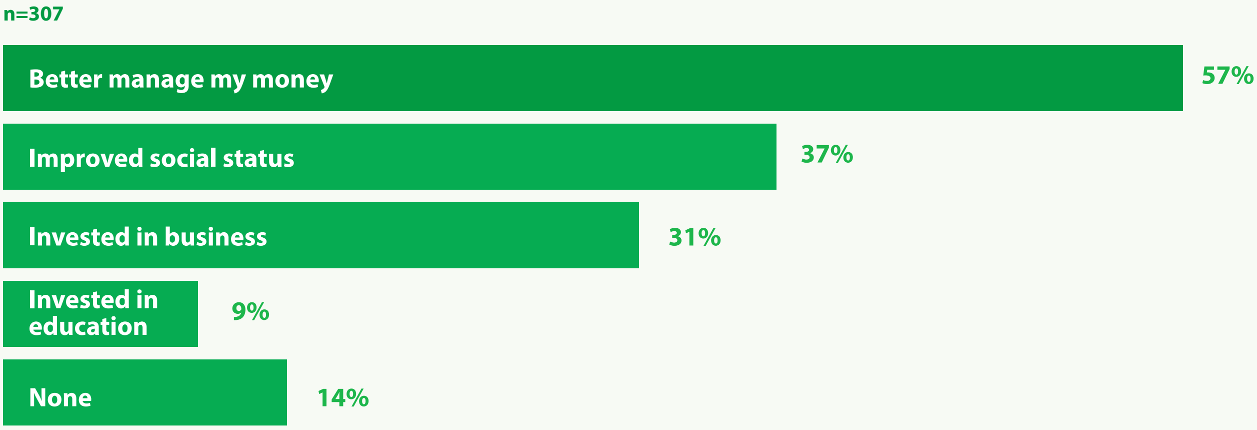
What was most useful of the training: Savings and budgeting



What did the youth do as a result of the training: Financial education drives product uptake



After opening a savings account what has changed in their lives: they are better able to manage their money



Lessons from project

The peer-to-peer model has shown to be successful in marketing product with low costs: Given the large amount of people opening accounts after attending the financial literacy training run by peers, it could be viewed as a successful marketing strategy with real business value.

Lessons for AFR

Strategic Lessons

Although AFR has evolved beyond the organisation it was when it conceptualised and funded this project, there are still broad lessons that should be reflected on as AFR embarks on Phase II and sources, designs and funds new projects. This section presents strategic recommendations for AFR:

Right-sizing: It is important that AFR considers constraints in the sector from a strategic level and not attempt to engineer a singular project to address all of these.

Take a portfolio approach: In line with the above, it is advised to *"start races, rather than picking winners"*: in supporting market players, AFR should take a portfolio approach where it works with multiple players concurrently and attempts different strategies with each to maximise the potential to learn and also achieve impact.

Work across the sector: In addition to considering multiple projects and working with various partners, it is advised that consideration be given across the whole sector during strategy and programme design. It is important to establish what a functioning and inclusive market would look like, and what is stopping this from occurring in the supporting functions and rules that govern it. Once these have been established AFR should establish clear "market-making" roles and coordination functions for addressing the constraints rather than relying on a single market promoter.

Engage and advocate: While piloting new ideas is a powerful method to catalyse change, it is important to think of scaling beyond the pilot and use what is learnt through the pilot to engage, advocate, shape, encourage, and perhaps even support others to respond. This should be considered and planned for during the design phase but be dynamic and able to adapt to changing contexts.

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