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## Rice Cooperative Receives Loan Through Inventory Credit System

Aug. 17, 2011 – KAMONYI, Rwanda – Rice farmers belonging to the Mukunguri Rice Growers Cooperative in Rwanda can now access credit using their harvest as a guarantee for the borrowed funds.

The cooperative has received a loan of Rwf 150 million (US \$252,000) from the Rwanda branch of Kenya Commercial Bank (KCB) through an inventory credit system facilitated by IFDC's Catalyze Agricultural Intensification for Social and Environmental Stability (CATALIST) project. Since its inception, the CATALIST project has promoted the inventory credit system in the Great Lakes Region of Central Africa.

In Rwanda, commercial banks account for only three to four percent of loans to the agriculture sector. KCB is likely the first commercial bank in the country to finance an inventory credit system (also known as "warrantage" in French). An inventory credit system allows farmers to store agricultural commodities after a harvest until prices increase, thus raising their incomes. The stored crops are used as collateral for loans from banks or micro-finance institutions. The farmer's harvest remains stored in a warehouse or silo until the loan is repaid.

By giving farmers access to credit when they need it most, this short-term system protects farmers against low prices. The need for – and lack of – credit can force farmers to sell their crops to the first buyer at harvest, often at a low price due to ample supply. Then, the farmer must buy food and seeds a few months later at prices that erode or even erase any profit made from the harvested crops. A key advantage of the inventory credit system is that farmers can sell their crops in the months after the harvest, when market prices are higher.

The system is appealing to banks and other financial institutions because they can sell the crops if the borrower fails to repay the loan. Also, the crops increase in value with time.

"We intend to reach out to farmers through such incentives," said Pie Eugene Rubagumya, KCB branch manager in Muhanga, in an article by *The New Times*. "Such loans are available as long as cooperatives exhibit a high level of management and accountability."

To improve rice quality, the cooperative plans to build a rice processing factory and modern storage facilities. Farmers will be able to request more funds from KCB in the future.

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