

Rwanda : Private Sector Access to Finance for Post-COVID Recovery and Resilience

1. Project Information

Project ID:	P000483	Instrument ID:	L0483A
Member:	Rwanda	Region:	Eastern Africa
Sector:	CRF-Finance/Liquidity	Sub-sector:	N/A
Instrument type:	<input checked="" type="checkbox"/> Loan:83.30 Euro million <input type="checkbox"/> Guarantee	Lead Co-financier(s):	World Bank
ES category:	FI	Borrowing Entity:	Ministry of Finance and Economic Planning, Rwanda
Implementing Entity:	Development Bank of Rwanda		
Project Team Leader:	Suzanne Shaw		
Responsible DG:	Gregory Liu		
Responsible Department:	INF2		
Project Team Members:	Christopher Damandl, Project Counsel; Shodi Nazarov, OSD - Financial Management Specialist; Yang Shuai, OSD - Environment & Social Development Specialist; Guoping Yu, OSD - Procurement Specialist; Furu Hu, Project admin		
Completed Site Visits by AIIB:	Jun, 2022 In-person participation to World Bank (WB) led Implementation Support Mission during 27-30 June, 2022 Jun, 2023 In-person participation to WB-led Implementation Support Mission during 18-23 June, 2023		
Planned Site Visits by AIIB:			
Current Red Flags Assigned:	0		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2023/03		

2. Project Summary and Objectives

The objective of the Project is to facilitate economic recovery and resilience in Rwanda by addressing the financing constraints of private sector businesses post COVID-19.

The Project provides financial support to the government's Economic Recovery Fund (ERF), a Fund created to support businesses most significantly affected by COVID-19 in Rwanda, and is comprised of 4 components:

Component 1 – Liquidity and recovery facility

Component 2 – Risk-sharing facility, to provide partial credit guarantees and de-risking mechanisms to MSMEs, in support of Component 1

Component 3 – Institutional strengthening and implementation, in support of Component 1

Component 4 – Contingency Emergency Response Component

AIIB is financing sub-component 1c, which comprises a working capital and investment credit line - AIIB funds support the investment credit line only (the Investment Window). The Ministry of Finance and Economic Planning (MINECOFIN) is the coordinating entity of the Project. The Development Bank of Rwanda (BRD) is the implementing agency for sub-component 1c of the Project. Under component 1c, BRD will provide direct lending, and on-lending via commercial financial institutions, to large companies and SMEs, for working capital and investment financing in priority growth sectors of the economy.

3. Key Dates

Approval:	Jun. 24, 2021	Signing:	Jul. 29, 2021
Effective:	Dec. 27, 2021	Restructured (if any):	
Orig. Closing:	Dec. 31, 2027	Rev. Closing (if any):	

4. Disbursement Summary (EUR million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	58.99	Most recent disbursement (amount/date):	21.94/Sep. 09, 2022
Undisbursed:	24.31	Disbursement Ratio (%) ¹ :	70.82

5. Project Implementation Update

The component financed by AIIB, the Investment Window (IW), is implemented through direct lending from BRD to business entities, as well as through on-lending from BRD via participating financial institutions (PFIs), namely commercial banks, to business entities. The total amount of financing (WB and AIIB combined) for the IW is 150 MUSD or roughly 125 MEUR at the time of AIIB loan approval. At least 65% of the IW is envisaged to be channeled through on-lending, and 35% through direct lending. As of the end of 2Q2023, 89% of funds disbursed under the IW were through on-lending and 11% through direct lending from BRD. As of the end of 2Q2023, the implementing entity, BRD, had received and approved 115 applications for IW loans: 13 via direct lending and 102 through on-lending channels. The total amount of project funds in loans approved (i.e. loans assessed as meeting the IW criteria) by BRD as of 2Q2023 is 128 billion RWF (approximately 105 MEUR, based on an approximate average exchange rate of 1EUR = 1218 RWF for 1Q-Q22023), of which 114 billion (93.6 MEUR) originated through on-lending institutions and 14 billion (11.5 MEUR) via direct lending. Approximately 60% of IW financing is targeted for SMEs and 40% for large enterprises. As mentioned in previous reports there has been a large volume of loan applications from large companies, and relatively few from SMEs. This trend is also reflected in the disbursements to business entities – as of the end of 2Q2023, 75% of the amount allocated for large businesses had been disbursed, whereas only 3% of the SME allocation had been disbursed. The total amount in loans applied for by large businesses exceeds the allocation, however, disbursements to business entities have not

¹ Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

yet exceeded the allocation. BRD will discontinue disbursements to large companies once the allocation amount for large businesses has been reached. BRD has been continuing its awareness raising activities amongst SMEs. BRD has also hired a firm to build capacity amongst SMEs to better position them to be eligible for IW loans and increase their uptake. Under component 3 of the project, Institutional Strengthening, and Implementation Support. BRD hired a consultancy firm to carry out an assessment on the low uptake of IW funds by SMEs.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Working capital and investment credit line	The physical progress of this component is reasonably good. The key area to track and improve will be the uptake of IW loans by SMEs.	Following the suggestions and guidance provided by the WB and AIIB during the sample ES due diligence review, BRD continues to support the review and development of site specific ESIA's of its sub-borrowers to meet the WB ESS requirements. BRD conducted supervision monitoring for 5 projects in Q1 2023 and rated the compliance level with E&S requirements in all sites as satisfactory.	There are no procurement activities under this component

Financial Management:

The Financial Management (FM) arrangements for BRD continue to be satisfactory. The FM capacity at BRD is adequate, and a financial management specialist and an accountant are in place. Detailed FM guidance was developed and documented in the Project Implementation Manual (PIM). The funds flow, in USD/JPY from the WB and in Euro from AIIB, into three segregated designated accounts (DA) held at the Central Bank of Rwanda (BNR). The Project uses the interim financial report (IFR) based method of disbursement. The Project also maintains one pooled RWF Project Bank Account at the Bank of Kigali into which all funds from the three DA are transferred. The IFRs are prepared following the modified cash basis of accounting and are based on the IFR Reporting template provided by the WB. The Project IFRs are prepared and submitted through the WB's client connection system before the deadline, which is 45 days after the end of the quarter. All submitted IFRs were approved by the WB and shared with AIIB. BRD has an internal audit unit of four staff, and the unit conducts an annual review of project activities. The internal audit report for FY2022 with the satisfactory rating was submitted in June 2023. The first audit report for the period ended on December 31, 2022 was submitted on time before the submission deadline of June 30, 2023. The audit was conducted in accordance with International Standards on Auditing (ISAs), by Ernst & Young Rwanda Limited. The Auditor expressed an unqualified audit opinion on the financial statements of the project for the reporting period. The audit report is acceptable to the Bank.

6. Status of the Grievance Redress Mechanism (GRM)

The recipient through MINECOFIN requires all implementing agencies to ensure that GRM procedures are developed and adopted. BRD already has an existing institutional GRM in place and the GRM is functional. As of June 30, 2023, there have been 12 grievances received in relation to two sub-projects. One sub-project (which accounted for 9 of the 12 grievances) involves the manufacture of construction materials for housing: 6 of the grievances relate to (substantiated) claims of damage caused by soil run-off from the industrial site, due to rainfall; 3 grievances relate to claims of damage to walls of houses in the vicinity due to compaction activities at the site (ultimately this damage was not found to be due to the sub-project activities). The other sub-project (which accounts for the remaining 3 grievances) involves the extraction of clay and manufacture of clay bricks: 1 grievance related to blocking of water channels in the marshland due to clay extraction; 1 grievance related to a lack of safety signs near borrow pits; and 1 grievance related to indirect interference of sub-project activities with agricultural activities in the vicinity. All 12 grievances have been resolved. The GRM related report has been provided as requested and found satisfactory.

As indicated in the PIM, GRMs shall also be set up at sub-project and PFI levels and communicated to workers and affected people by BRD and its sub-borrowers. BRD has proposed a GRC structure for PFIs and direct borrowers and has hired a GRM specialist. Following the efforts in the first quarter of 2023, the implementation of the GRM continues to focus on the follow up of collected grievances as well as continued facilitation of the creation of GRCs at PFI level. As of June 30, 2023, consultation with all 9 PFIs on Grievances management procedures had been conducted, and PFIs have started the nomination of the members of the GRC. E&S training, including GRM, has also increased the awareness of environmental and social aspects, 8 GRCs were in place by the end of June 30, 2023.

7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)

The rate of disbursement from BRD and PFIs to business entities continues to improve as a result of the improvements in the ES due diligence performed by BRD, which has required less intervention and follow up by WB/AIIB prior to disbursement. Currently, the main challenge facing BRD is the low number of SMEs applying for IW loans.

Remarks:

None.

Project Objectives Indicators	Indicator level	Unit Measure of	Cumulative Target Values															Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		End Target					
			Year	Value	Target	Actual	Year	Target	Actual											
Businesses Receiving sub-loans under Sub-component 1c	Project	number	2021	0	N/A	0	60	21	119	53	209		268		2026	300		quarterly	BRD	
Volume of loans provided under sub-component 1c	Project	million USD	2021	0	N/A	0	20	27.5	40	53.8	70		80		2026	100		quarterly	BRD	

Project Intermediate Indicators	Indicator level	Unit Measure of	Cumulative Target Values															Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target	Actual			
Non-Performing Loans in the BRD sub-loan portfolio	Project	percent	2021	4.5	N/A	4.5	5	loans not yet due	5	loans not yet due	5		5		2026	5		quarterly	BRD	
Funds disbursed to priority (AIIB Group 1) sectors under sub-c	Project	percent	2021	0	N/A	0	60	not available	60	100	60		60		2026	60		quarterly	BRD	
Women Inclusive firms receiving sub-loans	Project	percent	2021	18	N/A	18	35	not available	35	49	35		35		2026	35		quarterly	BRD	
Average tenor for investment loans under sub-component 1c	Project	years	2021	8	N/A	8	10	6	10	8.8	10		10		2026	10		quarterly	BRD	