

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	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:	Furu Hu, Team Member; 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 mission meetings held for WB-led Implementation Supervision Mission during 27-30 June, 2022		
Planned Site Visits by AIIB:			
Current Red Flags Assigned:	1		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2010/05		

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):	21.90/Sep. 09, 2022
Undisbursed:	24.31	Disbursement Ratio (%) ¹ :	70.82

5. Project Implementation Update

The project coordination team at MINECOFIN is fully staffed and operational. The project started disbursing in 2Q2022.

The component financed by AIIB (sub-component 1c) - the Investment Window - is implemented through direct lending from BRD as well as through on-lending from BRD via PFIs (commercial banks). At least 60% of the Investment Window is envisaged to be channeled through on-lending, and 40% through direct lending. As of the end of 3Q2022, 90% of funds approved under the Investment Window, were for loan applications via PFIs, and 10% directly from the BRD.

As of the end of 3Q2022, the implementing entity, BRD, had received and approved 81 applications for Investment Window loans: 9 via direct lending and 72 through on-lending channels. The total amount of funds applied for up to end-3Q2022 under the Investment Window is 107.5 billion RWF (approx. 99 MEUR, based on an average YTD exchange rate of 1EUR = 1086RWF as at 21 Nov. 2022, date of report writing), 10.8 billion RWF (9.97 MEUR) via direct lending and 96.7 billion RWF (89.1 MEUR) via on-lending institutions.

The profile of businesses submitting applications for loans through PFIs, based on their size, is as follows: 55 large, 17 SMEs (10 medium, 7 small). Approximately 60% of the total loan portfolio is expected to go to SMEs, and 40% to large businesses. While there has been significant appetite for the Investment Window (IW) amongst large companies, the appetite amongst SMEs (as demonstrated by the number of applications received) is

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.

relatively low. The implementing entity, BRD, will be reinforcing awareness-raising and capacity building activities amongst SMEs during the next phases of the project to try to increase their appetite for the IW, and also better position them to be eligible for IW loans, based on the IW criteria.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Working capital and investment credit line	The physical progress of this component is according to plan.	<p>As of end-September 2022, BRD had approved 9 sub-loans for direct lending, and approved 9 commercial banks for participation as PFIs in the SME Facility. BRD conducted Environmental and Social Due Diligence (ESDD) for all PFIs and presented the ESDD reports of 5 PFIs for sample review by the World Bank (WB) and AIIB. BRD also conducted Environmental and Social (E&S) assessments for all direct lending borrowers and so far 3 projects have received disbursements.</p> <p>During the joint Implementation Support Mission carried out June 27-30, 2022, the mission noted that BRD had developed the necessary E&S instruments and recruited required E&S staff, including two E&S safeguard specialists and one GRM specialist. The AIIB team pointed out, and it was noted by the mission, that a disbursement had been made to one sub-project ADHI before BRD approved its final ESIA. The AIIB team also raised concerns on sub-project level OHS and zoning issues. After the mission and subsequent detailed ES discussions initiated by AIIB, adjustments were requested to the Project Implementation Manual to explicitly state the requirement for ESIA review prior to disbursements for direct lending to ensure compliance with the World Bank's ESF (this requirement is stated in the ESF but was not made explicit in the PIM, and was thus overlooked by BRD). The WB and AIIB teams also requested regular ES pipeline reporting by BRD to closely monitor</p>	There are no procurement activities under this component

		the ES risks of both direct and on-lending financing applications. Overall, the anticipated E&S risks at sub-project preparation stage are still valid and the capacity of PFIs to review/assess as well as handle the risks is yet to be determined. Some PFIs are still in the process of finalizing their ESMS with the support of BRD.	
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Financial Management:

The Financial Management arrangements for BRD continue to be satisfactory. The FM capacity at BRD is adequate. The overall disbursement amount is Euro 58,994,807 as of November 18, 2022. The WB provided a waiver for the audit of activities carried out by BRD in FY2021. AIIB has followed the same approach and did not request the project audit for FY2021, as there were no disbursements in FY2021. These activities shall be audited as part of the period ending December 31, 2022, with the audit report being submitted by June 30, 2023. The project submitted its first quarterly consolidated IUFRR for 2Q2022; this was reviewed in September 2022 and found to be satisfactory to AIIB. The detailed FM guidance was developed in the PIM and further updated during 2Q2022. There are two finance staff members responsible for project FM arrangements in place at BRD. Both finance staff attended training sessions on WB FM and Disbursement requirements in March 2022.

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 disclosed. No grievance has been received so far.

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. In April 2022, BRD conducted a training for 16 participants from 8 PFIs and BDF and trainings for GRCs members is planned in September 2022. AIIB is closely monitoring the GRMs and their functionality with the World Bank team through regular ES reporting; so far, no grievances have been reported.

7. Results Monitoring

AIIB financed sub-component 1c. of the project, the Investment Window, implemented by BRD. Investment Window loans may be made by direct lending from BRD to businesses, or via on-lending to commercial banks (PFIs) who make sub-loans to businesses. Approximately 35-40% of Investment Window funds are expected to be direct lending, and 60-65% channeled through on-lending. With respect to direct lending, by the end of Q3, BRD had approved nine loan applications, totaling 10.8 billion (approx. 9.97 MEUR); of the nine applications, three have been disbursed to the amount of 7.32 billion RWF (approx. 6.7 MEUR). With respect to PFI on-lending, BRD approved a total envelope of 96.7 billion RWF (89.1 MEUR) for 72 applications received through nine PFIs: Bank of Kigali, KCB Bank (formerly BPR Bank), NCBA, I&M, RIM, GT Bank, Equity, Ecobank, and CogeBanque. Of the committed funds, 41.1 billion RWF (37.83 MEUR), or 42%, had been disbursed to three commercial banks (Bank of Kigali, KCB Bank and NCBA). While disbursement of the project progress is good, and even above target, the impact is not yet reflected in the indicators, in particular as it relates to funds disbursed for onlending via PFIs. With respect to the onlending process, PFIs apply

to BRD for funds on the basis of their pipeline, the PFI pipeline is then reviewed and approved by BRD. BRD subsequently submits a disbursement request to WB and AIIB, and receives funds, based on the approved PFI pipeline. Subsequent disbursement from BRD to PFIs is contingent on the signing of a participation agreement between BRD and the PFI, and onward disbursement of funds from PFIs to businesses is contingent on internal procedures and timelines of the PFIs themselves (internal PFI procedures are estimated on average to take 30-45 days). As a result of the in-between steps, there is a marked delay between the WB/AIIB disbursement and the disbursement to businesses (final beneficiaries) for PFI-routed funds. The result is that there will be a delay in the reflection of the project's impact with respect the number of businesses receiving sub-loans (PDO indicator 1 of the project). For instance, the results indicate that only 4 businesses have received sub-loans, whereas in fact 81 have been approved (72 of which via PFIs) and will in due course actually receive sub-loans. Of the funds disbursed to BRD for onlending to PFIs for 72 beneficiaries, BRD has onlent roughly 40% thus far, intended for an envelope of 26 beneficiaries of which only 1 is reflected in the results so far. BRD has signaled some challenges with respect to the signing of participation agreements with PFIs which contributes to delays in onward disbursements from BRD to PFIs (and thus also to beneficiaries). Another reason for the delay in disbursement to end-beneficiaries is the deficiencies in the ES due diligence (DD) performed by BRD on PFIs, as revealed by the WB/AIIB ES DD review process. Due to the deficiencies identified, WB and AIIB have had to request clarifications, revisions and reinforcements in BRD's ES DD process which has delayed WB/AIIB's approval for BRD to disburse. In the first months of the project, WB and AIIB have been working closely with BRD to improve the ESDD and the implementation of ES measures by PFIs. AIIB expects that this accompaniment provided by WB/AIIB to BRD will improve and accelerate future ESDD. WB and AIIB are in continuous dialogue with BRD to assess and address delays in the disbursement process. The project team expects that the measures thus far implemented will reduced the lag in the reflection of results at the end-beneficiary level in the coming quarter. It should also be noted that the number of beneficiaries may be negatively impacted in the short and medium term by the low participation of SMEs (who would be expected to engage in a higher number of smaller value loans, compared to large enterprises) in the Investment Window compared to large businesses. In response, intensive awareness-raising activities have been launched in rural areas. Separately, results are not yet available for women-inclusive businesses - PFIs (through which the majority of loans are being channeled) have just started disbursing proceeds for sub-loans to businesses, as such, data has just started being gathered for this indicator. As new PFIs are onboarded, there may still be some time needed to implement the systems to gather data on this indicator, however once all PFIs are onboarded the reporting of this indicator should be in conformity.

Project Objective Indicators #1

Businesses receiving sub-loans under sub-component 1c.

Year	Target	Actual	Comments, if any
Dec. 31, 2022	60	4	Three businesses have received (direct) loans from BRD, one has received via a PFI. Eighty-one businesses have been approved for loans (72 via PFIs). The reason for the relatively low number of businesses receiving sub-loans versus actual number of approved sub-loans is the current slow rate of disbursement to final beneficiaries. The reasons for this are outlined in the Summary, together with the mitigation measures.

Project Objective Indicators #2

Volume of loans provided under sub-component 1c. (MUSD)

Year	Target	Actual	Comments, if any
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Dec. 31, 2022	20	4.6	The relatively low volume of loans is consistent with the low rate of disbursement as discussed in the Summary. In terms of loans approved, the amount is roughly 99 MUSD
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Intermediate Result Indicators #1

Non-performing loans in the BRD sub-loan portfolio (%)

Year	Target	Actual	Comments, if any
Dec. 31, 2022	5%	N/A	Not yet applicable as first payments not yet due on the loans made

Intermediate Result Indicators #2

Funds disbursed to priority (AIIB Group 1) sectors under sub-component 1c. (%)

Year	Target	Actual	Comments, if any
Dec. 31, 2022	60%	61.3	

Intermediate Result Indicators #3

Women-inclusive firms receiving sub-loans (%)

Year	Target	Actual	Comments, if any
Dec. 27, 2022	35%	0	Assessment of this indicator will be done when PFIs (through which the majority of loans will be channeled) have started disbursing proceeds for sub-loans to businesses, and collecting the associated data.

Intermediate Result Indicators #4

Average tenor for investment loans under sub-component 1c. (years)

Year	Target	Actual	Comments, if any
Dec. 27, 2022	10	10	

Remarks:

None.