PD000483-RWA
June 24, 2021

Project Document
of the Asian Infrastructure Investment Bank

Sovereign-backed Financing

Republic of Rwanda

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

(under the COVID-19 Crisis Recovery Facility)

Currency Equivalents
(As of June 15, 2021)

Currency Unit – Rwandan Franc (RWF)
RWF1.00 = USD0.0010046
USD1.00 = RWF 995.4478

Borrower's Fiscal year
July 1 – June 30

Abbreviations

AIIB	Asian Infrastructure Investment Bank
AMIR	Association of Microfinance Institutions of Rwanda
AML	Anti-Money Laundering
ALCO	Asset and Liability Management Committee
BDF	Business Development Fund
BLW	Bridge Lending Window
BNR	National Bank of Rwanda/Banque Nationale du Rwanda
BRD	Rwanda Development Bank/ Banque Rwandaise de Développement
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditures
CAR	Capital Adequacy Ratio
CE	Citizen Engagement
CERC	Contingency Emergency Response Component
CFA	Co-financing Framework Agreement
CLA	Co-Lenders' Agreement
COVID-19	Coronavirus Disease 2019
DA	Designated Account
DFATD	Department of Foreign Affairs, Trade and Development (of Canada)
ERF	Economic Recovery Fund
ERP	Economic Recovery Plan
ES	Environmental and Social
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework (of World Bank)
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESP	Environmental and Social Policy (of AIIB)
ESS	Environmental and Social Standards
EUR	Euro
FC	Financial Crime

FCIDD	Financial Crime and Integrity Due Diligence
FI	Financial Intermediary
FM	Financial Management
FT	Financing of Terrorism
GBV	Gender Based Violence
GDP	Gross Domestic Product
GOR	Government of Rwanda
GRiF	Global Risk Financing Facility
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Services
IA	Implementing Agency
IDA	International Development Association
IFR	Interim Financial Report
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JPY	Japanese Yen
KYC	Know Your Client
LCR	Liquidity Coverage Ratio
LL	Limited Liability
LMP	Labor Management Procedure
M	Million
M&E	Monitoring and Evaluation
MFI	Micro-Finance Institutions
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Trade and Industry
MIS	Management Information System
ML	Money Laundering
MSME	Micro, Small and Medium Enterprise
NPL	Non-Performing Loan
NSC	National Steering Committee
NSFR	Net Stable Funding Ratio
OHS	Operational Health and Safety
OPEX	Operational Expenditures
OPS	Other Productive Sectors
PCG	Partial Credit Guarantee
PCT	Project Coordination Team
PFI	Participating Financial Intermediary
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PPM	Project-affected People's Mechanism
PTC	Project Technical Committee
RBA	Rwanda Bankers' Association
RDB	Rwanda Development Board
RSSB	Rwanda Social Security Board
RWF	Rwandan Franc
SA	Social Assessment
SACCO	Savings and Credit Cooperative
SBF	Sovereign Backed Financing

SDR	Special Drawing Rights
SEP	Stakeholder Engagement Plan
SME	Small and Medium Enterprise
SOE	Statement of Expenditure
SPIU	Special Projects Implementation Unit (at BRD)
SPR	Summary Project Report
TA	Technical Assistance
UN	United Nations
USD	United States Dollars
WC	Working Capital
WB	World Bank
Y-O-Y	Year-on-Year

Contents

1. Summary Sheet
Republic of Rwanda
Private-Sector Access to Finance for Post-COVID Recovery and Resilience

Project No.	000483
Borrower	Republic of Rwanda
Project Implementation Entity	Development Bank of Rwanda (BRD)
Sector Subsector	Finance Financial Intermediary
Project Objective	To facilitate economic recovery and resilience in Rwanda by addressing the financing constraints of private sector businesses post COVID-19.
Project Description	The Project is to be supported under AIIB's COVID-19 Crisis Recovery Facility (Facility) and will be co-financed with the World Bank (WB), through the International Development Association (IDA). The Project will provide financial support to the government's own Economic Recovery Fund (ERF), a Fund created to support businesses most significantly affected by COVID-19 in Rwanda. The ERF was established in June 2020 and capitalized with USD 101 million by the Government of Rwanda. The Project will comprise 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 will only finance sub-component 1c (comprising working capital and investment credit line), under component 1. The Ministry of Finance and Economic Planning (MINECOFIN) will be the coordinating entity. Implementing agencies for the various sub-components of the Project are as follows: i) Business Development Fund (BDF) for: (a) on-lending to micro-finance institutions for subsequent on-lending to micro-businesses, for working capital and investment financing – under component 1, sub-component 1a. (b) the provision of partial credit guarantees and de-risking mechanisms to borrower MSMEs – under component 2; iii) Rwanda Development Bank (BRD) for: (a) refinancing of loans to businesses in defined

	sectors – under component 1, sub-component 1b. (b) direct lending, and on-lending via commercial financial institutions, to large companies and SMEs, for working capital and investment financing – under component 1, sub-component 1c. Component 3 comprises technical assistance to both BDF and BRD, for institutional strengthening and implementation support activities within these institutions. Component 4 is an unfunded, contingency component that can be activated in case of a relevant emergency event; if triggered it will draw on uncommitted WB loan resources under the Project.
Implementation Period	Start Date: July 2021 End Date: August 2026
Expected Loan Closing Date	August 2026
Cost and Financing Plan	The total project cost is up to USD 257.5 million, with co-financing by AIIB, WB/IDA and GRIF (administered by WB). See Section 2.D.

(Amount in USD Equivalent)

Source / Component	Total Cost	AIIB	WB	GRiF
1. Liquidity and Recovery Facility	205.5	100	105.5	0
1a. Microbusiness credit line	8		8	
1b. Refinancing line	37.5		37.5	
1c. Working capital and investment credit line	160	100	60	
2. Risk-sharing facility	40		35	5
2a. Partial credit guarantee scheme	30		30	
2b. Bridge lending window	10		5	5
3. Institutional strengthening and implementation support	12		9.5	2.5
3a. Strengthening MSMEs' capability for resilience and recovery	3.4		3.4	
3b. Institutional strengthening	3.8		1.3	2.5
3c. Project management and monitoring	4.8		4.8	
4. Contingency emergency response component (CERC)	0		0	0
Total Project Costs	**257.5**	**100**	**150**	**7.5**
Percentage	100%	39%	58%	3%

Size and Terms of AIIB Loan	Loan Size: EUR 83.3 million (USD 100 million equivalent).

	Terms: • Sovereign-Backed Variable Spread Loan. • Final Maturity: 34.5 years, including a grace period of 5.5 years. • Average maturity: 19.87 years. • Repayment schedule: level AIIB's standard interest rate for sovereign-backed variable spread loans.
Cofinancing (Size and Terms)	World Bank/IDA (lead co-financier): USD 157.5 million equivalent (IDA Credit: JPY 2,721.9 million (USD 25 million equivalent); IDA Grant: SDR 17.5 million (USD 25 million equivalent); IDA Scale up Window Credit: JPY 10,877.6 million (USD 100 million equivalent)) GRiF Grant (administered by WB): USD 7.5 million
Environmental and Social Category	World Bank Category "Substantial" (which is equivalent to Category FI if AIIB's ESP were applicable).
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	• Execution of a Project Co-lenders' agreement (CLA) between AIIB and WB • The Project Implementation Manual (PIM) is adopted in form and substance in a manner acceptable to AIIB and WB. • The Subsidiary Agreement between the Borrower and BRD has been duly executed and delivered and is legally binding upon each of them. • WB's Financing Agreements have become effective.
Key Covenants/Conditions for Disbursement	Conditions for disbursement: • The Environmental and Social Management System (ESMS) has been adopted by BRD and BDF. • The Environmental and Social Management Framework (ESMF) for the Working Capital and Investment Credit Lines has been developed by BRD and disclosed. • A Labor Management Procedure (LMP) has been developed by BRD. • Appointment of key staff in BRD's Special Project Implementation Unit.
Retroactive Financing (Loan % and dates)	Not applicable.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project (granted on June 16, 2020).

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Supee Teravaninthorn, Investment Operations Infrastructure

	Investment Department Region 2.
Manager	Gregory Liu, Investment Operations Infrastructure Investment Department Region 2.
Project Team Leader	Suzanne Shaw, Infrastructure Sector Economist, Infrastructure Investment Department Region 2
Co-Project Team Leader	Gabriel Giacobone, Infrastructure Sector Economist, Infrastructure Investment Department Region 2
Team Members	Amy Chua, Environmental and Social Specialist Bernadette Ndeda, Procurement Specialist Shodi Nazarov, Financial Management Associate Marcin Sasin, Senior Economist Christopher Damandl, Senior Legal Consultant Haiyan Wang, Senior Finance Officer Mengmeng He, Finance Associate Xiao Zhang, Project Assistant

2. Project Description

A. Project fit under the Covid-19 Recovery Facility.

1. **Background**. Since its initial outbreak in Rwanda on March 14th, 2020, COVID-19 has spread progressively, reaching a total of 28,912 cumulative confirmed cases (roughly 2,181 cases per million persons) as of June 15, 2021.[1] To curb the spread of the coronavirus, the Government of Rwanda (GOR) implemented restrictive measures including lockdowns, prohibition of non-essential movements, and closure of businesses except for non-essential services. Economic activities, restricted during the first lockdown from March 22 to May 3, 2020, represented almost 60 percent of GDP, and 50 percent of employees were restricted.[2]

2. Recent economic achievements in Rwanda result from its increased integration in the global economy. With the disruption of international flows of goods and services due to the pandemic, trade has been severely impacted. Tourism, Rwanda's largest foreign exchange earner,[3] has taken a strong hit owing to the significant disruption of international travel. From an economic standpoint, Rwanda is one of the most severely affected countries in Sub-Saharan Africa, due to more stringent measures imposed to contain the pandemic, and the economy's high reliance on travel and tourism, targeted as a strategic growth sector in recent decades.[4] Rwanda achieved 9.5 percent real GDP growth in 2019; growth for 2020 was negative 3.4 percent,[5] down from a pre-COVID projection of 8.1 percent.[6]

3. **Macroeconomic conditions**. Rwanda was in the middle of an economic boom prior to the COVID-19 pandemic.[7] In line with Government programs and strategies to become a middle-income economy, Rwanda's economy has undergone structural changes, such that the share of the agricultural sector has been declining, while the industry and services sectors were the main drivers of growth. Government's COVID-19 response saw most industry and services activities being restricted. The main affected sub-sectors are industry, services, and trade and transport (see Figure 1).

4. Rwanda is experiencing growing balance of payment and fiscal pressures. Public debt in 2019 stood at around 51 percent of GDP, to finance large public investment needs under the Government's development strategy. Due to low growth and high deficit, in the wake of COVID-19, public debt is expected to

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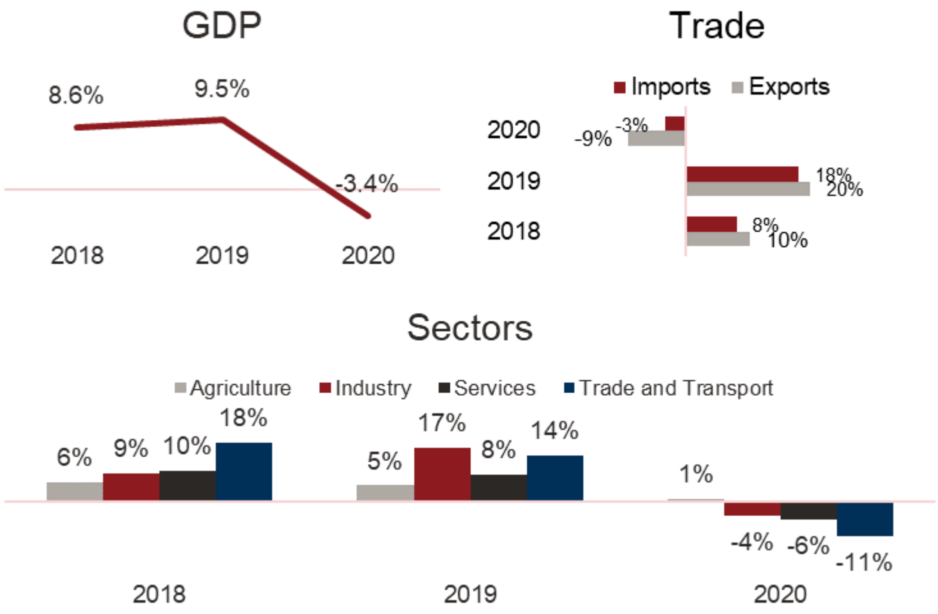
[1] Rwanda Biomedical Centre. Link
[2] Republic of Rwanda. Economic Recovery Plan. May 2020-December 2021. A coordinated response to mitigate the impact of COVID-19. April, 2020.
[3] Travel and tourism are Rwanda's largest source of export earnings (foreign exchange earnings). In 2011, they represented 63% of total services export and 29% of merchandise and services exports in 2011 (UNCTAD. 2014. Services Policy Review: Rwanda.)
[4] World Bank Group. Rwanda Economic Update. Protect and Promote Human Capital in a Post-COVID-19 World. Edition No. 16. January 2021.
[5] National Institute of Statistics Rwanda. Link.
[6] IMF. Sub-Saharan Africa Regional Economic Outlook: Navigating Uncertainty. October 18, 2019.
[7] World Bank. Link

increase further, by 15 percentage points till end-2021, to reach 66 percent of GDP.[8] Rwanda's GDP fell by 12.4 percent and 3.6 percent year-on-year (y-o-y) in the second and third quarters of 2020, respectively, with annual GDP in 2020 declining by 3.4 percent, the first recession in more than two decades.[9] The more than 11 percentage points difference between the pre-COVID forecast and actual GDP growth in 2020 is one indicator of the pandemic's impact in Rwanda. World Bank (WB) estimates that, without robust interventions, the legacy of the pandemic and the likely lower post-pandemic growth path would result in 19 percent lower GDP in 2025, and 22 percent lower GDP by 2030, in the baseline, compared to a scenario without COVID-19.[10]

Figure 1. GDP by activity, growth rates at constant prices (percentage change from the previous year).



Source: National Institute of Statistics of Rwanda.

5. Employment has fallen sharply. The unemployment rate had shown a declining trend during the last three years, reaching 13.1 percent in February 2020, however, due to the COVID-19 pandemic, the unemployment rate peaked, reaching its highest point since 2016 – at 22.1 percent in May 2020.[11] Nearly 60 percent of workers who kept their jobs through the lockdown reported lower salaries. Aggregate employment fell by nearly 370,000. The employment to population ratio fell from 48.3 percent to 43 percent.

6. **Financing constraints caused by COVID-19**. The COVID-19 crisis is making it increasingly difficult for businesses to meet operational expenses such as payroll, supplies, rent, and utilities. At the same time, new business investment

[8] IMF World Economic Outlook Database. April 2021. Link.
[9] National Institute of Statistics Rwanda. Link.
[10] World Bank Group. Rwanda Economic Update. Protect and Promote Human Capital in a Post-COVID-19 World. Edition No. 16. January 2021.
[11] National Institute of Statistics of Rwanda. Link.

is needed to ensure that the economy is well-positioned to not just survive the economic effects of the pandemic but recover and regain a path to resilient growth. Financial intermediaries (FIs) can be expected to face reduced profitability, weaker asset quality and lower deposit mobilization, negatively affecting liquidity and solvency of the FIs, as well as their appetite to extend additional credit. This may deprive firms of critical financing to cover operational expenses and survive the COVID-19 crisis; even more so, it may deprive firms of financing towards new investments needed to generate growth and build long term resilience. This downward spiral would exacerbate the COVID-19 impacts, creating a self-perpetuating negative feedback loop between financial and real sectors.

7. Rwanda's central bank, National Bank of Rwanda (BNR), allowed banks to ease loan repayment conditions for borrowers facing temporary cash flow challenges. Between March 16th, 2020 and April 10th, 2020, banks received applications for loan restructuring accounting for 25.5% of the total loan portfolio.[12]

8. **Economic Recovery Plan of Rwanda in response to COVID-19.** The Government of Rwanda has been proactive. In April 2020, it published an Economic Recovery Plan (ERP), with interventions to mitigate the social and economic impact of COVID-19. The ERP was designed for the period from May 2020 to December 2021, and includes measures related to fiscal policy, monetary policy, social assistance, and support for firms. In June 2020, GOR launched the Economic Recovery Fund (ERF) to support businesses most significantly affected by COVID-19. The GOR estimated an initial requirement of USD 200 million. The ERF was capitalized by GOR with USD 101 million. The ERF objective is two-fold: (i) to support businesses in the sectors hit hardest by the pandemic, so that they can survive, resume work, production and safeguard employment; and (ii) expand domestic production during the COVID-19 pandemic (e.g., essential goods), and in the post-recovery period. The design envisages the ERF to be open for application for a period of at least four years.

9. **Country Priority**. The GOR's ERP outlines support measures for private sector, aimed at: protection of jobs; stabilization of livelihoods; and positioning for long term growth. The ERF, established under the ERP, initially comprised four financing "windows": i) loan restructuring for the tourism sector; ii) working capital provision for large corporates and SMEs; iii) loan guarantees for SMEs and micro-businesses; iv) working capital provision for micro-businesses. The initial focus was on addressing liquidity constraints to keep firms operational and maintain employment. Given an emerging need to address not only survival but also economic recovery and resilience, a fifth window will be added to the ERF, dedicated to investments in new businesses and expansion of existing businesses to sustainably drive economic recovery and build resilience. The ERF has been in operation since June 2, 2020. With the prolonged impact

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[12] Republic of Rwanda. Economic Recovery plan. May 2020-December 2021. A coordinated response to mitigate the economic impact of COVID-19. April 2020.

of COVID-19, and the added focus on recovery and resilience, the GOR is seeking to expand the ERF. The initial USD 101 million size of the ERF is not sufficient to address the extent of financing constraints faced by businesses, in particular as it relates to assuring economic recovery post COVID-19.

10. The Project will build on the GOR's ERF, providing additional capital to expand existing windows, and establish a new window dedicated to investments. It will also improve the operational efficiency and reach of the ERF through institutional strengthening and implementation support, as well as technical assistance to businesses.

11. **Project's alignment with AIIB's COVID-19 Crisis Recovery Facility (Facility)**. The Project will enable access to finance to businesses facing financing constraints as a result of the COVID-19 crisis. The Project is aligned with the Facility's component on "economic resilience". The Project makes use of one of the instruments contemplated under the Facility: lines of credit to financial intermediaries under sovereign-backed financing.[13]

12. **Strategic fit for AIIB**. According to the Strategy on Financing Operations in Non-Regional Members (the Strategy), the Bank may consider investments outside of the Region that significantly benefit Asia, with the objective to support trade and connectivity with Asia, giving priority to projects meeting this principle.[14] Moreover, the Decisions to Support AIIB COVID-19 Crisis Recovery Facility establish that, notwithstanding the limitations on the scope for the Bank's non-regional investment specified in the Strategy, non-regional members are eligible to benefit from financing under the Facility, subject to the ceiling for non-regional investment stipulated in the Strategy.

13. Currently, trade with Asia[15] accounts for roughly 47 percent of Rwanda's overall trade, and trade activity between Rwanda and Asia showed an average annual growth rate (CAGR) of approximately 10 percent over the period 2015-2019.[16] A slow economic recovery in Rwanda will have a negative impact on trade by reducing the volume of imports and exports, restricting the availability of intermediate inputs and final goods and diverting domestic resources to a less-efficient trading partner. The Project aims to continue to provide liquidity support to micro, small and medium enterprises (MSMEs) to cover working capital needs and increase firms' survival rate, and more significantly, to provide investment financing to enable well-positioned existing firms to scale, and new ones to enter the market, putting the Rwandan economy on a clear path to recovery and economic resilience. This will facilitate recovery of Rwanda's trade volumes with Asia and rapid attainment of the pre-COVID trajectory. The 15 percent ceiling of total approved Bank financing in non-regional members, as set forth in the Strategy, would not be reached because of the approval of the Project.

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[13] Paper on Decisions to Support the AIIB COVID-19 Crisis Recovery Facility, para. 15.1.
[14] Strategy on Financing Operations in Non-Regional Members, para. 1.i.
[15] Consistent with AIIB's Articles of Agreement, "Asia" includes the geographical regions and composition classified as Asia and Oceania by the United Nations.
[16] Calculated based on data from DESA/UNSD, United Nations Comtrade database

14. Rwanda is an IDA-eligible country. The Project seeks to assist the country's sustainable recovery from the economic crisis imposed by COVID-19. It targets businesses in the other productive sectors (OPS) of manufacturing, with a focus on the sub-sectors of agro-processing, construction materials, textiles, light manufacturing, as well as value chains that support these. These areas have been identified by the GOR as having the strongest growth potential in the medium term, and are seen as key to achieving economic recovery and sustainable growth beyond the recovery period, fostering economic resilience.

15. **Value addition by AIIB**. AIIB's financing will help alleviate financing constraints faced by the private sector as a result of the pandemic. AIIB's contribution will focus on supporting Asia-Rwanda trade throughout the COVID-19 crisis and during the country's emergence from the crisis. AIIB's participation will reinforce the ERF, an initiative of the GOR, and supplement the WB program; it will open up a new line of financial support to a member in response to the COVID-19 crisis.

16. **Value addition to AIIB**. The Project provides AIIB the opportunity to demonstrate its relevance and value to its non-regional members during a time of severe crisis and need. In addition, the partnership with the WB would expand WB-AIIB partnership in a new member, and enable AIIB to benefit from WB's local presence and experience in Rwanda throughout the design, execution and supervision of the Project.

17. **Co-financing**. The Project will be co-financed by the WB, AIIB, and Global Risk Financing Facility (GRiF).[17] The WB will finance the Project through the International Development Association (IDA), under the project name "Access to Finance for Recovery and Resilience".[18] The Project will be implemented under the Co-financing Framework Agreement (CFA) between the two Banks. A Project Co-Lenders' Agreement (CLA) will be agreed to specify the services to be provided by the WB.

18. **Lessons Learned.** The Project will draw on lessons learned from international best practice, the operation to-date of the ERF, and implementation to-date of similar AIIB-financed projects. The following principles guiding global responses[19] have been included in the project design: (i) firms that receive financial support return to normalcy faster; (ii) targeting of support in the response phase should be as simple as possible, and evolve in the recovery phase to focus on productivity-driven and resilient growth; (iii) a range of instruments should be used to ensure vulnerable firms are not left out.

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[17] Global Risk Financing Facility (GRiF) is an initiative of the governments of Germany and the UK, supported by the World Bank, to pilot and scale up support to strengthen the resilience of vulnerable countries to climate and disaster shocks. GriF seeks to strengthen financial resilience of vulnerable countries by enabling earlier and more reliable response and recovery to climate and disaster shocks, and over time to a wider range of crises, through establishing or scaling up pre-arranged risk financing instruments, including market-based instruments like insurance. Link.

[18] Project presented to WB Board on June 14, 2020.

[19] Cruz, M. et al. 2020. Assessing the Impact and Policy Responses in Support of Private-Sector Firms in the Context of the COVID-19 Pandemic. World Bank, Internal paper.

The following lessons from the operation of Rwanda's ERF to-date have also been incorporated into the project design:

(a) **Bolster capacity in implementing agencies (IAs).** Approval of loans under the existing windows of the ERF was slow due to insufficient capacity within IAs. The Project will include institutional strengthening and support to IAs for existing and new windows of the ERF.

(b) **Build capacity among MSMEs.** Uptake of working capital loans to-date has been low due to MSMEs' inability to meet ERF requirements. The Project will include technical assistance (TA) to MSMEs to equip them with the required systems and skills to access financing from the Project.

(c) **Improve credit guarantee scheme.** Uptake of partial credit guarantees (PCGs) to-date in the ERF has been low, due to its design. The Project will include TA to revamp the PCG.

AIIB's experience from the implementation of similar Facility projects has also guided the design of the Project:

(a) **Partnering with an experienced, local private-sector focused development finance institution.** The Project will be implemented through BRD. BRD has forty years' experience in long term lending to private sector in key economic sectors in Rwanda, both as apex and direct lender. BRD is also experienced in implementing WB-financed projects.

(b) **Commercial viability of apex and direct sub-loans.** The borrower and IAs must take measures so that AIIB financing does not result in excessive non-performing loans. The Project relies on BRD's credit risk assessment process for FIs and sub-borrowers. The process includes evaluation according to quantitative financial viability criteria.

(c) **Managing complexity of implementation**. Transactions involving complex implementation arrangements and/or restrictions draw on the human resources of IAs and may slow implementation. The Project will build on the existing ERF coordination and governance structure to leverage the experience accumulated to-date. In addition, MINECOFIN, the coordinating entity for the Project, is experienced in implementing WB-financed projects. AIIB will finance only one sub-component of the Project to facilitate its implementation monitoring of Project funds.

B. Project Objective and Expected Results.

19. **Project Objective.** The Project objective is to facilitate economic recovery and resilience in Rwanda by addressing the financing constraints of private sector businesses post COVID-19. The Project will support GOR's efforts, by expanding and complementing the existing ERF, whose focus has evolved beyond addressing solely acute liquidity-related impacts of the COVID-19 crisis, to addressing chronic impacts, in order to target long term economic growth and resilience.

20. **Expected Results.** The results of the Project will be monitored through a Framework (**Annex 1**) which is in accordance with the WB Results Framework. Project Indicators include:

- Number of firms/businesses supported by the Project
- Volume of financial support provided to firms/businesses

Indicators will be measured by the WB during implementation to confirm that the Project is progressing in accordance with the implementation plan.

21. **Expected Beneficiaries.** The primary beneficiaries of the Project are private sector businesses who have been impacted by the COVID-19 pandemic, and businesses that can contribute to economic recovery and resilience, with a specific focus on **MSMEs**. All viable and potentially viable businesses in defined strategic and priority sectors are eligible to access credit lines via participating financial intermediaries (PFIs) for liquidity and investment financing. MSMEs represent 98 percent of all businesses in the formal sector.[20] It is expected that at least half the total volume of the investment credit line will go to the MSME sector. Over 1,500 MSMEs are expected to benefit from liquidity and investment financing under the Project. SMEs will benefit from the Project's PCGs and risk-sharing schemes; these will enhance their access to finance. MSMEs will also benefit from technical assistance (TA) to strengthen their financial and business management processes and skills. Women-owned and/or managed MSMEs will be targeted so that they are equally positioned to benefit from the Project.

The key **IAs** of the Project, Business Development Fund (BDF) and Development Bank of Rwanda (BRD), will benefit from institutional strengthening and implementation support through the Project. This will allow them to adequately address the needs of an expanded base of beneficiaries, for the Project and beyond its lifetime. IAs will also benefit from support to create or strengthen their Environmental and Social Management System (ESMS).

PFIs will benefit from access to credit lines and PCGs, helping them to expand their portfolio. Fifteen banks are expected to participate as PFIs in the Project; the Project's network of PFIs also includes four hundred microfinance institutions.[21]

22. Indirect beneficiaries will include the employees of the businesses benefitting from the liquidity facility of the Project, whose salaries will be paid from the proceeds of the facility and the PCG-supported loans. Indirect beneficiaries will also include persons who become employed as a result of jobs created from investments financed from the proceeds of the recovery facility. Finally, the Project will prevent business closures, preserve and generate jobs, and enhance productivity and exports, which will benefit the Rwandan economy and position it on its former path of economic growth.

C. Description and Components

23. **Overview.** The Project will provide financing for the establishment and operation of credit and risk-sharing facilities to support the ERF program

[20] Based on data provided by MINECOFIN.
[21] AIIB proceeds will not be channeled through microfinance institutions.

established by the GOR. The Project seeks to: supplement existing efforts to mitigate the short-term financial impact of COVID-19 on businesses by providing liquidity through financial intermediaries (FIs), and more importantly to provide access to new medium to long term finance to firms for investments that can support jobs and economic recovery; enhance risk mitigation instruments available to FIs to improve access to finance for firms; address MSME capacity constraints to facilitate their ability to access finance. The Project consists of four components: 1) Liquidity and recovery facility; 2) Risk-sharing facility; 3) Institutional strengthening and implementation support; 4) Contingency emergency response component (CERC).

AIIB will only finance activities under sub-component 1c. of Component 1, which is closely aligned with its mandate and current policies. Sub-component 1c. is the largest sub-component of the Project (62% of project cost).

24. **Component 1** – Liquidity and Recovery Facility (USD 205.5 million – USD 105.5 million, WB; EUR 83.3 million (USD 100 million equivalent), AIIB)[22]. This component will provide financing to firms for working capital and investment purposes. It consists of three sub-components:

(a) **Sub-component 1a – Microbusinesses credit line (USD 8 million, WB).** This sub-component will be implemented by BDF. It will capitalize the existing microbusiness credit line (window (iv)) of the ERF, to provide loans to micro-businesses via PFIs, namely savings and credit cooperatives (SACCOs). This sub-component will finance loans for working capital, as well as for investments related to business expansion and new ventures, towards job creation, economic recovery and growth.

(b) **Sub-component 1b – Refinancing credit line (USD 37.5 million, WB).** This sub-component will be implemented by BRD. It will capitalize the refinancing credit line (window (i) of the ERF). BRD will on-lend to PFIs (banks and limited liability microfinance institutions (LL MFIs)) for subsequent lending to large companies and SMEs. The funds will go to refinancing existing financial commitments to ease the short-term hardship caused by the COVID-19 crisis. The refinancing window, initially under BNR, has thus far targeted businesses in hospitality and transport sectors, however, GOR is considering expanding it to other sectors given the widespread impact of the pandemic.

(c) Sub-component 1c – Working capital and investment credit line (USD 160 million – USD 60 million, WB; EUR 83.3 million (USD 100 million equivalent), AIIB). This sub-component will capitalize the existing working capital credit line (window (ii) of the ERF), and establish the new (fifth) window of the ERF, dedicated to investments. It will be implemented by the BRD, which will lend directly, as well as on-lend to PFIs for subsequent lending, to large companies and SMEs. This sub-component will finance: (i)

[22] Amounts represented in the Project components include new funds provided by WB and AIIB. The initial financing of the equivalent of USD 101 million (which has been partially used up) provided by the GOR to the ERF and related components of the Project are not shown in the financing breakdown of the components.

loans for working capital needs, to enable businesses in sectors hardest-hit by COVID-19 to meet operational expenses, survive, and safeguard employment; and (ii) investment-related expenditures for the scale-up of existing, expansion-ready firms and the establishment of new ventures ready to exploit idle business opportunities – financing may be used to cover CAPEX, OPEX and working capital related specifically to the investment. The majority of funds under this sub-component will go to the new investment window, which is expected to result in job creation and help position the economy on a path to recovery, growth and resilience.

Annex 2 provides a detailed description of the facility.

25. **Component 2** – Risk-sharing facility (USD 40 million – USD 35 million, WB; USD 5 million, GRiF). This component will enhance, scale-up and expand existing risk-sharing solutions for SMEs, namely partial credit guarantees and de-risking mechanisms. It consists of two sub-components, both implemented by the BDF:

(a) Sub-component 2a – Partial credit guarantee (USD 30 million, WB). This sub-component will provide additional capital to the existing PCG scheme (window (iii) of the ERF), which will help to enhance SMEs' access to credit available under component 1 of the Project. The improvement to the PCG scheme, under component 3, is expected to increase PFIs demand for guarantees.

(b) **Sub-component 2b – Bridge lending window for vulnerable SMEs (USD 10 million – USD 5 million, WB; USD 5 million, GRiF).** This sub-component will establish a bridge lending facility (bride lending window (BLW)) to provide short-term lending to climatic shock-affected vulnerable SMEs; it will also provide a backstop insurance mechanism to protect BLW's capital from depletion. The BLW will provide bridge loans, via PFIs, to otherwise viable SMEs impacted by external shocks, to cover the cost of servicing their loan (under component 1) with the PFI. This will provide them with the financial space to cope with the shock and enable them to survive, recover financially, and thereafter resume debt service obligations. It will de-risk the BDF PCG scheme, by reducing the risk of SMEs defaulting on debt obligations. The insurance mechanism will ensure that the BLW is replenished in the event of severe shocks.

Support under this component will be linked with the loans under component 1.

26. **Component 3** – Institutional strengthening and implementation support (USD 12 million – USD 9.5 million, WB; USD 2.5 million GRiF). This component will enhance the capacity of the IAs and MSMEs. It consists of three sub-components:

(a) Sub-component 3a – Strengthening MSMEs' capability for resilience and recovery (USD 3.8 million, WB). This sub-component will provide TA to strengthen the business management processes and systems of MSMEs to enhance their capacity to successfully access the ERF, and financing from the Project. TA will be tailored to address the specific challenges of each MSME, but is expected to include measures to improve financial literacy, digital literacy, business development, and environmental safeguards strengthening. BRD will implement TA directed at formal SMEs and large companies, and BDF will implement TA for micro-enterprises. BRD and BDF will also conduct an awareness campaign to ensure target MSMEs are informed on the ERF.

(b) **Sub-component 3b – Institutional strengthening (USD 3.8 million – USD 1.3 million, WB; USD 2.5 million, GRiF).** This sub-component will provide TA to strengthen the operations of the BRD and BDF, so they can successfully deliver the Project and continue to have impact beyond the Project life. With respect to BRD, TA will target strengthening of BRD's project management unit, and its business advisory services towards established firms with respect to expansion/diversification and new high-potential ventures. With respect to BDF, TA will be directed at: (i) improving the design and operational efficiency of the existing PCG scheme, to increase uptake of the PCG by PFIs; ii) strengthening internal capacity to enable effective implementation of the de-risking mechanisms under component 2; and (iii) facilitating BDF to conduct capacity building activities for government and private sector stakeholders on technical aspects related to the BLW and insurance backstop mechanism.

(c) **Sub-component 3c – Project management and monitoring (USD 4.4 million, WB).** This sub-component will support all aspects of project management related to: i) project staffing and their training; (ii) procurement and financial management; (iii) environmental and social safeguards implementation and compliance; (iv) monitoring and evaluation; v) equipment and operating costs; vi) communication and knowledge management.

27. **Component 4 – Contingency emergency response component (CERC) (USD 0 million, WB)**. This component is an unfunded, contingency component that can be activated, on request by the Borrower, in case of an eligible emergency event; if triggered, it will draw on uncommitted WB (only) loan resources under the Project to address the emergency. Definition of eligible emergency events will be outlined in the CERC Annex in the Project Implementation Manual (PIM).

D. Cost and Financing Plan

28. **Project cost.** The total project cost is USD 257.5 million equivalent, to be co-financed by AIIB, WB and GRiF. The WB will provide USD 150 million equivalent, comprised of IDA credit of JPY 2,721.9 million (USD 25 million equivalent), IDA grant of SDR 17.5 million (USD 25 million equivalent), and IDA scale-up window credit of 10,877.6 million (USD 100 million equivalent); GRiF (managed by the WB) will provide grant financing of USD 7.5 million. AIIB financing consists of a loan of EUR 83.3 million (USD 100 million equivalent).

Table 1. Project Cost and Financing Plan (Amounts in USD equivalent)

Item	Project Cost (USD m)	Financing (USD m and %)		
		AIIB	WB	GRiF
Component 1. Liquidity and	**205.5**	**100**	**105.5**	**0**

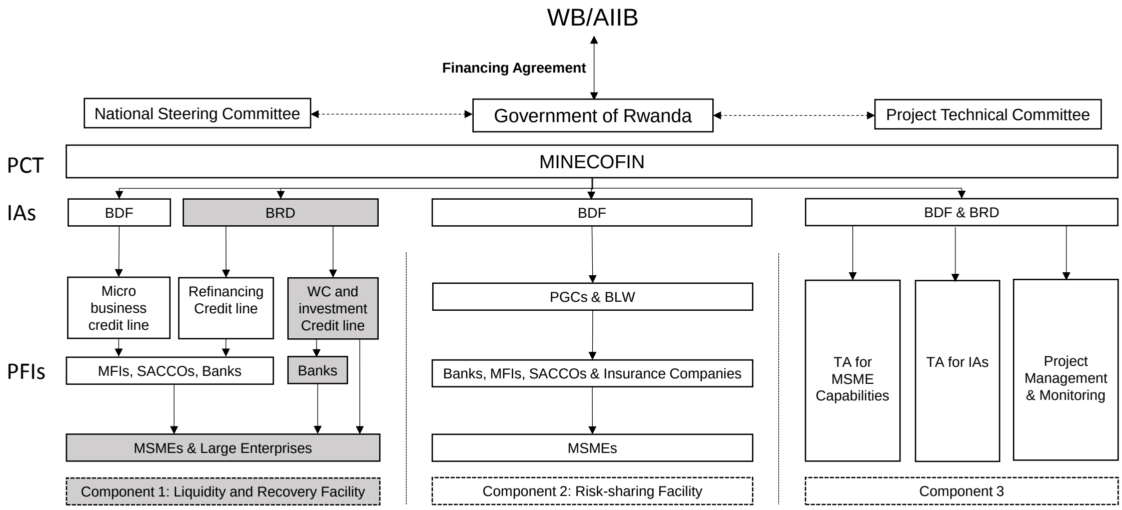
Recovery Facility		**(83.3 MEUR)**		
1a. Microbusiness credit line	8		8	
1b. Refinancing credit line	37.5		37.5	
1c. Working capital and investment credit line	160 (100%)	100 (62.5%)	60 (37.5%)	
Component 2. Risk-sharing facility	**40**		**35**	**5**
2a. Partial credit guarantee scheme	30		30	
2b. Bridge lending window	10		5	5
Component 3. Institutional strengthening and implementation support	**12**		**9.5**	**2.5**
3a. Strengthening MSMEs' capability for resilience and recovery	3.8		3.8	
3b. Institutional strengthening	3.8		1.3	2.5
3c. Project management and monitoring	4.4		4.4	
Component 4. Contingency emergency response component	**0**		**0**	**0**
Loan Amount	**250**	**100**	**150**	
GRiF Grant Amount	7.5			7.5
Grand Total	**257.5**	**100**	**150**	**7.5**

29. **Maturity.** The AIIB loan will have a final maturity date of 34.5 years from the date of signing the loan agreement, and a disbursement period up to 4 months after the loan closing date.[23]

30. **Pricing and maturity.** The AIIB loan will follow the General Conditions for Sovereign-backed Loans and pricing applicable to sovereign-backed financing (SBF) loans. The pricing and maturity of sub-loans under the AIIB loan will be determined by the Borrower and BRD, subject to maximum maturity requirements. The cost of on-lending by BRD to PFIs will include: (i) funding cost incurred; (ii) operating costs of servicing the loan; (iii) credit risk premium associated with the PFI; and (iv) profit margin/sustainability. Meanwhile sub-borrower costs will cover the cost of PFI funding, plus PFI operating costs and a credit risk premium.

[23] The loan closing date is August 31, 2026.

Figure 2. Project structure (AIIB loan is highlighted in grey)



E. Implementation Arrangements

31. **Implementation period.** The Project implementation period, overall and in respect of the AIIB loan, is expected to be five years, from July 2021 until August 2026.

32. **Implementation Management.** The Project will be implemented by BRD and BDF. BRD will be responsible for component 1b – Refinancing credit line, and component 1c – Working capital and investment credit line. BDF will implement component 1a – Microbusinesses credit line, and component 2 – Risk-sharing facility. BRD and BDF will also implement their respective TA activities under component 3. The IAs will be responsible for day-to-day project implementation, including project reporting, monitoring and evaluation (M&E), financial management (FM), procurement, and implementation and monitoring of environmental and social standards (ESS) instruments prepared under the Project. The Ministry of Finance and Economic Planning (MINECOFIN) will enter into Subsidiary Financing Agreements with BRD, and BDF. For the provision of credit lines, PCG, and BLW, the IAs will enter into participation agreements with the PFIs to on-lend to eligible beneficiaries.

33. The Project activities financed under the AIIB loan (component 1c.) will be implemented by BRD. BRD has an existing Special Projects Implementation Unit (SPIU), experienced in development partner-financed projects, including three WB-funded projects. The SPIU will be responsible for financial management and reporting, and environmental and social risk management. SPIU responsibilities will include: (i) coordinating component 1c. activities and reporting requirements with the MINECOFIN's Project team; (ii) managing on-lending of Project proceeds to final beneficiaries in accordance with the terms and conditions recorded in the Subsidiary Financing Agreements and Project Implementation Manual (PIM) for component 1c; (iii) reporting to WB and AIIB on Project results and financial management of sub-component 1c. The SPIU is supported by the Business Team, which has the knowledge and experience

required to effectively assess PFIs, and businesses in the sectors targeted by the Project. The implementation capacity of the BRD will also be reinforced through the Project. The Project will provide additional support for roles for: project coordination; investment management; procurement; environmental and social risk management; and financial management.

34. For direct lending, BRD will assess the risk of each sub-loan based on its underwriting criteria; for on-lending BRD will assess the credit risk for each PFI. In PFI-lending (on-lending), businesses will apply to PFIs; each PFI will assess individual loan requests based on their institution's risk assessment and underwriting criteria, and subject to sub-loan eligibility criteria established in the PIM. Once a sub-loan or pipeline of sub-loans is approved by the PFI, the PFI will apply to BRD for ERF funds. BRD will disburse funds accordingly.

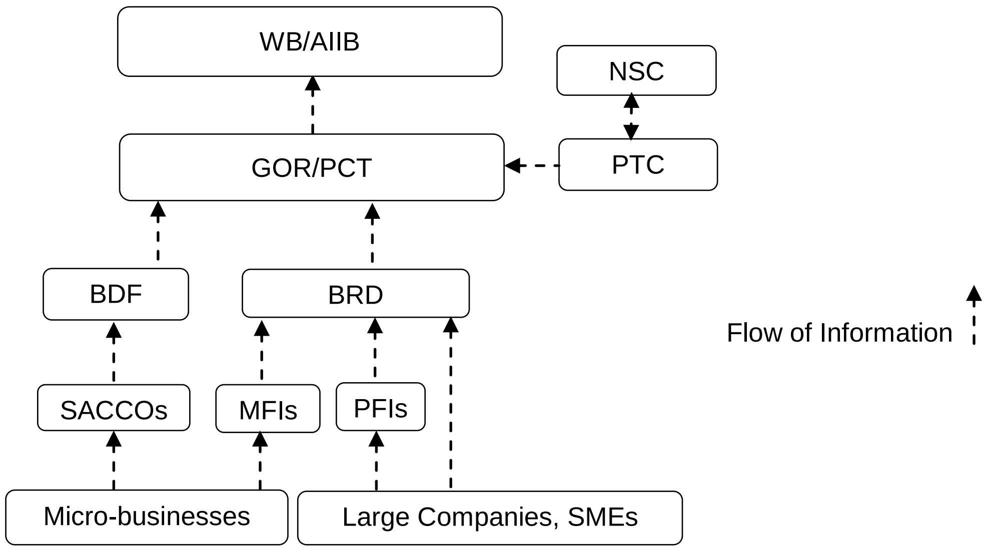
35. BRD will report to MINECOFIN on its compliance with the terms and conditions of its allocation of WB/AIIB funds, alignment with the applicable policies and contractual requirements, and compliance by PFIs and beneficiary sub-borrowers with their sub-loan agreements. PFIs report quarterly to BRD.

36. **Project Coordination.** The Project will build on the existing ERF operation structure. MINECOFIN will be responsible for convening relevant counterparts and coordinating Project activities, including preparation of a PIM through a Project Coordination Team (PCT). The PCT will include a project coordinator, a M&E specialist, and an ES coordinator. The project coordinator will report to, and act under the direction of, the Financial Sector Development Department for ERF policy related matters. The main responsibilities of the PCT will include: (i) overall day-to-day coordination and management of activities, including direct support to the two IAs; (ii) Project management; (iii) overall Project M&E; and (iv) progress reporting at overall Project level, on a quarterly basis. The ES coordinator will coordinate ES risk management across all project implementation units (PIUs) to strengthen ES risk management under the Project.

37. **Project governance.** A governance structure was established for the ERF upon its implementation in June 2020. This structure monitored the efficiency and effectiveness of implementation of the ERF. The Project will build on the existing ERF governance structure, which is overseen by a high-level National Steering Committee (NSC). The NSC comprises the Minister – MINECOFIN (Chair), the Minister – Ministry of Trade and Industry (MINICOM); the Minister – Ministry of Local Government (MINALOC); Chief Executive Officer – BRD; Chief Executive Officer – BDF; Chief Executive Officer – Rwanda Development Board (RDB); Governor – BNR; Chief Executive Officer – Private Sector Federation; Chairman – Rwanda Bankers' Association (RBA). The NSC will provide high-level Project oversight and policy coordination, to be detailed in the PIM. The NSC is expected to meet at least on a quarterly basis, and as needed. The Project will also leverage the existing ERF Technical Committee, to form a Project Technical Committee (PTC), which is comprised of the Chief Economist – MINECOFIN (Chair), and representatives from MINICOM, RDB, BNR, BRD, BDF, RBA and the Association of Microfinance Institutions of Rwanda (AMIR). The PTC will be responsible for, inter alia: (i) providing strategic guidance and technical advisory support for Project implementation; (ii)

reviewing implementation progress on a periodic basis. The PTC shall also be responsible for resolving any Project coordination and implementation bottlenecks that may arise. The PTC is expected to meet on a quarterly basis, and as needed, to review Project results, discuss key issues, and establish key milestones for the following six months.

Figure 3. ERF Governance Structure



38. **Monitoring and Evaluation.** The PCT will continuously monitor the intermediate results indicators in the agreed Results Monitoring Framework (refer to **Annex 1**), and report to WB and AIIB on a quarterly basis. The PCT will coordinate with the IAs to collect the necessary information from PFIs and beneficiary businesses. Financial performance of the BRD will be monitored through independent auditors' reports. A dedicated M&E specialist within the PCT will be responsible for overall coordination of data collection and reporting among project implementing units within the IAs.

39. **AIIB's Implementation Support.** The WB, as the lead co-financier, will take the lead in supervising the Project, in accordance with WB's applicable policies and procedures and a Project CLA, to be signed between the AIIB and with the WB, following the CFA between the two institutions.

40. **Procurement.** AIIB proceeds will only finance sub-component 1c. This sub-component is not expected to involve any public procurement of goods, works or services. Project component 3 is the only component expected to involve public procurement. Procurement will be carried out in line with the WB Procurement Regulations and will be subject to WB Anti-Corruption Guidelines. WB Procurement Regulations and Anti-corruption Guidelines are materially consistent with AIIB's Procurement Instructions to Recipient and Prohibited Practices and therefore, deemed fit-for-purpose. For sub-loans financed under sub-component 1c., BRD and PFIs will conduct sub-loan due diligence to be satisfied that the beneficiary will undertake any CAPEX-related procurement in accordance with normal procurement practices of private entities.

41. **Financial Management.** BRD is the IA for Project sub-component 1c. BRD's SPIU, supported by BRD's finance team, will be responsible for financial management and disbursement activities related to sub-component 1c. BRD follows the modified accrual basis of accounting for WB projects, and will apply this method for its Project accounting. Project funds will be disbursed through the advance method; other methods such as direct payments, and reimbursement may also be used depending on the case. SPIU's finance team will maintain the Project (sub-component 1c.) accounts and have custody of supporting documents. Financial progress will be reported quarterly via Interim Financial Reports (IFRs) to be submitted within forty-five days of the end of each reporting period. Annual audited financial statements for the Project (sub-component 1c.) will be submitted within six months of BRD's financial year-end to WB and AIIB.

3. Project Assessment

A. Technical

42. **Project Design.** The Project will provide supplementary short-term liquidity support, and significant medium-term recovery support, to the private sector. The Project will also provide technical assistance to: (i) the implementing agencies BRD and BDF to strengthen their implementation capacity; (ii) MSMEs to enhance their ability to access finance from the Project, in the short term, and from financial institutions generally, in the medium to long term.

43. The technical design of the Project is deemed viable and appropriate. The instruments deployed will be designed based on known best practice and market principles.

44. **Technical capacity.** The IAs of the Project components are institutions that were selected by GOR to implement the ERF, based on their experience working with the PFIs and sub-borrowers targeted by each given ERF window. IAs are experienced in implementing the envisaged instruments of the Project, based on their individual mandates, track record, and experience to-date working with the ERF.

45. **Operational sustainability.** The Project will promote sustainability by working through existing institutions. It will provide TA to IAs to strengthen their capacity to manage financing to the real sector, which will facilitate continued expansion of access to finance for MSMEs beyond the life of the Project. The Project will provide business advisory services to firms to enhance their business acumen, which will be important to mitigate risk against potential default; this will in turn contribute to the sustainability of lenders. All these factors will strengthen firms' ability to access finance and sustain growth of their businesses beyond the life of the Project, and sustainably contribute to the economy. Additionally, the Project design includes features to minimize mistargeting to non-viable firms. The investment credit line requires own contribution by firms, appraisal and selection of beneficiaries by BRD/PFIs based on analysis of proposals. The revolving nature of the credit line means repayments from sub-borrowers and PFIs will be channeled to new projects. Overall sustainability will be facilitated

by the GOR's strong commitment to support firms affected by the COVID-19 crisis, as evidenced by the GOR's initiative in establishing the ERP, and ERF. The ERP and ERF embodied policies and interventions to support the private sector in general, with specific measures targeting MSMEs and underserved segments of the economy, to help them to survive the crisis, and adapt to the post-pandemic operating environment to ultimately facilitate economic recovery and resilience.

B. Economic and Financial Analysis

46. The economic and financial analysis of the Project is dependent on the merits of each of the loans and sub-loans to be financed by the Project; the specifics of loans/sub-loans are currently not known. Economic analysis is focused on the Project's objective to increase access to finance for private sector, and support Rwanda's recovery and resilience.

47. **Economic analysis.** The Project will lead to more MSMEs being able to access finance to sustain operations, diversify, and expand. This will minimize unemployment and loss of livelihoods, reduce poverty, and accelerate economic recovery. The Project will also lead to investment to scale-up and diversify existing businesses, and establish new firms, in manufacturing-related sectors. This will expand and diversify private sector towards higher value-added activities, and help pave the way to long term sustainable economic resilience.

48. **COVID-19 impact on access to finance.** The banking sector has been cautious to extend new loans, despite entering the COVID-19 crisis in sound condition. Prior to COVID-19, non-performing loans (NPLs) were on a downward trend,[24] and capital adequacy ratios (CARs) remained well above the 15 percent minimum.[25] However, the significant deceleration of economic activities exerted some pressure on the financial sector, with rising NPLs and a declining CAR since March 2020, affecting the extension of new loans.[26] As of October 2020, newly approved loans were 9.2 percent lower compared to the same period in 2019. With respect to MSMEs, an early survey (June 2020)[27] of over 600 businesses found that almost 20 percent did not have any collateral, while over 70 percent only have personal assets; the main financiers of MSMEs – MFIs and SACCOs – were struggling with liquidity challenges. The Project will improve access to finance for businesses, and MSMEs especially.

49. **COVID-19 impact on MSMEs and employment.** MSMEs account for 98 percent of businesses in the formal sector in Rwanda, and 72% of employment (formal and informal sectors combined).[28] MSMEs in Rwanda have been significantly affected by the COVID-19 pandemic due to low demand, disruption

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[24] National Bank of Rwanda. BNR Economic Review. Vol. 16. Feb. 2020
[25] National Bank of Rwanda. Monetary Policy and Financial Stability Statement. February 2021.
[26] World Bank Group. Rwanda Economic Update. Protect and Promote Human Capital in a Post-COVID-19 World. Edition No. 16. January 2021.
[27] Conducted by Manufacturing Africa Program, Foreign, commonwealth and Development Office (FCDO).
[28] Based on data provided by MINECOFIN.

of production and markets, supply and trade. As of June 2020, fifty percent of MSMEs reportedly would not survive more than 3 months.[29] A study conducted from March to August 2020 indicated a 30 percent decline in the economic activity of SMEs compared to pre-COVID-19.[30] Similarly, a 31 percent decline in employment was observed, from 35 employees on average pre-COVID to 24 employees on average in August 2020. The Project will lead to more businesses being able to sustain and grow operations, which will help maintain and create employment.

50. **COVID-19 impact on investment.** Heightened economic uncertainty in Rwanda as a result of COVID-19 has affected business sentiment and resulted in a large decline in private investment. Investment growth rate declined from 32 percent y-o-y in 2019 to -5 percent y-o-y for 2020.[31] The investment decline was largest in the second quarter of 2020, at -25 percent. Based on GOR's assessments, boosting of private sector investment is critical for the economy to recover and achieve sustainable growth. The Project, and in particular AIIB funds, will provide loans to increase private sector investment, to take advantage of viable opportunities and contribute to recovery, growth and resilience-building. The focus on the manufacturing sector will support the GOR's efforts to diversify the economy and move up the value chain, contributing to economic resilience.

51. **Financial analysis.** The financial analysis focusses on the general robustness of the financial sector, and the financial soundness of the BRD, the IA for the AIIB loan.

52. **Financial and banking sector overview.** BNR, Rwanda's central bank, currently regulates 500 financial institutions including the 16 banks, and 457 microfinance institutions which have access to the ERF. Banking and microfinance sectors account for 67 percent and 5.7 percent respectively of total financial sector assets.[32] The banking sector comprises 11 commercial banks, 3 microfinance banks, 1 development bank (BRD), and 1 cooperative bank. Banks maintain sufficient buffers capable of absorbing losses; system-wide total CAR stood at 21.1 percent as at end-December 2020,[33] higher than the minimum regulatory requirement of 15 percent.[34] At an individual level, all banks continued to meet the minimum prudential capital requirement.[35] The liquidity position of the banking sector remains favorable, with Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of banks standing

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[29] According to a survey of 600 businesses conducted by Manufacturing Africa Program, Foreign, commonwealth and Development Office (FCDO).
[30] BPN Rwanda. Measuring the Impact of COVID-19 on Rwandan Entrepreneurs. March to August 2020.
[31] National Institute of Statistics of Rwanda. GDP National Accounts 2020.
[32] National Bank of Rwanda. Monetary Policy and Financial Stability Statement. February 2021.
[33] Ibid.
[34] The Regulation No. 06/2017 of 19/05/2017 on Capital Requirements requires banks to be adequately capitalized by having a total capital of not less than 12.5 percent of total risk-weighted assets of which 10 percent is core capital. In addition to the minimum capital adequacy ratios stated in Article 20 of the Regulation, a bank shall have and hold a capital conservation buffer of 2.5 percent of the total risk-weighted assets over and above these minimum ratios.
[35] National Bank of Rwanda. Monetary Policy and Financial Stability Statement. February 2021.

at 245.7 percent and 161.4 percent respectively as of December 2020, above the 100 percent minimum requirement. Although the banking sector continues to hold adequate capital and liquidity buffers, exposure to hard-hit sectors, the reduced ability of cash-strapped borrowers to service loans, and deferred cash inflows from loan restructuring, have raised credit and liquidity risks.

53. **BRD financial assessment.** BRD is a public limited liability company, regulated by the BNR. BRD's main business includes: (i) credit line facilities to finance working capital needs (13.7 percent of portfolio); (ii) short-, medium-, and long-term investment loans in priority sectors (76 percent of portfolio); and (iii) equity participation in any company, up to 25 percent of the company's portfolio (9.7 percent of the portfolio). In 2016, BRD and its shareholders initiated turnaround and transformation strategies that have concretely strengthened the BRD and contributed to improving its financial profile. Since then, BRD has benefitted from several capital injections, which have strengthened its capacity to deliver on its ambitious developmental objectives, in line with its expectations of playing a major role in driving Rwanda's transformational economic agenda. In 2018, BRD approved its new seven-year strategic plan (2018-2024). BRD's performance has markedly improved in 2019 and 2020 compared to the previous years. This has mainly been driven by the recovery efforts on the written-off book and prevention of migration of good loans to bad loans; these actions have significantly reduced the net impairment charge on loans and advances. Close client monitoring has resulted in a reduction of the BRD's NPLs from 19.3 percent in 2018, to 7.5 percent in 2019, and 6.3 percent at the end of the third quarter of 2020. The NPLs in the wake of the COVID-19 crisis are expected to still be above 5 percent by the end of 2020. BRD complies with capital adequacy requirements for banks: as of September 2020, the total CAR was 21.9 percent compared to the 15 percent minimum requirement, and core capital was 16.4 percent compared to the 10 percent minimum requirement. BRD's liquidity ratios are above the minimum ratios required by BNR. The LCR stands at 386 percent, compared to the 100 percent minimum requirement. An overview of BRD's financial statements and financial soundness indicators for 2017-2020 are given in **Annex 3**.

C. Fiduciary and Governance

54. **Procurement.** All procurement will be carried out in line with the WB Procurement Regulations and will be subject to WB Anti-Corruption Guidelines. Sub-component 1.c of the Project, to be financed by AIIB, will not involve any public procurement of goods, works or services. Public procurement will only be undertaken and financed under the non-FI component (component 3) of the Project. WB has conducted a capacity and risk assessment for the two IAs – BDF and BRD – for the procurement under their responsibility. Mitigation measures have been proposed for the risks identified. The Project Procurement Strategy for Development (PPSD) has been developed and outlines the procurement arrangements under the Project. The PPSD describes the overall Project operational context, market situation, and IA capacities, and identifies procurement risks and mitigation measures.

55. **Financial Management Assessment.** Based on an assessment of the Project, FM risk is set as high. Key risks related to BRD, IA for sub-component 1c., are due to: (i) absence of detailed FM guidelines; (ii) inability of BRD SPIU's Management Information System (MIS) to support Project accounting and reporting as per WB requirements; and (iii) possibility that existing Project finance staff face challenges to meet the additional workload of the Project. Proposed risk mitigation measures include: (i) development of detailed FM guidelines for the Project, as part of the PIM; (ii) an update of BRD's MIS to accommodate WB and AIIB requirements; and (iii) recruitment of one additional finance staff (Project Accountant) by BRD's SPIU.

56. **Staffing**. For sub-component 1c., BRD's SPIU finance team will handle Project accounting including recording transactions and processing payments. The team has one FM specialist and one accountant, who manage three on-going WB financed projects. They have sufficient experience with WB Disbursement Guidelines for Investment Project Financing and other FM requirements. An additional Project accountant will be hired to strengthen Project FM functions of SPIU.

57. **Planning and Budgeting.** Planning and budgeting for Project sub-component 1c. will follow the approved internal procedures of BRD and shall be consistent with the Project activities. Project budgets will be presented for approval by BRD's Board of Directors as part of the annual budget approval process. The first Project budget approval may not coincide with the planned annual budget approval timeline, and may thus have a separate Board approval. Actual expenditure versus approved budgets will be monitored on a monthly and quarterly basis via budget execution reports, which cover: (i) budget for the period and the year; (ii) actual expenditure for the period and to-date; (iii) future expenditure commitments; and (iv) balance of period budget taking into account actual expenditure and commitments. The Project annual workplan and budget shall be submitted to the WB and AIIB for no-objection.

58. **Funds Flow.** For sub-component 1c., a Designated Account (DA), in EUR, will be opened in BNR for BRD, for AIIB funds. A separate DA, in JPY, will be opened in BNR for BRD, for WB funds. BRD will open a Project account in local currency (RWF) in a commercial bank approved by WB and AIIB, for BRD to make local currency payments. Upon effectiveness, BRD will submit to the WB a request for withdrawal of funds accompanied by a six-month cash forecast. Based on the WB's transfer request, AIIB will transfer loan proceeds to the DA. Subsequent replenishments of the DA will be based on submissions of applications for withdrawals accompanied by Interim Financial Reports (IFRs). For sub-component 1c., disbursements will follow the ratio of 37.5 (WB) to 62.5 (AIIB).

59. **Accounting and Internal Controls.** BRD's SPIU uses the double entry modified accrual-based system of accounting following the International Public Sector Accounting Standards (IPSAS), and has a MIS and an internal audit mechanism. These arrangements will be followed for Project (sub-component 1c.) accounting. The Project will be configured in the existing MIS so that project transactions are easily identified. BRD's MIS will be modified to accommodate WB and AIIB reporting requirements. All Project transactions will

follow BRD's existing internal control procedures. Project-specific FM requirements, which are not addressed by BRD procedures, will be detailed in the PIM.

60. **Financial Reporting.** For sub-component 1c., BRD's SPIU will also prepare and submit quarterly Interim Financial Reports (IFRs) to WB and AIIB within forty-five days of the end of each quarter. Financial reporting will be in Rwandan francs. SPIU's Project finance staff will coordinate FM arrangements with BRD's finance team, and provide overall assurance on the use of Project funds, prepare and disseminate progress and financial reports, and facilitate audits of Project financial statements.

61. **Internal Audit and External Audit.** BRD's internal audit team is adequately staffed. BRD uses a risk-based internal audit methodology. BRD has an adequate three-year plan and annual audit plan. BRD's ongoing WB-supported projects are currently audited by private audit firms regulated by the Institute of Certified Public Accountants of Rwanda; this is expected to remain the case for this Project. External auditors will provide a separate audit opinion on the Project (sub-component 1c.) financial statements and a separate management letter to BRD. These will be submitted to WB and AIIB within six months of BRD's financial year-end.

62. **Disbursements.** All Project disbursements will be handled by WB according to its disbursement procedures using WB's Client Connection System. WB will receive withdrawal applications from BRD and forward the payment requests to AIIB. AIIB will process requested funds to the EUR-denominated DA for BRD for AIIB funds. An initial advance will be made based on a six-month forecast of expenditure by BRD. AIIB funds will finance the eligible expenditures under sub-component 1c. according to the stipulated percentages. The disbursement of Loan proceeds will be made primarily using the advance method. The details of this arrangement and other disbursement specifics will be finalized through the issuance of the WB's Disbursement and Financial Information Letter.

63. **Governance and Anti-corruption.** AIIB is committed to preventing fraud and corruption in the projects it finances. For this project, the WB's Anti-corruption Guidelines, which are materially consistent with AIIB's Policy on Prohibited Practices (2016), will apply. However, AIIB reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft or coercive practices relating to the Project and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate. MINECOFIN and BRD will be required to report to AIIB any suspected Prohibited Practices in relation to the Project.

64. Rwanda is not on the FATF List of Countries that have been identified as having strategic Anti-Money Laundering (AML) deficiencies. The country is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Rwanda is not a major or offshore financial center. The financial

system is relatively unsophisticated, although the number of electronic transactions is rising.[36] Rwanda is ranked 49 (out of 180 countries) by Transparency International Corruption Index 2020.[37] The country has ratified the United Nations (UN) Anticorruption Convention, and it is also a signatory to the OECD Convention on Combating Bribery, and a signatory to the African Union Anticorruption Convention.

65. **Financial Crime and Integrity Due Diligence (FCIDD) and Know Your Client (KYC).** Following AIIB's applicable policies and guidelines, KYC/FCIDD has been carried out to assess Financial Crime (FC) risks, including Money Laundering/Financing of Terrorism (ML/FT) risks, Sanction risk, and risk deriving from Integrity unsoundness when dealing with its Counterparties and Connected Parties in the financing. For the purpose of KYC/FCIDD, Rwanda has been considered to be a medium-risk jurisdiction.

66. **KYC/FCIDD on Counterparties.** Integrity searches have been performed on the state representatives of the Republic of Rwanda, as well as senior management of MINECOFIN (including the authorized person signing financing agreements with AIIB), BRD and ERF. No critical findings were found, with the exception of adverse news against former officials of the Ministry and BRD.[38]

67. **Sanction risk.** Arms embargo was imposed against Rwanda by the UN in 1994 (in response to ongoing violence in Rwanda). The embargo was lifted in 2008 in light of the steps towards the restoration of peace and stability. In addition, sanctions were imposed in 1999 and lifted in 2009 by the Department of Foreign Affairs, Trade and Development (DFATD), Canada.

68. **KYC/FCIDD on Connected Parties.** AIIB has carried out a due diligence process to assess BRD's capabilities to prevent fraud and corruption, as well as its ability to control ML/FT risk.[39] BRD is a Public Limited Liability Company created on August 5, 1967 with its head office in Kigali, Rwanda. The bank's shareholding is as follows: Agaciro Development Fund[40] (65.9 percent), Rwanda Social Security Board (RSSB)[41] (32.2 percent), Belgium Government (1.2 percent), SONARWA (0.46 percent), and Bank of Kigali (0.14 percent). The company is a financial institution registered at the Office of the Registrar General and is subject to the relevant regulatory framework in Rwanda. BRD has KYC and AML policies and written procedures in place (including transaction monitoring and name screening standards). There is a dedicated function to manage AML/CFT, anti-bribery and corruption (ABC) policies. In addition, BRD has put in place and anti-corruption and fraud committee to

[36] Source: US Department of State Money Laundering assessment (INCSR), 2016.
[37] The higher the ranker, higher the corruption level.
[38] The former CEO of BRD (Jul 2013 to Dec 2017) was found guilty of soliciting and receiving illegal benefits in order to offer a service and favoritism, and sentenced to six-year imprisonment and subject to a financial penalty.
[39] BRD has completed AIIB AML/CFT Due Diligence Questionnaire for Assessing Financial Institutions and Wolfsberg Group AML Questionnaire.
[40] Agaciro Development Fund is Rwanda's sovereign wealth fund.
[41] RSSB is Rwanda's comprehensive social security system.

prevent fraudulent practices in its operations. The institution provides banking services only to domestic customers.

69. The Project Team also performed screening against the 15 additional banks licensed to operate in Rwanda that would be potential PFIs under the Project through Thomson Reuters World Check and Nexis Diligence. The screening identified some findings for a limited number of institutions.[42] Overall, the Project Team believes the findings are not material and that the potential PFIs do not pose an unacceptable integrity risk to AIIB.[43]

70. **Institutional Capacity.** The Project includes the necessary implementation agreements, TA, institutional capacity building activities to sustain the Project objectives.

D. Environmental and Social

71. **Applicable Policy.** The loan will be co-financed with the WB as lead co-financier, and the Project's environmental and social (ES) risks and impacts have been assessed in accordance with the WB's Environmental and Social Framework (ESF). To ensure a harmonized approach to addressing the ES risks and impacts of the project, and as permitted under AIIB's Environmental and Social Policy (ESP), the WB's ESF will apply to the project in lieu of AIIB's ESP. AIIB has reviewed the WB's ESF and is satisfied that: (a) it is consistent with AIIB's Articles of Agreement and materially consistent with the provisions of AIIB's ESP and the relevant Environmental and Social Standards (ESSs); and (b) the monitoring procedures that are in place are appropriate for the project.

72. **Categorization and Instruments.** The WB has categorized the ES risks of the Project as "Substantial" (which is equivalent to Category FI if AIIB's ESP were applicable). The environmental and social (ES) instruments for this Project will include the following: (a) an Environmental and Social Management System (ESMS) to be used by BRD and BDF; and (b) an Environmental and Social Management Framework (ESMF) to be used by BRD for substantial risk subprojects (as defined under WB's ESF). Consistent with the WB's ESF, adoption of the ESMS, and preparation and disclosure of the ESMF, will be a condition of disbursement for both AIIB and WB loans in accordance with WB's IPF Policy (para. 12) for situations of urgent need of assistance or capacity constraints. In addition, MINECOFIN has prepared an Environmental and

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[42] Integrity check has been performed on the following financial institutions: Bank of Kigali, I&M Bank, Cogebanque, NCBA, Ecobank, Banque Populaire du Rwanda, Equity Bank, Access Bank, Bank of Africa, and Guaranty Trust Bank.

[43] Adverse news related to lack of AML controls and other regulatory fines have been reported against 7 of the 16 banks for their operations in other countries (Kenya, Tanzania, Nigeria and Sierra Leone), but not in Rwanda. On a separate note, the former Managing Director of Cogebanque (2014 to Sept 2015) has allegedly been involved in acts that amounted to abuse of office, suspicious transactions, and money laundering among others. He was asked to leave Rwanda as his work permit was revoked.

Social Commitment Plan (ESCP) and a Stakeholder Engagement Plan (SEP), which have been disclosed by BRD.[44]

73. **Environmental and Social Aspects.** Nine of WB's Environmental and Social Standards (ESS) have been applied to the Project, namely WB's ESSs on Assessment and Management of ES Risks and Impacts (ESS1), Labor and Working Conditions (ESS2), Resource Efficiency and Pollution Prevention and Management (ESS3), Community Health and Safety (ESS4), Land Acquisition, Restriction on Land Use and Involuntary Resettlement (ESS5), Biodiversity Conservation (ESS6), Cultural Heritage (ESS8), Financial Intermediaries (ESS9) and Stakeholder Engagement and Information Disclosure (ESS10). An Exclusion List has been prepared for the Project and will be applied to sub-projects under Components 1 and 2. Sub-projects that are screened to be of high ES risks under the WB ESF (equivalent to Category A subprojects if AIIB's ESP were applicable), including those requiring involuntary resettlement, and those with impacts on sensitive or protected areas, and cultural heritage, will not be eligible for Project financing. BRD's ESMF for the Project, and ESMSs for BRD and BDF, will be used to screen sub-projects to be financed under the Project, prior to approval by BRD/BDF of the loan for the sub-project concerned. Under sub-component 1c., for sub-projects with low to moderate risk, BRD's ESMS will be applicable. For sub-projects with substantial risk, BRD's ESMF will be applicable.

74. MINECOFIN will be responsible for the coordination of the ES risk management and will work closely with IAs in the preparation of all relevant ES instruments. During implementation, MINECOFIN as the ES coordinator will prepare and report to the WB and AIIB on ES monitoring semi-annually throughout the Project implementation period including for sub-component 1c.

75. BRD, IA of component 1c., which will be co-financed by AIIB, has an existing ESMS and has prior experience with ESMS implementation under a WB-financed project.[45] BRD is also familiar with WB's ESF policies. BRD's ESMS is expected to be updated by June 30, 2021. It will be submitted to WB and AIIB for review. The updated ESMS will include provisions to cover the following matters: (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of ES risks and impacts (including occupational, health and safety aspects) of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of ES risks of subprojects and the portfolio; and (v) external communication mechanisms and grievance redress mechanism. BRD's ESMS requirements will be cascaded to the PFIs and beneficiary enterprises, through the participation agreements. Non-AIIB funded components will use a similar ES approach, as well as ES instruments. For sub-component 1c., the PFIs and firms to be financed are still unknown at this stage of the Project preparation. BRD's ES team will review and conduct environment and social due diligence (ESDD) on

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[44] Link on BRD's website
[45] Rwanda Housing Finance Project

the first five sub-projects of each PFI, co-financed by both AIIB and WB. WB will conduct prior review of BRD's ESDD reports. Thereafter WB, with BRD, will conduct supervision spot checks for selected sub-projects. The details of prior and post review will be described in the PIM. AIIB's ES specialists will jointly review the initial five co-financed sub-projects under component 1c. during implementation, and will participate with WB in its supervision of selected sub-projects, as feasible.

76. Project activities are not expected to have large-scale, significant, and/or irreversible ES impacts. The potential environmental risks and impacts concern Component 1 (Liquidity and Recovery Facility) and Component 2 (Risk-sharing Facility). Under component 1c., no major civil works are expected; and if required, such civil works will be carried out within the existing facilities of the target businesses. The main ES risks are associated with labor and working conditions, operational health and safety (OHS), community health and safety, dust and noise emissions, energy/water use, waste generation, air/soil/water pollution, exclusion of disadvantaged groups (women, youth, persons living with disability, ethnic marginalized and minority groups), poor working conditions and child labor at the sub-project level. These overall risks and impacts are expected to be site specific, reversible and managed with standard mitigation measures and compliance with national laws and WB's ESSs. BRD will carry out a Social Assessment (SA) as part of the ESMF, which will cover matters related to child labor, gender-based violence (GBV) and other social risks and measures, and the resources available to mitigate them. The SA results and implementation measures will be integrated in the ESMF for BRD.

77. Under sub-component 1c., PFIs and beneficiary businesses will be required to follow BRD's ESMS or ESMF (as applicable). PFIs will monitor the entire WB/AIIB-financed portfolio and report to BRD in a manner acceptable to WB and AIIB. Project activities under sub-component 1c. with low to moderate ES risks will be addressed through BRD's ESMS. For Project activities anticipated to have substantial ES risks, BRD's ESMF will provide the required process for beneficiary businesses to prepare, implement, monitor and report on environmental and social impact assessment (ESIAs)/environmental and social management plans (ESMPs).

78. **Gender Aspects.** The number of women-inclusive[46] MSMEs is expected to increase as a result of the Project, due to better access to finance. Women head 42 percent of enterprises and women-inclusive businesses comprise 58 percent of enterprises in the informal sector. The COVID-19 pandemic has added extra challenges to women entrepreneurs who still face difficulties to access three important factors: (i) information; (ii) business skills training and

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[46] Women-inclusive enterprises are defined as: (i) owned by women (i.e. with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed by women (i.e. with at least one female chief-level (C-level) manager or with at least 25 percent female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) having increased the share of women employment by at least 5 percent in the previous year.

development; and (iii) finance. The Project will improve access to information on the ERF and how to access available financing. Women-inclusive businesses will be targeted in the awareness and communication campaign under sub-component 3a.

79. **Occupational Health and Safety and Labor Management.** The work of FIs is not anticipated to create workplace OHS risks, however there is a risk of poor working conditions and child labor at the beneficiary level. Under sub-component 1c., BRD will prepare a labor management procedure (LMP) outlining the provisions to manage labor and OHS issues as a condition of disbursement of both WB and AIIB loans as stated in the ESCP.[47] IAs, including BRD, will have in place and maintain appropriate LMPs, including procedures relating to working conditions and terms of employment, non-discrimination and equal opportunities, grievance mechanism, OHS and sexual harassment. The updated ESMS will require PFIs to assess beneficiaries so that they meet the requirements of national labor laws.

80. **Stakeholder Engagement and Consultation.** A SEP has been prepared for the Project and disclosed.[48] The SEP includes: (i) activities carried out by the IAs to provide inputs for Project design; (ii) preliminary stakeholder identification (PFIs and beneficiaries) and analysis of vulnerable subgroups within the MSMEs; (iii) strategies, proposed activities, types of information and dissemination means to be used to inform stakeholders and collect their feedback during the different phases of the Project; (iv) timelines; (v) follow-up and monitoring regarding the SEP implementation; (vi) an institutional arrangement including personnel, functions and responsibilities regarding SEP implementation; (vii) a Grievance Redress Mechanism (GRM) that will be improved and maintained throughout Project implementation. Due to the COVID-19 pandemic and restrictions on public meetings, initial consultations done by IAs to collect and record stakeholders' opinions were conducted through digital and remote technology (social media, video calls, virtual meetings, Skype, emails and other virtual technologies).

Citizen engagement is embedded in the Project design and SEP so that the beneficiaries can gain access to the credit facility and provide feedback to the design and rollout of the Project. Further, IAs will conduct a survey of beneficiary enterprises under Component 1, to solicit views on experience with Project implementation – these will inform further Project implementation strategies, as appropriate. The Project will further strengthen grievance redress and beneficiary feedback mechanisms to allow for intake of all citizen's inquiries and complaints. Information on the GRM will be made available on the IAs' websites, at public events and in annual reports.

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[47] WB will review BRD's existing human resources (HR) policy to assess its adequacy on labor management and OHS issues. If deemed adequate, BRD's HR policy will be integrated into the ESMS to be cascaded down to the PFIs.

[48] Link on WB's website

81. **Information Disclosure.** The ESCP and SEP have been disclosed by BRD, and AIIB's website includes a link to BRD's and the WB's websites, where these documents can be found.[49] A summary of BRD's updated ESMS and its ESMF will also be disclosed, and AIIB's website will include a link to the documentation on BRD's and WB's websites.

82. **Project Grievance Redress Mechanism.** Each IA will have its own GRM. IAs will have guidelines and requirements for PFIs and beneficiaries to develop and implement a GRM at their level. BRD's existing GRM will be used for component 1c. and will be improved as part of the ESCP. It will include a protocol for handling complaints, including staff complaints and confidentiality, e.g., GBV complaints. BRD will also increase resource capacity. This will include the addition of one GRM officer, funded through component 3b. of the Project. The GRM officer will cover GRM-related issues, and ensure timelines for grievance resolution are observed and maintained. Existing ES specialists at BRD will be assigned to the Project, and will be responsible for the day-to-day running of the Project's ES activities.

83. **Applicable Independent Accountability Mechanism**. As noted above, the WB's ESF will apply to this Project instead of AIIB's ESP. Pursuant to AIIB's agreement with WB, the WB's ESF will apply to this Project instead of AIIB's ESP. The WB's corporate Grievance Redress Service (GRS) and its Independent Accountability Mechanism, the Inspection Panel, which reviews the WB's compliance with its policies and procedures, will handle complaints relating to ES issues that may arise under the Project. In accordance with AIIB's Policy on the Project affected People's Mechanism (PPM), submissions to the PPM under this project will not be eligible for consideration by the PPM. Information on WB's corporate GRS is available at http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. Information on WB's Inspection Panel is available at http://www.inspectionpanel.org.

E. Risks and Mitigation Measures

Table 2. Summary of Risks and Mitigating Measures

Risk Description	Assessment Ratings	Mitigation Measures
Governance risk • Governance structure inadequate given relative complexity of Project, including several layers between Borrower and beneficiary, and several IAs and PFIs.	Medium	• Governance structure, which is based on the existing governance structure for ERF, has 1 year of experience at the given level of Project complexity. • Existing ERF governance structure will be institutionalized under the Project. • PIM will outline roles, responsibilities and authority of all stakeholders in the Project.

[49] Link on AIIB's website

Macroeconomic risk • Macro-economic challenges due to the impact of COVID-19 affect Project prioritization and execution.	Medium	• Proactive nature and strong commitment of Government to its COVID-19 response (ERP, ERF), and this Project as part of that, means Project likely to remain a priority.
Sector strategies and policies risk • Risk of funds not going to target sectors to ensure benefit to Asia.	Medium	• Detailed loan/sub-loan eligibility criteria will be provided in PIM. • BRD will be required to report on loan allocation according to target sectors.
Institutional capacity risk • MINECOFIN unable to effectively monitor and coordinate the various, complex project activities. • BRD lacks required implementation capacity.	Medium	• PIM will outline roles, responsibilities and authority of all stakeholders in the Project. • Dedicated team at MINECOFIN in charge of day-to-day coordination. The National Steering Committee and Project Technical Committee provide overall oversight. • Dedicated team at BRD in charge of day-to-day management and monitoring. BRD team to be reinforced through Project.
Financial management risks • Potential funds flow delays affect delivery of critical Project activities. • Traceability of funds, given: (i) indirect lending component of the investment window; (ii) decentralized management of financial resources by PFIs and businesses. • Unreliable and/or delayed financial reporting • Absence of detailed FM guidelines • BRD SPIU's Management Information System (MIS) not able to support Project accounting and reporting as per WB requirements	High	• Funds disbursed by AIIB on six-month cash-flow need. • Designated account will be opened in BRD. • Project will be enrolled in FM systems of BRD to ensure real-time processing and monitoring capabilities. • Project financial statements to be independently audited, based on terms of reference acceptable to AIIB and WB. • Formal internal control framework will be included in PIM, together with detailed FM guidelines for the Project. • Update of BRD's MIS to accommodate WB and AIIB requirements.
Environmental and social risk • Potential environmental risks associated with labor and working conditions, OHS, community health and safety, dust and noise emissions, energy/water	Medium	• Risks expected to be site-specific, reversible, and managed with standard mitigation measures, and compliance with national laws and WB's ESSs. Project will have an Exclusion List against which sub-loan applications will be screened prior to approval. • An ESCP and SEP have been prepared and disclosed. These will facilitate smooth

use, waste generation, and air/soil/water pollution. • Exclusion of disadvantaged groups (women, youth, persons living with disability, ethnic marginalized and minority groups), poor working conditions and child labor at the sub-project level. • Capacity of BRD to manage ES risk. • PFIs inexperienced in developing and implementing ESMS requirements		implementation including recruitment of qualified ES staff. • BRD is experienced in managing ES risks and impacts associated with use of MDB funds. • BRD SPIU will have a dedicated ES specialist for the Project. BRD will update its ESMS and prepare an ESMF so that PFIs appropriately classify and manage the ES risks of their financing activities. • BRD and WB will assist PFIs to comply with ES requirements. BRD will report on a regular basis to MINECOFIN who will coordinate and prepare semi-annual reporting to WB/AIIB on the implementation of the ESMS across PFIs and sub-borrowers.
Asset quality • Deterioration of the quality of the sub-loan portfolio as evidenced by NPL ratio and other metrics	High	• With respect to direct lending, recent performance indicates BRD is diligent in managing its NPL ratios. • For indirect (apex) lending, BRD will only assume the credit risk of the PFIs. • PIM will set eligibility criteria for PFIs and sub-borrowers. Refer to Annex 4 for details on PFI and sub-borrower eligibility criteria.

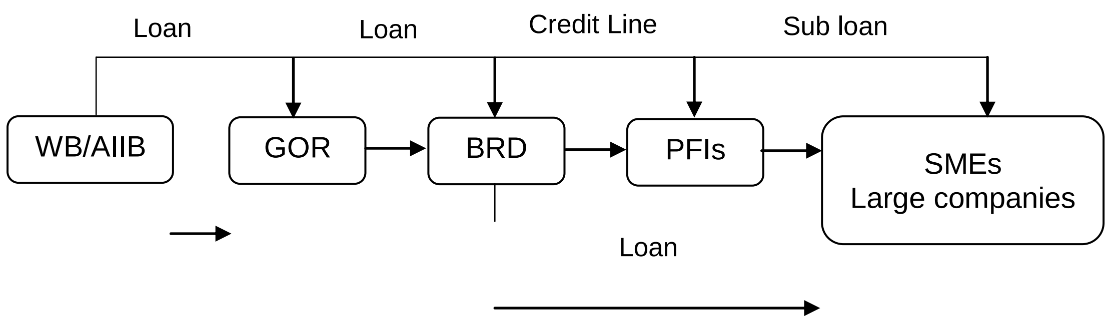
Annex 1: Results Monitoring Framework

Project Objective:	To facilitate economic recovery and resilience in Rwanda by addressing the financing constraints of private sector businesses post COVID-19									
Indicator Name	**Unit of measure**	**Base -line**	**Cumulative Target Values**					**End Target**	**Frequency**	**Respon sibility**
			YR1	**YR2**	**YR3**	**YR4**	**YR5**			
Project Objective Indicators:										
1. Businesses receiving sub-loans under sub-component 1c.	Number	0	60	119	209	268	300	300	Quarterly	BRD
2. Volume of loans provided under sub-component 1c.	Amount (M USD)	0	20	40	70	90	100	100	Quarterly	BRD
Intermediate Results Indicators:										
1. Non-performing loans in the BRD sub-loan portfolio	Percent	4.5	5%	5%	5%	5%	5%	5%	Quarterly	BRD
2. Funds disbursed to priority (AIIB Group 1) sectors under sub-component 1c.	Percent	0	60%	60%	60%	60%	60%	60%	Quarterly	BRD
3. Women-inclusive firms receiving sub-loans	Percent	18	35%	35%	35%	35%	35%	35%	Quarterly	BRD
4. Average tenor for investment loans under sub-component 1c.	Years	8	10	10	10	10	10	10	Quarterly	BRD

Annex 2: Detailed Description of Sub-component 1c. of the Project

1. **Investment credit line**. [50] Sub-component 1c. comprises lines of credit to cover: (i) working capital of existing businesses (allocation is approximately 6 percent of funds available under component 1c.); and (ii) investment-related loans. Investment-related loans can be used to cover CAPEX, as well as OPEX and working capital related to high growth-potential investments. BRD will provide the loans to large companies and SMEs,[51] either directly, or via credit lines extended to PFIs who will on-lend to eligible companies (large companies and SMEs). The majority (a projected 60 percent, at least) of investment-related financing will be provided through on-lending to PFIs. Direct lending (a projected maximum of 40 percent of total financing) will be undertaken by BRD, in the following situations: i) the proposed investment financing has a risk profile that does not fall within the acceptable limit of PFIs;[52] ii) syndicated transactions, where BRD acts as the lead arranger. BRD will not compete with PFIs.[53] Sub-loans are expected to have a maximum maturity of 15 years.

Figure 4. Investment Credit Line Structure



2. **Eligible beneficiaries**. The Project adopts eligibility conditions for PFIs and sub-borrowers (businesses). AIIB has adopted additional targets for businesses to ensure strategic alignment. These are outlined in paragraph 7 below.

3. **Eligible sectors for investment**. The investment credit line is open to all sectors, with priority given to select sectors, based on their growth potential and role in transitioning the economy towards higher value-added sectors, and greater diversification. Priority sectors identified by MINECOFIN are manufacturing-related

[50] The detailed project description centers on aspects related to AIIB proceeds, and thus focusses primarily on the investment credit line, disbursed and managed by BRD.
[51] For Project reporting purposes, SMEs are defined by MINECOFIN as follows: small – turnover of RWF 50-500 million (approximately USD 50,000 to 500,000); medium – turnover of RWF 500 million to 1 billion (approximately USD 500,000 to 1 million); large – turnover greater than RWF 1 billion (greater than approximately USD 1 million). Micro-enterprises are businesses with turnover less than RWF 50 million (less than approximately USD 50,000). This definition will be included in the PIM.
[52] BRD has stronger risk assessment capabilities than PFIs. A transaction deemed unacceptable to the PFI, based on their risk assessment capabilities, could still be attractive when evaluated based on BRD's process and capabilities.
[53] The Project Implementation Manual will outline the process by which loans will be directed to BRD; this includes ensuring that PFIs have first been given the opportunity to consider undertaking the loan.

sectors: agro-processing; construction materials; textiles; and light manufacturing.[54] Linked value chains, that provide inputs to or take outputs from the target sectors, are also eligible.

4. BRD is the sole provider of long-term finance to the private sector in Rwanda. BRD has a strong track record working with the manufacturing and related sectors, both via direct lending and on-lending. The asset quality ratio of BRD's manufacturing portfolio is good, with a significantly lower single-digit NPL rate.

5. **Eligibility criteria for PFIs**. Eligible PFIs must satisfy the expectations with respect to their financial standing and health and their ability to withstand downside risks. Moreover, PFIs must demonstrate strong capacity to implement the project according to WB standards including meeting the criteria established in the Project's environmental and social documents. **Annex 4** gives further details on PFI assessment and eligibility criteria.

6. **Eligibility criteria for sub-borrowers**. Sub-borrowers will be local and foreign companies, operating in Rwanda, in an eligible sector; sub-borrowers will not have as their main activity any of those mentioned in the exclusion list applicable for this Project.[55] Sub-borrowers are existing expansion-ready firms looking to scale, and firms looking to exploit idle business opportunities. Firms must demonstrate that they were liquid and solvent before the crisis. Firms must provide business and financing plans, demonstrating the financial viability of the proposed investment and its contribution to economic recovery (job creation). **Annex 4** gives further details on sub-borrower assessment criteria. Firms are required to contribute a minimum of 30 percent of the total sub-project cost. There is no prescribed minimum investment size. In order to make financing available to a large number of beneficiaries, there will be a cap per loan per business; the cap is roughly USD ten thousand for "anchor"[56] firms, and USD five thousand for firms in value streams upstream and downstream of the target sector. A target will be included in the Project indicators so that a sufficiently large number of businesses benefit from the Project. BRD has established a preliminary pipeline of investments totaling USD 119 million.

7. **AIIB prioritization criteria**. The AIIB loan will seek to benefit businesses whose operations are linked to the country's trade activity with Asia. BRD has identified a number of high-growth, impactful sectors, sub-sectors, and value chains for financing. AIIB proceeds will be channeled primarily to activities under Group 1, applying ISIC rev. 4. The value of trade with Asia in this Group is significant and quantifiable, as shown in **Annex 5**. A target will be set in the Project indicators for the majority of funds under sub-component 1c. to go to Group 1 activities. Results will be monitored in line with the target.

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[54] Investments in other sectors may be allowed, provided they are scalable investments that demonstrate significant development impact and are economically feasible.
[55] To be based on the exclusion lists of IFC/WB. To be presented in the PIM.
[56] Anchor firms are the firms whose core business activity lies directly in the sectors/sub-sectors targeted by the investment credit line, versus firms whose core business is in a value chain upstream or downstream of the target sectors/sub-sectors.

Table 3. Investment sectors identified by BRD

	Sector	Sub-Sectors (incl. related value chains)[57]	GOR Priority Area
Group 1	Manufacturing	Agro-processing	Yes
		Textiles	Yes
		Construction Materials	Yes
		Light manufacturing	Yes
Group 2	Services	Education	No
		Health	No
		ICT	No
Group 3	Infrastructure	Transportation	No
		Infrastructure	No

8. **Monitoring and Evaluation (M&E).** BRD will periodically collect information on the use of Project funds through PFIs and will monitor the Project indicators. BRD's Project management and accounting systems will integrate sector information to allow identification and monitoring of direct-lending sub-loans, according to sectors and value-chains. PFIs will categorize PFI-financed (indirect-lending) sub-loans according to sectors and value chains and report the information to BRD. BRD will periodically evaluate the portfolio of sub-loans granted and measure the contribution of the Project to Group 1 sectors.

9. **ES risk assessment.** To assess ES risk level for sub-loans, BRD will classify sub-loan applications by taking into account: (i) the Project's exclusion list; (ii) WB risk level definitions (high, substantial, moderate, low);[58] (iii) the characteristics of each sub-loan, including, but not limited to: firm size, use of loan proceeds, main economic activity, geographic location and loan size. An ES risk level will be assigned to the sub-loan (high, substantial, moderate, low). The Project will not finance high ES-risk sub-loans.

10. **Exclusion list applicable to sub-borrowers and use of proceeds.** The PIM will adopt an exclusion list consistent with WB's ESF, AIIB's Environmental and Social Exclusion List, and other pertinent policies to delineate the subprojects that will not be eligible for financing. The Borrower and sub-borrower must commit not to use the proceeds for any activities under the Project exclusion list. The Project will not support any involuntary resettlement.

[57] Note that value chains upstream and downstream of target sectors and sub-sectors are also target value chains

[58] World bank Environmental and Social Directive for Investment Project Financing. Link

Annex 3: BRD Financial Information

Table 4. BRD Financial Statements and Financial Performance Indicators (2017-2020), in USD

Account	2017	2018	2019	Q32020
Statement of Comprehensive Income				
Interest income	24,724,904	24,327,976	24,357,819	19,329,179
Interest expense	(13,235,246)	(13,436,755)	(13,903,902)	(9,125,093)
Net interest income	**11,489,658**	**10,891,220**	**10,453,918**	**10,204,086**
Net fee and commission income	**(68,810)**	**(33,358)**	**236,781**	**394,597**
Net foreign exchange losses	(2,022,166)	(3,241,959)	(3,742,885)	(1,863,990)
Other operating income	1,157,155	1,385,431	1,253,816	519,900
Net Fair Value (Loss) / Gain on derivative instruments	(420,787)	(172,202)	4,732	172,546
Net impairment charge on loans and advances	(14,972,466)	(3,942,650)	(2,599,834)	(3,211,615)
Expected credit losses	-	-	-	(218,898)
Operating income	**(4,837,415)**	**4,886,484**	**5,606,527**	**5,996,626**
Share of profit/(loss) of investment in associates	13,383	(242,798)	87,372	(1,300,997)
Employee benefits expenses	(4,582,710)	(4,576,855)	(5,128,457)	(2,723,139)
Depreciation and amortization	(669,993)	(763,488)	(637,301)	(485,467)
Other operating expenses	(2,848,303)	(2,188,824)	(2,306,699)	(1,303,908)
Impairment / Investments in Associates	(3,266,699)	(873,247)	1,544,038	-
Impairment of other assets	(3,450,016)	-	(6,342)	-
Profit/(loss) for the period	**(19,641,752)**	**(3,758,730)**	**(840,862)**	**183,114**
Other comprehensive income				
Fair Value Loss on Equity Investments	(3,659,620)	(1,596,628)	2,202,408	543,943
Revaluation Gain on Property, plant and equipment	-	5,374,675	-	-
Total comprehensive income for the year	**(23,301,372)**	**19,316**	**1,361,546**	**727,057**
Balance Sheet				
Assets				
Cash and balances with the National Bank of Rwanda	1,677,033	5,185,762	15,977,833	15,653,595
Amounts due from other banks	23,970,899	34,376,904	38,910,726	43,092,173
Loans and advances	185,264,112	181,483,526	172,601,370	167,782,011
Investment in associates	10,684,424	9,887,006	13,724,718	12,315,440
Equity investments and fair value through OCI	18,207,757	16,887,022	18,503,643	17,611,094
Property, plant and equipment	11,616,887	15,816,241	14,944,806	15,144,832
Other assets	6,269,249	8,621,844	11,904,199	15,044,416
Total Assets	**257,690,360**	**272,258,306**	**286,567,295**	**286,643,561**
Liabilities				
Dividends payable	13,136	12,681	12,087	11,510
Other payables	13,744,111	9,324,902	6,636,114	3,877,825
Borrowings	177,126,452	179,050,068	192,613,785	189,992,977
Special funds	21,076,969	7,700,420	9,387,058	8,769,143
Grants	616,502	2,899,945	2,812,090	3,778,473
Total Liabilities	**212,577,171**	**198,988,016**	**211,461,134**	**206,429,929**
Equity				
Share capital	8,654,532	45,005,212	46,803,803	53,809,188
Share premium	13,909,733	13,427,296	12,798,205	12,187,658
Other reserves	22,717,437	25,707,564	30,657,832	29,739,202
Retained earnings	(168,514)	(10,869,783)	(15,153,678)	(15,522,415)
Total Equity	45,113,189	73,270,290	75,106,161	80,213,632
Total Equity and Liabilities	257,690,360	272,258,306	286,567,295	286,643,562
Financial Performance Indicators				
Capital Strength				
Core Capital (Tier 1)	23,025,515	50,993,913	52,486,637	57,349,858
Supplementary Capital (Tier 2)	13,373,535	19,285,294	18,852,971	19,228,692
Total risk weighted assets	284,520,847	392,018,346	374,975,481	348,256,384
Tier 1 Capital Ratio	**8.1%**	**13.0%**	**14.0%**	**16.5%**
Total Capital Ratio	**12.8%**	**17.9%**	**19.0%**	**22.0%**
Liquidity Coverage Ratio	146%	189%	705%	386%
Non-performing loans (NPL)	40,103,710	45,886,014	15,563,509	16,410,577
NPL Ratio	16.3%	19.3%	7.5%	6.3%
Leverage Ratio		2.6%	2.6%	2.3%

Source: BRD audited and interim Financial Statements.
Note: Average annual FX Rates have been applied.

Annex 4: PFI, Sub-Borrower and Sub-Loan Eligibility Criteria

PFIs will have to meet eligibility criteria to be specified in the Project Implementation Manual, including those outlined in **Table 5**. In addition, KYC for PFIs shall be conducted in accordance with BRD's compliance policy. ES risk management will be guided by BRD's ESMS which is being revised for the Project.

Table 5. Eligibility criteria for PFIs

Financial health Meets minimum prudential standards set by BNR, and quantitative financial health check parameters, including but not limited to: • Capital Adequacy Ratio: 15 percent • Core Capital Ratio: 12.5 percent • Liquidity Coverage Ratio: 100 percent • Net Stable Funding Ratio: 100 percent • Liquidity Ratio: 30 percent minimum • Loans/Deposits: 80 percent maximum • Fixed Assets/Equity: 75 percent maximum • Total Loans/Total Assets: 80 percent maximum • NPL ratio: 5 percent maximum If the PFI is not in compliance with one or more of the quantitative parameters, BRD will request the PFI to provide a plan to come into compliance. If the plan is deemed adequate, BRD will proceed with the transaction. Additional qualitative and quantitative financial health checks: • Board-approved maturity gap limit, assessed periodically • Regular stress testing • Profitability: positive profit; well diversified income structure; stable earnings trend; well managed cost structure • Asset structure and portfolio quality: acceptable asset structure including concentration; lending to connected parties; asset classification and provisioning; NPL levels and collection practices.
Management and Governance: (also monitored on an ongoing basis) • "Fit and proper" owners, directors and managers • Adequate Board composition and practices • Competent management with adequate managerial autonomy • Robust MIS, with adequate internal controls and security policies • Robust internal audit processes: independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions and follow-up on issues raised in internal audit reports.
Operational Capacity: • Adequate credit policy, including rules for reliable appraisal of collateral • Sufficient capacity to serve SME clients and participate in the Project • Adequate organizational and institutional capacity for its specific risk profile • Ability to track loans by sector, firm size, and financing type (CAPEX, OPEX, WC).
Risk Management • Effective Asset and Liability Management Committee (ALCO) • Well-defined policies and written procedures for financial risk management (liquidity, credit, currency, interest rate and market risks, and risks associated with balance sheet and income statement structures) • Effective loan underwriting processes.

Sub-borrowers/beneficiaries will have to meet eligibility criteria to be specified in the Project Implementation Manual.

All investment-related sub-loans, whether for expansion of existing businesses or for new ventures, will be assessed based on the following factors (non-exhaustive):

- Socio-economic impact: including jobs created, economic development contribution, tax revenue, climate change
- Operating Performance: including sales, expenses, anticipated margins, estimated net present value, projected debt service coverage ratio
- Operating Efficiency: inventory, supply chain, production cycle, working capital cycle
- Liquidity, namely working capital structure
- Capital structure (debt versus owner's equity)
- Structural factors: including size of business, competitiveness, regulatory issues, entry and exit barriers
- Product positioning and technology
- Management capacity
- Industry performance: including industry sales trend, import penetration, failure rates, competition.

In addition, sub-loans will be assessed based on the criteria outlined in **Table 6**.

Table 6. Sub-loan and sub-borrower assessment criteria (expansion/scale up)

Expansion or Business Plan indicating:

- Product description
- Environmental scan (SWOT analysis), risk identification and mitigating factors
- Projected cost breakdown, sales price and competition pricing
- Production capacity and market demand analysis
- Marketing and distribution strategy
- Business and operations management

Financing Plan indicating:

- Required investment amount, investment type (CAPEX, OPEX, working capital (WC)), and use of investment
- Project repayment plan (debt schedule or dividends pay-out strategy), exit strategy
- Projected revenues and profit margin
- Cash flow projections
- Job creation estimate, including type and estimated salary

Financial History of the company (existing businesses only)**:**

- Audited financial statements[59] (pre-COVID; minimum of 3 years)
- Management accounts covering 2020 performance post-lockdown
- Bank statements indicating firm revenue on (minimum) quarterly basis
- Existing financial commitments, including amount, duration and repayment schedule

Based on the above information, and additional information as required, firms applying for investment-related loans are assessed based on their financial and operational track record, the required level and type of investment, the financial viability of the proposed investment, and the potential contribution of the investment to economic development.

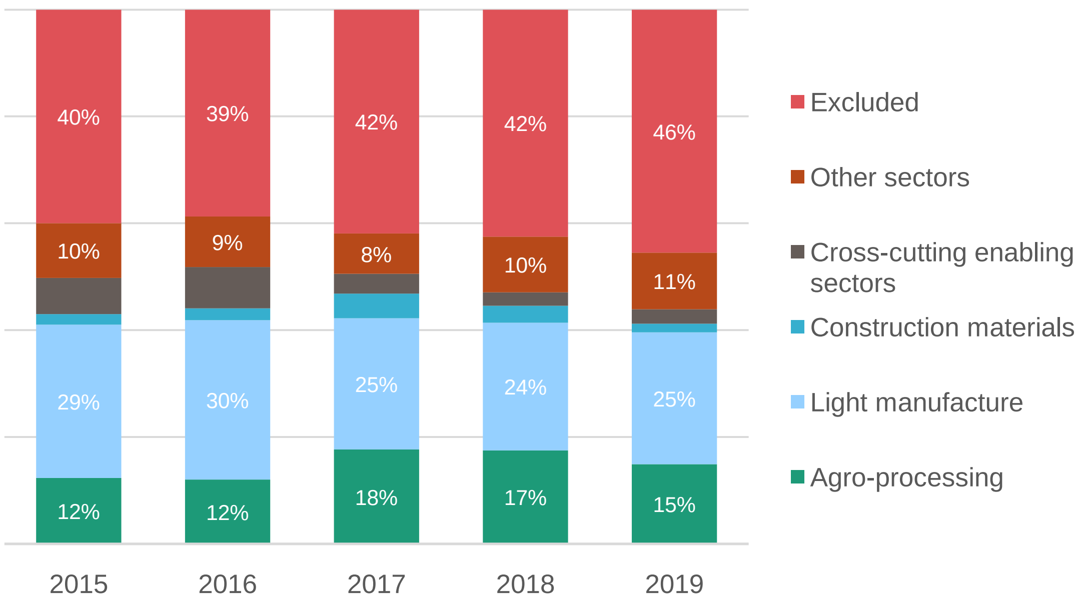
[59] For businesses with turnover exceeding RWF 400 million (approximately USD 4,000).

Annex 5: Investment Sectors and Trade with Asia

11. **Manufacturing-related sectors and economic recovery in Rwanda**. The manufacturing-related sector, which comprises primarily agro-processing, construction, textiles, and light manufacturing, represents approximately 17 percent of GDP.[60] The sector is experiencing gradual diversification from basic manufacturing to higher value-added activities in sub-sectors such as consumer goods, construction materials, electronic and automotive manufactured goods, furniture and laboratory equipment.[61] The sector is showing signs of recovery; sector GDP for 2020 increased by 2 percent compared to the previous year, the highest increase amongst all sectors.[62] Projections indicate strong growth potential for the sector in the medium term, with sector GDP projected to increase 6.8 percent in 2021 and 8.3 percent in 2022.[63]

12. **Manufacturing sector and trade with Asia.** Rwanda's trade with Asia currently accounts for 47% of its overall trade, and trade activity between Rwanda and regional members showed an average annual growth rate (CAGR) of 10.4% over the period 2015-2019.[64] The manufacturing-related sectors, targeted as priority areas for investment under the Project – AIIB Group 1 sectors – accounted for 48.6% of Rwanda's trade activity with Asia, on average over the last five years.

Figure 5. Composition of trade activity between Rwanda and Asia (2015-2019)



Data Source: UN Comtrade

Notes: 1. Excluded sectors are mostly mining-related sectors
2. Textiles is included under light manufacture
3. Cross-cutting enablers are linked value chains

[60] National Institute of Statistics of Rwanda. GDP National Accounts 2020. Link
[61] Rwanda Development Board. Link
[62] National Institute of Statistics of Rwanda. GDP National Accounts 2020. Link
[63] Based on data provided by MINECOFIN.
[64] Calculated based on UN Comtrade data.

Annex 6: Sovereign Credit Fact Sheet

A. Background

1. **Context.** Rwanda is a small, landlocked, low-income country in Eastern Africa, with a population of around 12.5 million and income per capita of around USD 800. Since the devastating civil war of 1994 Rwanda has made a decisive turnaround. Underpinning the good performance was an uninterrupted period of political stability, Government's strong focus on its home-grown development agenda, investment in infrastructure and human capital, as well as support from development partners. Rwanda has put in place a relatively strong institutional framework (as measured by Worldwide Governance Indicators, or WGI). It has also reformed its private sector business environment, rising to the 38th rank globally in 2020, well ahead of its African peers. Macroeconomic stability has been maintained, and the country has embraced regional integration through the East African Community (EAC). To overcome infrastructure constraints, the government has been promoting a service-oriented development strategy, with a focus on international business hospitality, mid- to high-end tourism and re-exports.

As a result, economic growth has been consistently robust for the past two decades, at around 7.5 percent per year on average. Access to basic services has improved significantly, infant mortality fell by a half, and poverty declined from 77 percent in 2001 to 55 percent in 2017, according to official statistics. Hailed as a success story, Rwanda has become an exemplar of development among the donor community.

2. **Still, viewed in absolute terms, Rwanda's development challenges are formidable.** Half of the population lives in extreme poverty. Pervasive infrastructure shortages result in high transportation costs and render many businesses uncompetitive. Human capital is still low. Export base is very small (around 10 percent of GDP) and narrow (agriculture, limited mining products). Agriculture accounts for a third of the economy (much of it subsistence farming) and 60 percent of employment. There is a large informal sector.

Selected Indicators 1/	2017	2018	2019	2020	2021	2022
GDP growth 2/	4.0	8.6	9.4	-3.4	5.7	6.8
Inflation 2/	4.8	1.4	2.4	7.7	2.5	4.1
Fiscal balance 3/	-2.5	-2.6	-5.2	-5.4	-4.0	-4.3
Public debt 4/	41.3	45.0	51.0	61.0	66.0	67.9
Current account balance	-9.5	-10.4	-12.4	-12.2	-12.6	-11.4
External debt	45.8	49.4	53.6	63.8	66.8	69.5
FX reserves (USD billion)	1.26	1.32	1.44	1.64	1.46	1.56
Exchange rate (RWF/USD) 5/	..	879.1	922.5	972.5	980.6	..

Source: IMF WEO Apr 2021; IMF Country report 21/1; Rwanda's central bank
Notes: 1/ 2020: estimations, 2021-22: projections, in percent of GDP—unless indicated otherwise; 2/ percent change y-o-y, average, data for 2020 is actual from National Statistical Institute; 3/ calendar year basis, IMF definition; 4/ excluding guarantees; 5/ RWF=Rwandan franc, end-of-period, 2021 data as of April 14

Prior to the pandemic, the macroeconomic situation has been stable. Amid high growth (9.4 percent in 2019), inflation has been generally contained (in single digits), even if volatile, reflecting volatility of agricultural output. The central bank is transitioning towards an inflation targeting regime. The structurally high current account deficit (over 12 percent of GDP in 2019) reflects Rwanda's low level of development and high investment needs that are generally financed with official donor support. The exchange rate has been managed along a moderately depreciating path, but with inflation targeting there is a need for more flexibility. International reserves, at around 5-6 months of imports, are adequate, according to the IMF. The banking sector is small, but well-capitalized; non-performing loans are relatively low. Rwanda has had six programs with the IMF since 2002, most recently a Policy Coordination Instrument (PCI) since 2019, with broadly positive performance until the Covid-19 crisis.

B. Recent Economic Developments and Outlook

3. **The Covid-19 outbreak in Rwanda has been somewhat less intense than in many other African countries due to relatively good preparedness and swift public health and social distancing measures.** The reopening of the economy started in May 2020, but was interrupted by a second wave and another lockdown (in Kigali) in January 2021. The restrictions are currently being lifted gradually. As of April 2021, there have been around 23,000 Covid-19 cases, with some 300 deaths. A vaccination program began in February, targeting a 20-30 percent inoculation rate by end-year.

4. **Nonetheless, the economy has been badly impacted.** This is due to a combination of lower export demand, weaker FDI, depressed domestic consumption and a collapse of tourism, which accounts for 13 percent of GDP, 11 percent of employment and 30 percent of exports. Thus, the service-orientation has unexpectedly become a disadvantage. The poor and vulnerable groups are particularly affected through loss of employment and livelihoods, limited access to health services and erosion of human capital due to school closures. According to the World Bank, the impact will be lasting, and poverty may increase by as much as 5 percentage points as a result, reversing years of progress.

5. **The government responded with a generally well-designed package of measures, worth around 3 percent of GDP over 2020-21**, including support to vulnerable households, loan subsidies and guarantees. An on-lending scheme has been set up to help refinance struggling hotels and provide working capital to businesses. The central bank has reduced the interest rate.

6. **Overall, the economy contracted in 2020 by an estimated 3.4 percent, against pre-pandemic projections of an 8 percent growth.** Inflation has been high through the pandemic – peaking at 9 percent mid-year, as floods affected agriculture output and food prices – but has come down recently to around 2 percent. Export of both goods and services, declined sharply, but imports contracted even more. Accordingly, the impact on the current account has been less than feared and FX reserves have actually increased in line with strong inflows of official development assistance, including IMF's USD 220 million emergency financing. The exchange rate depreciated slightly, by around 5 percent in 2020, not out of line with the multi-year trend. The fiscal deficit (expressed on a calendar year basis) increased only slightly, from 5.2 percent of GDP in CY2019 to 5.4 percent in CY2020 thanks to relatively resilient revenues, some expenditure restraint, and higher grants. The IMF recalibrated Rwanda's PCI program to fit new realities, relaxing some near-term fiscal targets. The third review was successfully completed in January 2021.

7. **Given the weak global economic conditions, a fragile recovery is projected to start from 2021.** Overall, Rwanda's supply potential remains in place,

with tourism to continue playing an important role in the medium term, despite setbacks. It is expected that the economy will ultimately revert to its pre-pandemic growth trend, of around 6-8 percent, supported by a robust public investment program. Budget deficits will likely remain elevated in the near term. Main risks include a protracted pandemic, prolonged weaknesses in the external demand or adverse structural changes in global travel and tourism patterns.

C. Debt Sustainability Analysis

8. **Despite the pandemic, Rwanda's debt remains sustainable, according to the IMF.** Public debt increased by over 30 percentage points of GDP since 2012, to around 51 percent of GDP in 2019 (excluding an additional 4 percent of GDP in guarantees), to finance large public investment needs under government's development strategy. Due to low growth and high deficit, public debt is expected to increase further, by 15 percentage points till end-2021, to reach 66 percent of GDP. Reflecting increased risks, IMF has recently changed Rwanda debt distress risk rating from low to moderate. Rwanda's sovereign risk rating is B+ (Fitch and S&P) and B2 (Moody's). In the second half of 2020, Moody's and S&P changed the rating outlook from 'stable' to 'negative', citing the crisis' impact on debt (S&P) and a risk that the pandemic might durably impair certain sectors of the economy, such as tourism (Moody's). There are several mitigating factors, including a large share of financing from official sources on concessional term with long maturities (which makes public debt affordable), good relations with development partners, and country's otherwise robust growth potential. Under the IMF's program the authorities have agreed to a necessary, growth-friendly fiscal consolidation to be implemented soon after the crisis abates, to arrest the debt dynamics and bring down debt levels to below the thresholds prescribed by the IMF and the EAC.

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