

Project Implementation Monitoring Report (#5)

Reporting Period From 2023/07 To 2023/12

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

1. Project Information

Project ID:	P000483	Instrument ID:	L0483A
Member:	Rwanda	Region:	Eastern Africa
Sector:	CRF-Finance/Liquidity	Sub-sector:	N/A
Instrument type:	<input checked="" type="checkbox"/> Loan:83.30 Euro million <input type="checkbox"/> Guarantee	Lead Co-financier (s):	World Bank
ES category:	FI	Borrowing Entity:	Ministry of Finance and Economic Planning, Rwanda
Implementing Entity:	Development Bank of Rwanda		
Project Team Leader:	Suzanne Shaw		
Responsible DG:	Gregory Liu		
Responsible Department:	INF2		
Project Team Members:	Christopher Damandl, Project Counsel; Shodi Nazarov, OSD - Financial Management Specialist; Yang Shuai, OSD - Environment & Social Development Specialist; Guoping Yu, OSD - Procurement Specialist; Furu Hu, Project admin		
Current Red Flags Assigned:	0		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2023/06		

2. Project Summary and Objectives

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

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

Component 1 – Liquidity and recovery facility

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

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

Component 4 – Contingency Emergency Response Component

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

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3. Key Dates

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

4. Disbursement Summary (EUR million)

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

5. Project Implementation Update

The component financed by AIIB, the Investment Window (IW), is implemented through direct lending from BRD to business entities, as well as through on-lending from BRD via participating financial institutions (PFIs), namely commercial banks, to business entities. The total amount of financing (WB and AIIB combined) for the IW is 150 MUSD-equivalent or roughly 125 MEUR at the time of AIIB loan approval. At least 65% of the IW is envisaged to be channeled through on-lending, and 35% through direct lending. As of the end of 4Q2023, 88% of funds disbursed by BRD under the IW were through on-lending and 12% through direct lending from BRD. The overall amount disbursed by BRD for on-lending under the IW is RWF 84.7 billion, of which RWF 66.7 billion (78.7%) has been disbursed to end-borrowers. As of the end of 4Q2023, the implementing entity, BRD, had received and approved 123 applications for IW loans: 14 via direct lending and 109 through on-lending channels. The total number of end-beneficiaries to-date under the IW is 92: 12 via direct lending and 80 beneficiaries through the on-lending channels. The total amount of project funds in loans approved (i.e. loans assessed as meeting the IW criteria) by BRD as of 4Q2023 is 128.4 billion RWF (approximately 97.8 MEUR, based on an approximate average exchange rate of 1EUR = 1311.6 RWF for 3Q-4Q2023), of which 114.3 billion FRW (87.1 MEUR) originated through on-lending institutions and 14.1 billion (10.7 MEUR) via direct lending. Approximately 60% of IW financing is targeted for SMEs and 40% for large enterprises. As mentioned in previous reports there has been a large volume of loan applications from large companies, and relatively few from SMEs. This trend is also reflected in the disbursements to business entities – as of the end of 4Q2023, 100% of the amount allocated for large businesses had been disbursed, whereas only 6% of the SME allocation had been disbursed (a slight improvement on the disbursement rate of 3% observed in the first half of 2023). The total amount in loans applied for by large businesses exceeds the allocation, however, as disbursements have now reached 100% of the allocated amount, BRD will discontinue disbursements to large companies. BRD has been continuing its awareness raising

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

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activities amongst SMEs. BRD has also hired a firm to build capacity amongst SMEs to better position them to be eligible for IW loans and increase their uptake. Under component 3 of the project, Institutional Strengthening, and Implementation Support, BRD hired a consultancy firm to carry out an assessment on the low uptake of IW funds by SMEs.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Working capital and investment credit line	The physical progress of this component is reasonably good. The key area to track and improve will be the uptake of IW loans by SMEs.	Following the suggestions and guidance provided by the WB and AIIB during the sample ES due diligence review, BRD continues to support the review and development of site specific ESIA's of its sub-borrowers to meet the WB's ESS requirements. BRD conducted supervision monitoring for 5 projects in Q1 2023 and 8 projects in Q4 2023, no instances of non-compliance have been reported.	There are no procurement activities under this component

Financial Management:

The Financial Management (FM) arrangements for BRD continue to be satisfactory. The FM capacity at BRD is adequate, and a financial management specialist and an accountant are in place. Detailed FM guidance was developed and documented in the Project Implementation Manual (PIM). The funds flow, in USD/JPY from the WB and in Euro from AIIB, into three segregated designated accounts (DA) held at the Central Bank of Rwanda (BNR). The Project uses the interim financial report (IFR) based method of disbursement. The Project also maintains one pooled RWF Project Bank Account at the Bank of Kigali, into which all funds from the three DA are transferred. The IFRs are prepared following the modified cash basis of accounting and are based on the IFR Reporting template provided by the WB. The Project IFRs are prepared and submitted through the WB's client connection system before the deadline, 45 days after the end of the quarter. All submitted IFRs were approved by the WB and shared with AIIB. BRD has an internal audit unit of four staff, and the department annually reviews project activities. The internal audit report for FY2022 with a satisfactory rating was submitted in June 2023. The first audit report for the period ending on December 31, 2022, was submitted before the June 30, 2023, submission deadline. The audit was conducted in accordance with International Standards on Auditing (ISAs) by Ernst & Young Rwanda Limited. The Auditor expressed an unqualified audit opinion on the project's financial statements for the reporting period. The audit report was acceptable to the Bank. The audit report for the reporting period ending on December 31, 2023, is to be submitted by June 30, 2024.

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6. Status of the Grievance Redress Mechanism (GRM)

The recipient through MINECOFIN requires all implementing agencies to ensure that GRM procedures are developed and adopted. BRD already has an existing institutional GRM in place and the GRM is functional. During the reporting period, 1 grievance was received in relation to one sub-project and resolved.

As indicated in the PIM, GRMs shall also be set up at sub-project and PFI levels and communicated to workers and affected people by BRD and its sub-borrowers. BRD has proposed a GRC structure for PFIs and direct borrowers and has hired a GRM specialist. Following the efforts in the first quarter of 2023, the implementation of the GRM continues to focus on the follow up of collected grievances as well as continued facilitation of the creation of GRCs at PFI level. By the end of 2023, 10 sub-project GRCs and 4 PFI GRCs have been in place with escalation mechanism to BRD's GRC established.

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

There are two main considerations with respect to the results of the IW implementation are: 1) Since the approval date of the loan, there has been significant strengthening of the USD versus the EUR. As a result, the approved euro loan amount is now equivalent to less than the initial 100 MUSD allocation to the project. As a result, the targets for volume of loans under sub-component 1c - which are in USD and based on the original USD allocation to the component - are not expected to be achievable as the envelope of money available under 1c is now less than the original USD-based allocation; 2) although there have been, and are ongoing, efforts to improve the uptake of the IW by SMEs, there is expected to be some lag time between the implementation of remedial actions for SME IW uptake and the reflection of the impact in the results. AIIB will continue to monitor both the pace and intensity of implementation of remedial actions to improve SME loan uptake and the translation of impacts at the results level.

Remarks:

None.

Project Objective Indicators	Indicator level	Unit Measure of	Cumulative Target Values															Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year			
Businesses Receiving sub-loans under Sub-component 1c	Project	number	2021	0	N/A	0	60	21	119	92	209		268		2026	300		quarterly	BRD	
Volume of loans provided under sub-component 1c	Project	million USD	2021	0	N/A	0	20	20.6	40	44.28	70		80		2026	100		quarterly	BRD	Volume of loans provided is being measured based on the amount disbursed to end beneficiaries under the IW, and given on a pro-rata basis to take into account the AIIB allocation as a proportion of the overall 150MUSD allocation of the IW. The method of calculation in the previous PIMR was based on the amount disbursed by BRD, both directly and through onlending, however this may not represent the amount actually disbursed to end-beneficiaries due to potential lags in onward disbursement from PFIs to end beneficiaries. For the current PIMR therefore, the figures given for earlier implementation periods under previous PIMRs may reflect differently due to the adjustment in methodology for calculating this indicator (namely, the figures in the current PIMR are lower, since we are now considering disbursements at the level of the end-beneficiary rather than at the level of BRD disbursements)

Project Intermediate Indicators	Indicator level	Unit Measure of	Cumulative Target Values															Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year			
Non-Performing Loans in the BRD sub-loan portfolio	Project	percent	2021	4.5	N/A	4.5	5	loans not yet due	5	loans not yet due	5		5		2026	5		quarterly	BRD	
Funds disbursed to priority (AIIB Group 1) sectors under sub-c	Project	percent	2021	0	N/A	0	60	not available	60	100	60		60		2026	60		quarterly	BRD	
Women Inclusive firms receiving sub-loans	Project	percent	2021	18	N/A	18	35	not available	35	46	35		35		2026	35		quarterly	BRD	

Average tenor for investment loans under component 1c	Project	years	2021	8	N/A	8	10	6	10	8.7	10		10		2026	10		quarterly	BRD	
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