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Report No: PAD4248

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A

PROPOSED GRANT
IN THE AMOUNT OF SDR 17.5 MILLION
(US$25 MILLION EQUIVALENT)

A PROPOSED CREDIT
IN THE AMOUNT OF JPY 2,721.9 MILLION
(US$25 MILLION EQUIVALENT)

A PROPOSED SCALE-UP WINDOW CREDIT
IN THE AMOUNT OF JPY 10,887.6 MILLION
(US$100 MILLION EQUIVALENT)

AND A PROPOSED GRANT
IN THE AMOUNT OF US$7.5 MILLION
FROM THE GLOBAL RISK FINANCING FACILITY MULTI-DONOR TRUST FUND

TO THE

REPUBLIC OF RWANDA

FOR AN

ACCESS TO FINANCE FOR RECOVERY AND RESILIENCE PROJECT

June 1, 2021

Finance, Competitiveness and Innovation Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2021)

Currency Unit =	U.S. Dollars (US$) and Japanese Yen (JPY)
JPY109.00 =	US$1
SDR0.70 =	US$1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AIIB	Asian Infrastructure Investment Bank
AMIR	Association of Microfinance Institutions of Rwanda
BDF	Business Development Fund
BDS	Business Development Services
BLW	Bridge Lending Window
BNR	National Bank of Rwanda (*Banque Nationale du Rwanda*)
BRD	Development Bank of Rwanda (*Banque Rwandaise de Développement*)
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CERC	Contingency Emergency Response Component
CLA	Co-Lenders' Agreement
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
DA	Designated Account
E&S	Environmental and Social
ERF	Economic Recovery Fund
ERFIC	ERF Implementation Committee
ERP	Economic Recovery Plan
ESCP	Environmental and Social Commitment Plan
ESDD	Environment and Social Due Diligence
ESF	Environmental and Social Framework
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESS	Environmental and Social Standards
FCDO	Foreign, Commonwealth & Development Office
FI	Financial Institution

FM	Financial Management
GDP	Gross Domestic Product
GoR	Government of Rwanda
GRiF	Global Risk Financing Facility
GRS	Grievance Redress Service
HQ	Headquarters
IA	Implementing agency
IC	Selection of Individual Consultants
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
IMF	International Monetary Fund
IPF	Investment Project Financing
IRR	Internal Rate of Return
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LoC	Line of Credit
M&E	Monitoring and Evaluation
MFI	Microfinance institution
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Trade and Industry
MIS	Management Information System
MoU	Memorandum of Understanding
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small, and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
NBFI	Non-bank Financial Institution
NCB	National Competitive Bidding
NISR	National Institute of Statistics of Rwanda
NPL	Non-performing Loan
NSC	National Steering Committee
NSFR	Net Stable Funding Ratio
NST1	National Strategy for Transformation One
OHS	Occupational Health and Safety
OPRC	Output- and Performance-based Road Contracts
PBC	Performance-Based Condition
PCG	Partial Credit Guarantee
PCT	Project Coordination Team
PDO	Project Development Objective
PFI	Participating Financial Institution
PFM	Public Financial Management
PIM	Project Implementation Manual

PIU	Project Implementation Unit
PPSD	Project Procurement Strategy for Development
PRAMS	Procurement Risk Assessment and Management System
PSF	Private Sector Federation
PTC	Project Technical Committee
QBS	Quality-Based Selection
QCBS	Quality- and Cost-Based Selection
RBA	Rwanda Bankers' Association
RDB	Rwanda Development Board
REF	Renewable Energy Fund
RFQ	Request for Quotations
RHFP	Rwanda Housing Finance Project
RWF	Rwandan Franc
SACCO	Savings and Credit Cooperative Organization
SBD	Standard Bidding Document
SEIRHCRP	Socio-Economic Inclusion of Refugees and Host Communities in Rwanda Project
SEP	Stakeholder Engagement Plan
SMEs	Small and Medium Enterprises
SPIU	Single Project Implementation Unit
SPR	Summary Project Report
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
ToR	Terms of Reference
USAID	United States Agency for International Development
WGF	Women's Guarantee Fund

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Rwanda	Access to Finance for Recovery and Resilience Project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P175273	Investment Project Financing	Substantial	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[√] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[√] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[√] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[√] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
14-Jun-2021	31-Aug-2026
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

The Project Development Objective (PDO) is to increase access to finance and support recovery and resilience of businesses affected by the COVID-19 pandemic.

Components

Component Name	Cost (US$, millions)
Component 1 – Liquidity and Recovery Facility	205.50
Component 2 – Risk Sharing Facility	40.00
Component 3 – Institutional Strengthening and Implementation Support	12.00

Organizations

Borrower:	Ministry of Finance and Economic Planning
Implementing Agency:	Business Development Fund Development Bank of Rwanda

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	297.50
Total Financing	297.50
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	125.00
IDA Grant	25.00

Non-World Bank Group Financing

Trust Funds	7.50
Global Facility for Disaster Reduction and Recovery	7.50
Commercial Financing	40.00
Unguaranteed Commercial Financing	40.00

Other Sources	100.00
Asian Infrastructure Investment Bank	100.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Rwanda	125.00	25.00	0.00	150.00
National PBA	25.00	25.00	0.00	50.00
Scale-up Facility (SUF)	100.00	0.00	0.00	100.00
Total	**125.00**	**25.00**	**0.00**	**150.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual	0.00	30.80	49.00	34.40	19.30	18.85	5.15
Cumulative	0.00	30.80	79.80	114.20	133.50	152.35	157.50

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
Finance, Competitiveness and Innovation	

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Low
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate

5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Substantial
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Schedule 2, Section I, A.2 (a) of the Financing Agreement

The Recipient shall, through MINECOFIN, within 30 days of Effectiveness establish and thereafter maintain throughout Project implementation a PCT with adequate resources and facilitation, key staff holding such qualifications and under terms of reference acceptable to the Association, such staff to include but not limited to a Project coordinator, a monitoring and evaluation specialist, an environmental and social coordinator, and (leveraged from the SPIU) appoint a financial management specialist and a procurement specialist.

Sections and Description
Schedule. Section I, A.4 of the BRD Project Agreement

BRD shall, within 6 months of the Effective Date, recruit or appoint to the SPIU a grievance redress officer with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.

Conditions

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Article V. Section 5.01(a) of the Financing Agreement The SUF Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Article V. Section 5.01(b) of the Financing Agreement That each of the Subsidiary Agreements have been duly executed and delivered and is legally binding upon the Recipient and each Project Implementing Entity, each in accordance with its terms.

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Article V. Section 5.01(c) of the Financing Agreement The Project Implementation Manual ("PIM"), as referred to in Section I.B(1) of Schedule 2 to this Agreement, has been prepared and adopted by the Recipient and each PIE in a form and substance acceptable to the Association.

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Article V. Section 5.01(a) of the SUF Financing Agreement The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

Type	Financing source	Description
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (a) of the Financing Agreement No withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed ¥1,088,760,000 may be made for payments made prior to this date but on or after December 1, 2020, for Eligible Expenditures under Categories (1), (2) and (3).

Type	Financing source	Description
Disbursement	Trust Funds, IBRD/IDA	Schedule 2, Section III, B.1. (b.i) of the Financing Agreement No withdrawal shall be made under Categories 1, 2 and 5 unless and until BDF has: (i) appointed or recruited (as appropriate) to the Project Implementing Unit (A) a Project officer, (B) a procurement specialist, (C) financial management specialist, (D) environmental specialist, (E) social specialist and (F) a BLW coordinator, all with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.
Type	Financing source	Description
Disbursement	Trust Funds, IBRD/IDA	Schedule 2, Section III, B.1. (c.ii) of the SUF Financing Agreement No withdrawal shall be made under Categories 3 and 4 unless and until BRD has developed and adopted the Project ESMS and ESMF in a manner acceptable to the Association.
Type	Financing source	Description
Disbursement	Trust Funds, IBRD/IDA	Schedule 2, Section III, B.1. (d) of the Financing Agreement No withdrawal shall be made under Category 5 unless and until the Recipient has furnished evidence satisfactory to the Association, including verification reports as indicated in Section I.J of Schedule 2 to this Agreement , that: (i) payments have been made in accordance, and in compliance, with the procedures set forth in the Verification Protocol and the Recipient's applicable laws and regulations; and (ii) the PBCs set forth in Schedule 4 for which payment is requested have been met and verified in accordance with the Verification Protocol.
Type	Financing source	Description
Disbursement	Trust Funds, IBRD/IDA	Schedule 2, Section III, B.1. (e.i) of the Financing Agreement No withdrawal shall be made under Category 7 for Emergency Expenditures, unless and until all of the following conditions have been met in respect of said expenditures: (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category 7; and (B) the Association has agreed with

		such determination, accepted said request and notified the Recipient thereof.
Type Disbursement	Financing source Trust Funds, IBRD/IDA	Description Schedule 2, Section III, B.1. (b.ii) of the Financing Agreement No withdrawal shall be made under Categories 1, 2 and 5 unless and until BDF has: (ii) developed and adopted the Project ESMS and ESMF in a manner acceptable to the Association.
Type Disbursement	Financing source Trust Funds, IBRD/IDA	Description Schedule 2, Section III, B.1. (c.i) of the Financing Agreement No withdrawal shall be made under Category 3 unless and until BRD has appointed or recruited (as appropriate) to the SPIU: (A) a Project coordinator, (B) two investment officers, (C) a procurement specialist, (D) financial management specialist (E) an environmental specialist, (F) a social specialist and (G) a Project accountant, all with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.
Type Disbursement	Financing source Trust Funds, IBRD/IDA	Description Schedule 2, Section III, B.1. (c.i) of the SUF Financing Agreement No withdrawal shall be made under Categories 3 and 4 unless and until BRD has appointed or recruited (as appropriate) to the SPIU: (A) a Project coordinator, (B) two investment officers, (C) a procurement specialist, (D) financial management specialist (E) an environmental specialist, and a (F) social specialist and (G) a Project accountant, all with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.
Type Disbursement	Financing source Trust Funds, IBRD/IDA	Description Schedule 2, Section III, B.1. (e.ii) of the Financing Agreement No withdrawal shall be made under Category 7 for Emergency Expenditures, unless and until all of the following conditions have been met in respect of said expenditures: the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.

Type	Financing source	Description
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (a) of the Financing Agreement No withdrawal shall be made for payments made prior to the Signature Date, for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed ¥2,175,520,000 may be made for payments made prior to this date but on or December 1, 2020, for Eligible Expenditures under Category (3).
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (b.i) of the Financing Agreement No withdrawal shall be made under Category 5 unless and until BDF has appointed or recruited (as appropriate) to the Project Implementing Unit (A) a Project officer, (B) a procurement specialist, (C) a financial management specialist, (D) an environmental specialist, (E) a social specialist, and (F) a BLW coordinator, all with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (b.ii) of the SUF Financing Agreement No withdrawal shall be made under Category 5 unless and until BDF has developed and adopted the Project ESMS and ESMF in a manner acceptable to the Association.
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (c.i) of the SUF Financing Agreement No withdrawal shall be made under Categories 3 and 4 unless and until BRD has appointed or recruited (as appropriate) to the SPIU: (A) a Project coordinator, (B) two investment officers, (C) a procurement specialist, (D) financial management specialist (E) an environmental specialist, and a (F) social specialist and (G) a Project accountant, all with such qualifications and under terms of reference acceptable to the Association, and in accordance with the provisions of the Procurement Regulations.

Type	Financing source	Description
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (c.ii) of the SUF Financing Agreement No withdrawal shall be made under Categories 3 and 4 unless and until BRD has developed and adopted the Project ESMS and ESMF in a manner acceptable to the Association.
Disbursement	IBRD/IDA	Schedule 2, Section III, B.1. (d) of the SUF Financing Agreement No withdrawal shall be made under Category 4 unless and until the Co-financing Agreement becomes effective.
Effectiveness	Trust Funds	Article V. Section 5.01(a) of the GRiF Grant Agreement This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied: that the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action.
Effectiveness	Trust Funds	Article V. Section 5.01(b) of the GRiF Grant Agreement This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied: The SUF Financing Agreement and the Financing Agreement have been executed and delivered and all conditions precedent to their effectiveness (other than the effectiveness of this Agreement) have been fulfilled.
Effectiveness	Trust Funds	Article V. Section 5.01(c) of the GRiF Grant Agreement This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied: The BDF Subsidiary Agreement has been duly executed and delivered and is legally binding upon the Recipient and BDF in accordance with its terms.

Type	Financing source	Description
Disbursement	Trust Funds	Article V. Section 5.01(d) of the GRiF Grant Agreement This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied: the Project Implementation Manual ("PIM"), as referred to in Section I.B(1) of Schedule 2 to this Agreement, has been prepared and adopted by the Recipient and BDF in a form and substance acceptable to the Bank.

I. STRATEGIC CONTEXT

A. Country Context

1. **Rwanda's economic growth before the pandemic was among the topmost in Africa and globally.** Rwanda was experiencing an economic boom before Coronavirus Disease 2019 (COVID-19). Gross domestic product (GDP) growth reached 9.4 percent in 2019, accelerating from 8.6 percent in 2018 and 4 percent in 2017, mostly driven by large public investments for implementation of the National Strategy for Transformation One 2017–2024 (NST1). Rwanda was able to sustain its economic growth by consistently increasing public investment, which had risen from 5 percent of GDP to an average of 15 percent in recent years, driving the overall investment to GDP ratio from about 12 percent to more than 25 percent. Agriculture remains the main source of employment for over 60 percent of workers, accounting for about 26 percent of GDP. Transport and trade account for 14 percent of GDP, and manufacturing for around 9 percent of GDP. Rwanda has seen new subsectors emerging, such as dynamic eco- and business tourism and food-processing, while existing industries have expanded.

2. **Rwanda's economy has been hit hard by the COVID-19 pandemic.** The COVID-19 pandemic has resulted in the worst contraction in global output since the global financial crisis.[1] On aggregate, the economy for Sub-Saharan Africa contracted by 2.6 percent in 2020 compared to 3.2 percent growth recorded in 2019, the first recession in the region in the last 25 years. This severe contraction reflects macroeconomic risks arising from the sharp decline in output growth among the region's key trading partners. The Rwandan economy was also severely hit by the pandemic with a 3.4 percent drop in economic growth in 2020, leading to its first recession since 1994.[2] The crisis has exacerbated challenges to debt sustainability. As a result of the pandemic-driven deterioration in output and export growth, accompanied by increased borrowing needs, public debt is estimated to have reached about 67 percent of GDP in 2020, up from 56.7 percent of GDP in 2019. The COVID-19 pandemic has reduced the country's fiscal space, leading to a need for an increased private sector role.

3. **The economic contraction was driven primarily by a decline in domestic demand.** This is explained mainly by the lockdown and social distancing measures to stop the COVID-19 spread, as well as weak external conditions. Heightened uncertainty affected business sentiment and resulted in a large decline in private investment. Private consumption was impacted by lower household income. The external position also deteriorated due to lower services exports despite imports slowdown amid contracted economic activity. The current account deficit is expected to have widened to 12.4 percent of GDP in 2020, mainly financed through external borrowing (10.4 percent of GDP). On the production side, the contraction was broad-based across sectors, with education, hospitality, transport, construction, and mining sectors declining the most according to the National Institute of Statistics Rwanda (NISR).[3]

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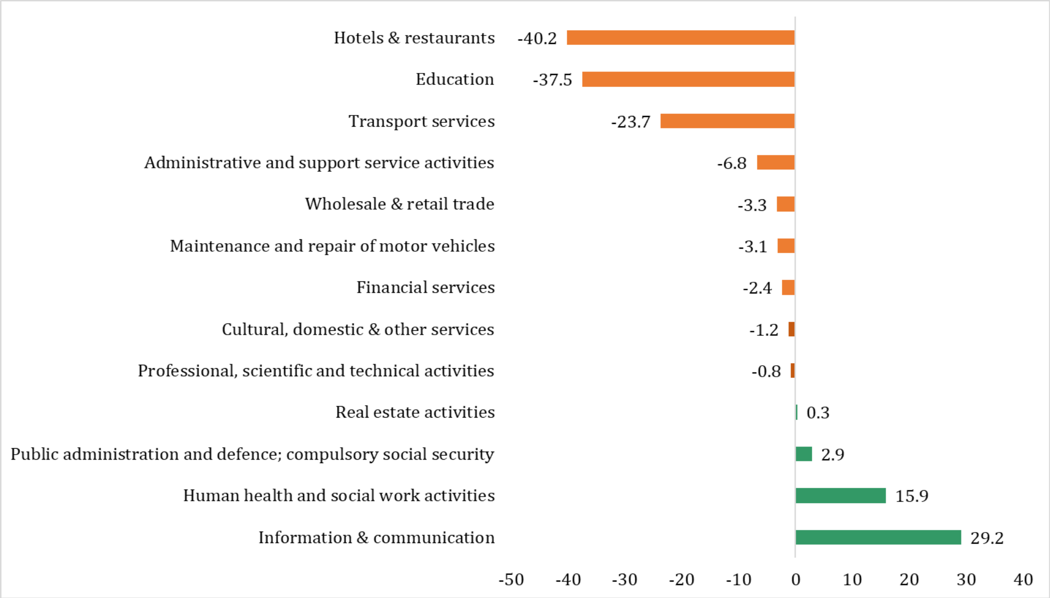
[1] International Monetary Fund (IMF) World Economic Outlook (WEO) update published in January 2021.

[2] Rwanda Economic Update January 2021.

[3] In 2020, hotel and restaurants were the most affected subsector dropping by 40 percent in 2020 from a growth of 10 percent in 2019, followed by education which dropped by 38 percent from 2 percent in 2019, and transport activities with a 24 percent drop from 12 percent in 2019. Furthermore, construction activities also dropped by 6 percent following a high growth of 33 percent recorded in 2019. Activities in the industry sector decreased by 4 percent and negatively contributed 0.8 percentage

Exceptionally, the information and communication sub-sector experienced growth of 29 percent following increased demand for these services to facilitate remote work and telecommuting. The health sector also grew by 19 percent due to, among others, efforts taken in containing the COVID-19 pandemic. Per capita GDP (in real and local currency terms) is estimated to have contracted by 5.3 percent.

Figure 1. Rwanda Sectors' Growth in 2020



Source: NISR, March 2021.

4. **Employment has fallen sharply, particularly through the lockdown period.** Following the economy-wide temporary closures and reduced business operations, the labor market was also significantly impacted, with unemployment rising to 22 percent in the second quarter of 2020. Nearly 60 percent of workers who kept their jobs through the lockdown reported receiving lower salaries. Aggregate employment fell by nearly 370,000. The employment to population ratio fell from 48.3 percent to 43 percent with larger declines among female workers (6.2 percentage points, versus 4 percentage points among male workers) and workers in urban areas (nearly 10 percentage points, versus 4 percentage points in rural areas).

5. **Rwanda's economy is highly vulnerable to climate change because of its dependence on agriculture.** The agriculture sector accounted for 26 percent of GDP in 2020 and employed over 60 percent of the country's population (directly and indirectly). Almost all agricultural activities are rain-fed, which makes the country very vulnerable to changes in rainfall patterns. The frequency and intensity of extreme events such as floods and droughts influenced by climatic factors have increased in Rwanda over the past 30 years. These two hazards alone cause annual average losses of 1.8 percent of the Rwandan GDP. With

points to the GDP drop. Wholesale and retail trade services contracted 3.5 percent and financial services contracted 5.3 percent. Overall, the service sector decreased by 6 percent and negatively contributed 2.6 percentage points to the GDP drop. The agriculture sector experienced zero growth during the same period – NISR, March 2021.

climate change, this is expected to grow to 3.25 percent.[4] Droughts pose a particular problem as they cause frequent agricultural production shocks which in turn have negative effects on the broader economy, including loss of animals, depletion of water resources, increased incidence of diseases, and loss of income. Droughts thus impact not only farmers but also agro-processors, the commerce sector, the services sector, and rural economies in general. Together with erratic rainfall, droughts affect 60-90 percent of the households in the districts of Bugesera, Nyanza, Gisagara, Huye, and Rusizi-Nyamasheke.

Government Response to the COVID-19 Pandemic

6. **On March 14, 2020, Rwanda reported the country's first case of COVID-19.** The Government immediately put in place a mandatory national lockdown policy on March 21, 2020 which was in effect for four weeks. This included border closings and stringent social distancing policies (for example, closing schools, churches, bars, postponing conferences, mandating home-based work) and banning motorcycle drivers from carrying passengers. All commercial passenger flights to and from Rwanda were suspended on March 20, 2020. The Government's swift and efficient response to the pandemic helped contain the impact of the pandemic. As of May 23, 2021, Rwanda reported a cumulative total of about 26,688 cases (0.78 percent of all cases in World Health Organization (WHO) African Region) and 349 deaths (0.41 percent of all deaths in WHO African Region) with a case fatality rate of 1.3 percent. 94 percent of cumulative cases have recovered, and 350,400 people have been vaccinated with at least one dose.[5]

7. **To provide a framework for the Government's response to the pandemic, an Economic Recovery Plan (ERP) was established in April 2020.** The ERP includes measures to strengthen social protection and assist firms affected by the pandemic, along with the adoption of fiscal policies to support growth. The ERP was designed for the period from May 2020 to December 2021[6] and aims to support vulnerable households and boost employment in the wake of the COVID-19 pandemic. The ERP includes measures related to fiscal policy, monetary policy, social assistance, and support for firms. Expenditures envisioned under the program are estimated at 4.4 percent of GDP.

8. **The Government of Rwanda (GoR) swiftly rolled out several temporary responses including monetary, liquidity and fiscal measures to support banks and the financial sector in general to continue providing financial services in a sustainable manner**. To provide more liquidity to the banking sector, the National Bank of Rwanda (*Banque Nationale du Rwanda*, BNR) lowered its rate from 5 percent to 4.5 percent, the Reserve Ratio from 5 percent to 4 percent, introduced an Extended Lending Facility of RWF 50 billion (US$51 million) for banks and extended the tenor from overnight to 3, 6 and 12 months. It also established measures to rediscount bonds over a 15-day rather than 30-day period and at market value as opposed to the 3 percent discount. Forbearance measures adopted by the BNR enabled lenders to

[4] UN Office of Disaster Risk Reduction (UNDRR), 2019: Rwanda: Disaster Risk Profile. Global Facility for Disaster Reduction and Recovery (GFDRR). http://riskprofilesundrr.org/documents/1849

[5] Rwanda Biomedical Centre (RBC) - May 23, 2021.

[6] Considering recent macroeconomic developments, the economy is still feeling the global, regional and domestic impact of the pandemic. As a result, the pace of the recovery is also expected to be slower than anticipated, with GDP growth in 2021 revised to 5.1 percent from 5.7 percent previously projected. Growth is expected to go back to the pre-pandemic level of 8.0 percent only by 2023. The Economic recovery plan will continue to be implemented during that period as strategies to dissipate scars from the pandemic.

support the economy and provided breathing space for borrowers. On the fiscal side, a few tax relief measures were announced on a temporary basis aimed at supporting taxpayers.

9. **In addition, as part of the ERP, the GoR established an Economic Recovery Fund (ERF) to support economic activity and businesses most significantly affected by COVID-19.** The ERF objective is twofold: (a) to support businesses in the sectors hit by the pandemic so they can survive, resume work, production and safeguard employment, and (b) to expand domestic production during the COVID-19 pandemic (for example, essential goods) and in the post-recovery period. Beyond supporting firms for recovery from the pandemic, one key objective of the ERF is to facilitate investment for high growth potential businesses that have significant domestic, regional and international market opportunity and export growth prospects. The GoR has recently established a dedicated investment financing facility for this purpose. The initial investment for the ERF was estimated at US$200 million, to which the Government provided US$100 million to start the fund. The design envisages the ERF to be open for application for a period of at least 4 years.

B. Sectoral and Institutional Context

10. **Like many other low-income countries, Rwandan firms, for the most part, are young and informal.**[7] These characteristics have been important for employment in the enterprise sector. As of 2018, 36 percent of formal businesses were owned by a single individual; around 45.7 percent were limited companies and 5.4 percent were cooperatives. 43.6 percent of businesses were operational for less than 5 years and around 11 percent had been in existence for at least 20 years. In the informal sector, 84.3 percent of all businesses had at most 3 employees. Total number of enterprises in formal sector have increased by 71 percent from 2014, with an increase of 38 percent in the estimated number of formal employment. However, percentage of employed women in the formal sector has declined from 33 percent in 2014 to 29.6 percent in 2018 (NISR 2018). With an estimated 230,000 young Rwandans entering the labor force every year, there is an urgent need to create productive jobs to drive inclusive economic transformation.

11. **Women-led firms play an important role in the economy.** According to the 2019 Enterprise Survey, 26.5 percent firms have female participation in ownership which is only slightly below the regional average of 28 percent and nearly 14 percent of firms have majority female ownership which is higher than the regional average of 13 percent.

12. **The private sector represents a small, but growing, share of overall jobs.** Formal firms have continued to add jobs, against the backdrop of strong economic growth. Job creation in the formal enterprise sector has mainly been driven by expansion of incumbent formal firms, rather than by net entry of new firms (job creation and job destruction). This is because most of the firms that are entering and exiting the formal enterprise sector are very small. There are signs that the pace of job creation—a country's key development objective, in the formal sector has slowed down in recent years. Most firms have experienced weak employment growth, and more than 90 percent of firms have failed to increase employment after entry. Only 4 percent of formal firms have experienced significant employment growth since 2011, but the incidence and rate of growth within these firms has also slowed since 2013. Enhancing

[7] Country Private Sector Diagnostic (CPSD), March 2019.

growth opportunities for firms will be critical in creating productive employment opportunities. The Government has made significant achievements in the business environment for attracting private sector investment. But there is still much to overcome for private sector to drive jobs for tomorrow.[8]

13. **Despite Rwanda's success in improving its business environment, access to finance for the private sector remains a significant constraint for firm growth and survivorship.** Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of Rwanda's economy, contributing 55 percent of total GDP and accounting for over 95 percent of businesses and more than 70 percent of in-establishment employment in Rwanda. Traders represent over 56 percent of establishments, whereas accommodation and food services take up 28 percent. Regardless of sector and firm size, access to finance continues to be identified as a binding constraint for firm growth. According to the World Bank Enterprise Survey 2019, 31 percent of (formal) small and medium enterprises (SMEs) perceived access to finance as their biggest obstacle to operations, well above the average for SSA countries (around 22 percent) and that for large firms in Rwanda (12 percent). Access to finance is also seen as the largest obstacle for a majority of women led firms with nearly 29 percent citing it as their biggest obstacle. In fact, less than 25 percent of women-led firms have a bank loan/line of credit compared to more than 35 percent of male led firms and only 27 percent of women led firms use banks to finance working capital compared to nearly 47 percent of male led firms. This highlights the gender gap in access to finance.

14. **On the demand-side, access to finance is constrained by high levels of informality and unreliable financial reporting.** These contribute to information asymmetries, weak managerial and financial management (FM) skills, especially with regards to knowledge transfer and the technology adoption needed to sustain and scale-up a business. Relatedly, only 30 percent of businesses survive beyond four years, while many young firms do not survive beyond 2 to 3 years.

15. **Access to finance, especially for MSMEs is affected by market inefficiencies, exacerbated during the COVID-19 pandemic.** Potentially viable MSMEs face shortages of working capital and access to resources to maintain their operation and basic needs. Lack of liquidity to support the operation of viable or potentially viable firms in the current COVID-19 environment risks their business continuity going forward as banks turn to safer assets and deleveraging strategies. Combined with financial institutions' risk aversion, the main hurdles that businesses face in accessing finance stem from market inefficiencies which contribute to higher borrowing costs and high collateral requirements. Collateral requirements stand at around 120 percent of loan values and are often inaccessible for start-ups, younger firms and MSMEs. Lending rates in the country are high due to high interest rates spreads – largely driven by operational costs. The high cost can reflect challenges related to the small size of the market, making it difficult for banks to obtain gains from economies of scale.

16. **The Business Development Fund (BDF) guarantee product, one of the key de-risking instruments available in the market, is underutilized.** While the guarantee program still works well for medium-sized companies, it remains hard to access for micro and small businesses and start-ups, because many MSMEs do not meet the lender's collateral requirements and thus do not qualify for BDF services. The COVID-19 pandemic has increased credit rationing for MSMEs, particularly for already underserved segments. Micro

[8] CPSD, March 2019.

and small enterprises (MSEs) have suffered the most from lockdown measures and lack of demand. Microfinance institutions (MFIs) serving MSMEs have been affected by liquidity constraints. In particular, MFIs serving informal MSMEs are increasingly vulnerable and short on liquidity to continue lending to their clients.

17. **Firms across the board have been significantly impacted due to low demand, disruption of production, markets, supply, and trade.** This has impacted employment as well as the continuity of their businesses. A study conducted from March to August 2020 on SMEs indicate that economic activity of SMEs has declined by 30 percent as compared to the pre-COVID-19 period. Similar decline was also observed in the average number of employees per company, going from 35 employees pre-COVID-19 down to 24 employees in August, a decline of 31 percent. While there is no comprehensive survey of the impact of COVID-19 pandemic on micro and informal enterprises, an early survey[9] (June 2020) of over 600 businesses conducted found that about 50 percent of MSMEs would not survive more than three months. It also found out that almost 20 percent do not have any collateral, while over 70 percent only have personal assets. Additionally, their main financiers—MFIs and savings and credit cooperative organizations (SACCOs)—were struggling with liquidity challenges. The shock from the COVID-19 pandemic exacerbates these challenges due to the uncertain economic environment and heightened risk aversion by lenders, especially towards new borrowers.

18. **Women entrepreneurs have been adversely affected by the COVID-19 pandemic, and measures to contain the spread of the virus have deepened some of the existing challenges they face.** Women entrepreneurs are a vital force in Rwanda's economy. Women head 42 percent of enterprises and comprise 58 percent of enterprises in the informal sector, which accounts for 30 percent of GDP. National surveys indicate that women entrepreneurs also have an impact on job creation, with many hiring between 3 and 5 employees in their businesses. Their contributions, however, are not without challenges, facing difficulties in access to three important factors: (a) information, (b) business skills training and development, and (c) finance. They grapple with issues such as high taxes and transportation costs as well as discrimination in property ownership which in turn constrains their ability to offer collateral for access to finance.

19. **MSMEs in the agriculture sector are particularly constrained by their severe vulnerability and exposure to climatic shocks.** Credit extended to agriculture accounts for less than 2 percent of all lending, which contrasts sharply with the overall share of agriculture in total GDP (26 percent).[10] This is apparent in agro-based businesses. There are multiple reasons for the lack of finance extended to agriculture sector MSMEs, a major one being their frequent exposure and vulnerability to shocks such as droughts and floods (as described in Section A). This has been reflected in high shock-related loan defaults: for example, when a severe drought hit the east of the country in 2016, the ratio of non-performing loans (NPLs) to total loans provided by banks to the agriculture sector rose by more than 11 percentage points. The continued heavy exposure to climatic shocks is one of the key reasons discouraging lenders to provide more financing to MSMEs, as frequently referenced by financial institutions.

[9] Survey done by the Manufacture Africa Program, United Kingdom Foreign, Commonwealth & Development Office (FCDO).
[10] In 2016, credit extended to agriculture amounted to only 4.6 percent of agricultural GDP.

20. **Most firms do not have reserve funds, cash liquidity or savings to help them weather the economic slowdown.** It is expected that most firms, especially MSMEs, will have a better chance of quick recovery as they serve the local market and are less dependent on global demand and the economic slowdown. However, MSMEs will need support in terms of working capital to help them pay their employees and their operating/fixed costs during the low demand period as well as to jumpstart production/operations after the economic slowdown caused by the pandemic. Many MSMEs are not aware of the ERF or how to access it. Firms, particularly MSEs, do not seem to be benefitting from the Government's ERF, and the uptake for the working capital financing, which is highly needed to keep the doors open for these firms, has been low. In addition, and due to known barriers faced by women in business, there is a legitimate concern that without a deliberate effort, women-owned/led firms are likely to remain ill-informed and their uptake of ERF less than optimal. While part of the challenge has been the burdensome requirement to access the ERF, MSEs also did not have adequate information on the availability of the fund, did not have adequate business and financial records and the financial literacy to choose and access the right financial resources. This is compounded by lack of knowledge and access to the relevant digital services and platforms.

21. **A resilient recovery will require a suite of instruments that strengthen the existing recovery ecosystem, ranging from financial instruments that alleviate access to finance constraints, particularly to longer term sources of finance, to adjustment mechanisms that include innovative solutions.** A critical pillar of the recovery will be addressing access to finance constraints, including strengthening and expanding existing support programs and confronting long-standing structural bottlenecks. Large firms play an important role in generating high productivity employment, including in key sectors that typically are export oriented. Part of the GoR's economic recovery strategy focuses on supporting high potential large firms to expand and diversify their businesses especially in sectors that have started showing recovery, such as manufacturing, and have significant domestic, regional and international market opportunities and export growth, such as agro-processing. Furthermore, larger firms can play an important role in supporting MSMEs along their supply chain, for example, through supplier finance. Capital investment will be needed to support large firms to expand, reorient, or diversify their businesses and product lines, as a key mechanism for sustained economic recovery.

22. **Critical value chains will need to be supported throughout the pandemic.** These value chains include transport and logistics, food markets and agro-processing, health care services, among others. To maintain these and other essential services, business models can be adapted to operate with social distancing and good health practices, and use technology (fintech, e-commerce) to limit face-to-face contact. Support to large private firms may be necessary to maintain these value chains.[11] For the recovery of firms to pre-COVID-19 levels of operation, firms need to adapt to the realities and vulnerabilities caused by the pandemic. This will require adjusting their business strategy, targeting new markets and customer bases, developing a more resilient marketing and distribution strategy, and building managerial skills.

Financial Sector

23. **The financial system in Rwanda has grown considerably, and while relatively diversified, is dominated by banks.** As of September 2020, the formal financial system was composed of 500 institutions

[11] World Bank Group, 2020: "Supporting firm resilience".

(457 of which are MFIs and SACCOs) with combined assets equivalent to 63.9 percent of GDP. Banks account for 68 percent of the total financial sector assets, and MFIs and SACCOs for 6 percent. The combined deposits of microfinance, insurance and pension sectors account for 21.3 percent of banking sector deposits. Loans constitute 55.3 percent of total assets and generate around 63.5 percent of total banks' revenues. Government securities represented 18.1 percent of total assets of banks.

24. **MFIs and SACCOs play a complementary role to banks in the provision of financial services.** Although MFIs and SACCOs remain small in size when compared to banks, they have a widespread national reach and have the scale of banks when it comes to the number of accounts. These players cater to the low-income population and informal and micro firms, especially those in rural areas. In fact, the agriculture sector represented the largest segment in MFIs and SACCOs' lending portfolio at 35 percent—providing 73 percent of total loans to agriculture.

25. **Despite significant improvement in financial depth, financial costs have not changed significantly.** Credit to the private sector has increased steadily over the past decade, reaching 21.9 percent of GDP. The significant growth of the financial sector has been broad based. The banking sector has maintained solid growth, with total loans expanding by about 48 percent in the last three years. The microfinance sector has also seen an unprecedented 40 percent growth in lending over the same period. Interest rates on both deposits and credit have been sticky and interest rate spreads have remained unchanged, at around 12.8 percent. The average lending rate charged by banks in 2020 was around 17 percent. The significant reliance on short-term deposits limits the ability of both banks and MFIs/SACCOs to provide longer-term financing.

26. **The banking sector remains sound, but the COVID-19 pandemic continues to pose significant risks.** Banks seem adequately capitalized and liquid, with a capital adequacy ratio (CAR) of 20.3 percent well above the regulatory minimum of 15 percent as at the end of December 2020.[12] BNR stress tests in December 2020 indicated that banks are able to absorb significant losses and continue to meet the prudential capital requirements.[13] The liquidity position of the banking sector remains favorable, with the Liquidity Coverage Ratio (LCR)[14] and Net Stable Funding Ratio (NSFR)[15] of banks standing at 245.7 percent, and 161.4 percent respectively as of December 2020, above the 100 percent minimum prudential requirement. While the banking sector continues to hold adequate capital and liquidity buffers, exposure to hard-hit sectors, reduced ability of cash-strapped borrowers to service loans, and deferred cash inflows from loan restructuring have raised credit and liquidity risks. MFIs face similar challenges to those of banks, with access to liquidity and stable sources of funding being more acute. According to results from

[12] In December 2018, the BNR increased the minimum paid-up capital requirements for different categories of banks[12] - commercial banks from RWF 5 billion to RWF 20 billion and development banks from RFW 3 billion to RFW 50 billion. The minimum paid-up capital for cooperative and mortgage banks was set to RWF 10 billion. Banks were given a transition period of five years ending in 2023 to comply with the new requirements while new entrants are required to meet the new capital requirements at licensing stage.

[13] The shock assumed that the loans that were restructured more than once between March and December 2020 defaulted, thereby increasing the NPL ratio to 9.3 percent.

[14] The LCR is calculated by dividing a bank's high-quality liquid assets by its total net cash flows over a 30-day stress period.

[15] The NSFR is calculated by dividing the bank's available stable funds to its required stable funds

a survey conducted during the first six months of the pandemic, 87 percent of MFIs experienced liquidity challenges and 43 percent of them discontinued lending overall, putting stress on their sustainability.

27. **To respond to the challenges facing Rwanda's private sector due to the COVID-19 pandemic and given identified constraints, the GoR requested World Bank support through the proposed 'Access to Finance for Resilience and Recovery' Project.** The project focuses on addressing identified market failures to increase access to finance for businesses, including liquidity shortages, as well as long-term sources of finance to support investments for business expansion and adaptation. The Project components aim at (a) mitigating the short-term financial impact of the pandemic on firms by providing liquidity through financial institutions; (b) providing long-term sources of funding to support investments of firms that can support jobs and economic recovery, (c) enhancing risk mitigation instruments available to financial institutions to improve outreach in underserved segments, and (d) addressing structural constraints on firms' demand side to enhance their capabilities and lift barriers for firms to access finance. As the country transitions towards the recovery phase, in parallel to and beyond financial instruments, it will be important to provide support for rebuilding the economy and a strong financial sector, through crisis preparedness and resilience strategies.

C. Relevance to Higher Level Objectives

28. **The proposed project is aligned with the World Bank Group's Country Partnership Framework (CPF) (FY21–FY26) for Rwanda (Report No. 148876-RW).** The CPF (FY21–FY26) was developed and finalized jointly with the GoR as the COVID-19 pandemic was unfolding and was discussed by the Board of Executive Directors on July 9, 2020. It incorporates the GoR's crisis response program including the emergency ERP, to which the IDA19 program has been adjusted to aid in recovery from the negative public health and socioeconomic impacts of the pandemic. The proposed project will contribute to Objective 2 of the CPF, Improved Conditions for Private Sector Development, particularly in the areas of facilitating access to long-term local currency financing for sectors impacted by the COVID-19, promoting investment in priority growth sectors, and reinforcing the financial system's crisis preparedness.

29. **The project also aligns with the World Bank Group COVID-19 Crisis Response Approach Paper "Ensuring Sustainable Business Growth and Job Creation" of June 2020.** The project is aligned with the WBG COVID-19 Pillar 2 of the Approach Paper through its support to employment and productivity for vulnerable households, informal businesses and micro-enterprises. The project also aligns with Pillar 3 of the Approach Paper by ensuring liquidity for viable firms by promoting the flow of credit to the real economy through banks and non-bank financial institutions (NBFIs). The proposed working capital and restructuring support will help adversely affected and viable firms survive the temporary social distancing and lockdown measures and resulting economic downturn, adapt to the new operating environment, and, eventually, contribute to the recovery stage. The project also aims to preserve jobs and loss of otherwise productive firms, with a view to support worker retention. As part of the *resilient recovery* phase and aligned with Pillar 3 of the Approach Paper**,** the proposed project will provide a lifeline to MSMEs and firms in growth-potential sectors that find it more difficult to access financing from financial institutions. Due to its targeted design, the project will also provide additionality by providing sources on long-term finance not available in the market. Through its risk-sharing component, the project will support crowding-in of private sector capital through banks and NBFIs. To strengthen policies, institutions and investments for resilient, inclusive, and sustainable growth, in line with Pillar 4 of the Approach Paper, the project

includes financial instruments, performance-based conditions (PBCs) and technical assistance (TA) activities which focus on strengthening institutions and investments for resilient and sustainable recovery.

30. **The project supports the objectives of the Government's ERP, and Rwanda's NST1 more broadly.** The GoR announced the ERP in April 2020 which sets out the government's program across sectors that would provide support to households and businesses and boost employment and growth towards recovery. The plan includes interventions to support the private sector which are aimed at protecting businesses and employment, providing new employment opportunities, and positioning for long-term growth through increased access to financing and business advisory services. The NST1, encompassing the period 2017 to 2024, includes objectives to improve access to financial services, and more generally to improve the effectiveness of the financial sector to promote investments.

31. **Finally, the project includes co-financing by the Asian Infrastructure Investment Bank (AIIB) and provides a platform for other development partners to provide support to Rwanda.** This will be AIIB's first operation in Rwanda. AIIB will provide financing of up to US$100 million to co-finance the Investment component. In addition, the team has coordinated with the International Finance Corporation (IFC), which already provides financing to one of their existing clients to support working capital financing for SMEs and will consider leveraging the risk-sharing instruments proposed under the project in their planned interventions. Finally, the project has worked through the existing donor coordination mechanism and consulted bilaterally with other development partners to ensure that activities are aligned. In particular, the project will complement the sectoral capacity building activities of partners such as the United Kingdom Foreign, Commonwealth & Development Office (FCDO) and the United States Agency for International Development (USAID), as well as the access to finance activities of the *Kreditanstalt für Wiederaufbau* (KfW).

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

32. The Project Development Objective (PDO) is to increase access to finance and support recovery and resilience of businesses affected by the COVID-19 pandemic.

33. **The Project aims to provide financial relief to businesses affected by the COVID-19 pandemic and to support resilience of businesses and recovery of overall economic activity in affected sectors.** This will be done by providing lines of credit targeting affected businesses to (a) facilitate refinancing of existing debt obligations, (b) provide working capital, and (c) support investments for business adaptation and growth through the provision of longer term sources of finance. The lending facility will be complemented by risk sharing instruments to mitigate collateral requirements and to provide loan repayment liquidity facilities benefitting underserved segments, such as MSMEs. Finally, TA to be provided by the Project is expected to facilitate increased uptake by underserved segments and the private sector.

PDO Level Indicators

34. **The proposed PDO indicators are:**

Increase Access to Finance for Businesses

(a) Number of firms receiving financial support under the project

(b) Volume of loans provided under the Project

Support Business Recovery and Resilience

(c) Average tenor of investment loans supported by the project

(d) Employment multiplier: Ratio of weighted average change in employment of the firms financed under the Project, over the average change of employment in their respective sector

(e) Private capital mobilized by the project

35. **Proposed intermediate indicators will also help assess achievement of the PDO targets and are detailed in Section VII.**

B. Project Components

36. **The Project will provide US$257.5 million for the establishment and operation of credit and risk sharing facilities to support the ERF program established by the GoR.** The project will also help mobilize US$40 million in private capital financing through requirements for private sector counterparty financing and through the provision of partial credit guarantees. The Project design includes targeted TA to MSMEs, participating financial institutions (PFIs) and government implementing agencies to address existing constraints for increasing ERF uptake, including through institutional strengthening and capacity building. The project uses conventional expenditure-based disbursement except for the Partial Credit Guarantee (PCG) subcomponent, which uses PBCs. It is considered that the use of PBCs for the Guarantee scheme is necessary to ensure adequate results for the following reasons: (a) to incentivize transparency and long-term sustainability through actions on design and operational enhancements to the PCG and (b) to ensure proposed capital injections to the guarantee fund are a result of increased uptake in the market. The Project components are listed in Table 1.

Table 1. Project Components and Costing[16]

Components (in US$, millions, unless otherwise stated)	Agency	Existing	PBC	IDA	AIIB	GRiF Grant
Component 1 - Liquidity and Recovery Facility				**105.5**	**100.0**	
Sub-component 1.1 - Microbusinesses Credit Line	BDF	✓	×	8.0		
Sub-component 1.2 - Refinancing Credit Line	BRD	✓	×	37.5		
Sub-component 1.3 - Working Capital and Investment	BRD	×	×	60.0	100.0	

[16] The US$40 million were added to the total project cost in the datasheet (page 4) to reflect total private capital mobilized by the project interventions and included as one of the project development indicators.

Components (in US$, millions, unless otherwise stated)	Agency	Existing	PBC	IDA	AIIB	GRiF Grant
Credit Line						
Component 2 - Risk Sharing Facility				**35.0**		**5.0**
Sub-component 2.1 - Partial Credit Guarantee Scheme	BDF	✓	✓	30.0		
Sub-component 2.2 - Bridge Lending Window	BDF	×	×	5.0		5.0
Component 3 - Institutional Strengthening and Implementation Support	BRD/BDF	NA	NA	**9.5**		**2.5**
Sub-component 3.1 - Strengthening firms' capability for resilience and recovery	BDF/BRD	×	×	3.8		
Sub-component 3.2 - Institutional Strengthening	BDF/BRD	×	×	1.3		2.5
Sub-component 3.3 - Project management and Monitoring	BDF/BRD/ MINECOFIN	×	×	4.4		
Component 4 - Contingency Emergency Response Component	NA	NA	×	**0.0**		
Total Project Cost				**150.0**	**100.0**	**7.5**

Note: MINECOFIN = Ministry of Finance and Economic Planning.

Component 1: Liquidity and Recovery Facility (US$205.5 million: US$105.5 million IDA equivalent and US$100 million co-financed by AIIB)

37. **The objective of this component will be to alleviate the short and long-term financial constraints of firms and help them adjust their business to the post-COVID-19 scenario.** The facility will provide lines of credit (LoC) to Financial Institutions (FIs) for on-lending to highly impacted and/or strategically important sectors and firms, and thus enable business continuity. The facility will also provide financing to support business expansion and adaptation, as well as new investments necessary for the recovery of the economy. It will be open to all private businesses located in Rwanda to support their operation and investment in Rwanda. BRD will implement the refinancing credit line following the design and operation under the ERF targeting priority sectors as defined by the government. BRD will also implement the working capital and investment credit lines targeting all firms regardless of firm size. A separate credit line dedicated to micro-businesses, will be implemented by BDF and will provide both working capital and investment loans for this market segment. The World Bank proceeds will support all three credit lines, while the AIIB proceeds will be channeled solely to BRD for sub-component 1.3.

Sub-component 1.1. Microbusinesses Credit Line (US$8 million IDA equivalent)

38. **The objective of this facility is to provide financial support to MSEs/informal sector.** Proceeds of the LoC will be on-lent by BDF through MFIs, mainly SACCOs, to final beneficiaries. Project flexibility allows for both working capital and investment loans. It is expected that the majority of loan demand will be for financing MSEs' urgent liquidity and working capital needs, but as businesses start to adapt and recover, the LoC is expected to also support purchase of small capital assets to support business activity. Fiscal and monetary responses to the COVID-19 pandemic adopted by the GoR have limited effect in reaching the informal economy. In the meantime, the strain on incomes resulting from the lockdown and decline in activities and consumption has significantly impacted informal workers, women, and other - typically underserved- segments close to the poverty line. SACCOs, particularly those in rural areas, serve

the most vulnerable segments and have become increasingly short on liquidity to continue lending to their clients. Potentially viable MSEs face shortages of working capital and access to resources to maintain their operation and basic needs. To protect those businesses and jobs and to stimulate consumption of households, the sub-component will support MSEs through SACCOs.

39. **BDF will provide financing to women led MSEs as part of this activity.** Participating SACCOs will be required to report gender disaggregated data from their activities and specific outreach activities will be undertaken to ensure women led MSEs are able to access finance. Local women's associations, business organizations and community associations will be key partners in this outreach and BDF in its outreach will also specifically target women led MSEs.

Sub-component 1.2. Refinancing Credit Line (US$37.5 million IDA equivalent)

40. **The LoC will support refinancing of existing loans in priority sectors as determined by the GoR.** This LoC will be managed by BRD which will lend to banks, MFIs (banks and limited companies) to support enterprises through refinancing of existing financial commitments to ease hardship caused by the COVID-19 crisis. Target beneficiaries include all firms in priority sectors affected by the pandemic. The refinancing window initially under BNR has targeted only existing borrowers pre-COVID-19 in the hospitality and transport sectors. However, GoR is considering adding target sectors as the impact of the pandemic has widened to other sectors. There will be a specific focus on refinancing women led firms under this component. This will be elaborated on in the Project Implementation Manual (PIM).

Sub-component 1.3. Working Capital and Investment Credit Line (US$160 million: US$60 million IDA equivalent and US$100 million co-financed by AIIB)

41. **The objective of this facility is to support investments in Rwanda to facilitate economic recovery and jobs through the provision of long-term sources of funding currently lacking in the market.** In particular, it is expected to enable increased investments and exports regionally and globally and/or substituting imports with local production, including supporting jobs that can transition the population from subsistence agriculture. Project flexibility allows for both working capital and investment loans. The window will provide an LoC for on lending purposes to support investment financing for fixed assets acquisition, operational expenditure related to building scale and working capital to high growth potential investments that will sustainably drive economic recovery.

42. **The facility will be operated by BRD, which will act both as retailer and wholesaler of the funds to other PFIs.** The objective of BRD acting as retailer will be to fill in for market failures where private commercial banks are not yet providing needed finance, particularly in light of heightened perceived risks amid the pandemic. BRD already has a specific criteria in place for determining those cases in which they act as primary finance provider, including offer of first refusal for banks already serving loan applicants. The PIM will detail the criteria and procedure to be followed by BRD in determining retail versus wholesale financing. Project reporting requirements will also include indicators to monitor the distribution of the retail and wholesale portfolio. The facility will target existing venture and expansion-ready firms that seek expansion capital. The support will be open to all economic sectors with priority given to key manufacturing sectors.

43. **Target beneficiaries will include large companies and SMEs, who will receive financing either directly, or via credit lines extended to PFIs.** Financing can be used to cover capital expenses such as machinery, technology, and inputs, as well as operating expenses and working capital related to high growth-potential investments. The majority of financing will be provided through on-lending via PFIs. Direct lending 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; (ii) syndicated transactions, where BRD acts as the lead arranger. BRD will not compete with PFIs – the direct lending will be a market making or gap filling measure and is expected to be redirected to wholesale financing as PFIs start entering these more difficult to reach segments.

44. **The project adopts eligibility conditions for PFIs and firms.** The LoC will seek to prioritize select sectors: agro-processing; construction materials; light manufacturing; and cross-cutting enablers of the aforementioned sectors. Linked value chains, that provide inputs to, or take outputs from, the target sectors are also eligible. Support for energy efficient or climate friendly capital investment will be actively considered. Eligible PFIs must satisfy the expectations with respect to their financial standing and health and their ability to withstand downside risks. Selection will also consider the ability of PFIs to include women-led businesses (through verification of a gender strategy) and PFIs who express commitment to growing their portfolio of women-led firms will be preferred. Moreover, PFIs must demonstrate strong capacity to implement the project according to World Bank standards, including as established in the Project's environmental and social instruments.

45. **Eligible sub-borrowers are existing expansion-ready firms looking to scale, and new firms looking to exploit idle business opportunities.** Firms must demonstrate that they were liquid and solvent before the crisis and must not have as their main activity any of those mentioned in the exclusion list applicable to this Project. Firms must provide business and financing plans, demonstrating the financial viability of the proposed investment and its contribution to economic recovery (job creation). Firms will be required to contribute a minimum of 30 percent of the total project cost as counterpart financing. There is no minimum or maximum investment size. BRD has established a preliminary pipeline of investments totaling US$119 million.

Component 2: Risk-sharing Facility (US$40 million: US$35 million IDA equivalent and US$5 million co-financed by the Global Risk Financing Facility - GRiF)

46. **This component will aim at enhancing, scaling up and expanding existing risk-sharing solutions—that is, PCG and de-risking schemes—with the objective of reaching SMEs in sectors most hit by the COVID-19 pandemic.** Support provided under this component will be linked with credit for maintaining and scaling up production, and, ensuring suppliers are paid on delivery and employees are kept working. De-risking instruments will strengthen the financial resilience of target beneficiaries and PFIs to future shocks stimulating increased lending to the sector.

Sub-component 2.1. Partial credit guarantee (US$30 million IDA equivalent)

47. **The project will support the gradual capital increase for BDF's PCG upon fulfillment of PBCs to strengthen its operation.** This sub-component aims to strengthen the operation of the BDF's PCG scheme and increase the overall number and value of guarantees issued. The impact of the COVID-19 pandemic

in the economy has heightened perceived risks by PFIs, making it more difficult for SMEs to access financing to weather the crisis. The shock from COVID-19 is compounded by the climatic exposure of SMEs to shocks, resulting in suppressed lending to this market segment from PFIs. The PCG will help offset collateral requirements by PFIs to unlock financing to the SME sector, in particular those exposed to climatic shocks. The sub-component will build on the existing PCG scheme and related programs managed by BDF and will improve the design and operational efficiency. The disbursement of this sub-component will be based on Performance Based Conditions (PBCs) to incentivize transparency and long-term sustainability through actions on design and operational enhancements to the PCG (see more on this in paragraphs 47 and 48). The facility will largely benefit registered SMEs affected by the pandemic looking at accessing working capital or investment financing from PFIs. The capital increase will be reflected through an increase in GoR's shareholding of BDF, diluting the current ownership structure and shares by BRD and others.

48. **The PCG will help in enhancing access to credit for SMEs, including through the loan facility structured under component 1.** The growth of the guarantee portfolio has been modest compared to that of total private sector credit. While the SME guarantees increased in number, the agriculture guarantees have declined considerably both in value and number, primarily driven by perceptions of risk, including climatic shocks. In addition, the usage of the PCG in the framework of the ERF has so far been slow. The upgraded PCG, with a robust operational structure for long-term sustainability, is expected to increase PFIs' demand for the guarantees, in particular for climatic shock exposed SMEs. In response, the project will provide the funds to increase the PCG capital based on PBCs. The improved PCG scheme with increased capital will help the COVID-19 affected SMEs to access credit in the short run, especially through the working capital and investment windows, and it will have a broader positive impact in deepening the Rwandan SME and agriculture finance markets. The gradual capital injection is projected to keep the leverage of the capital around 1.2-1.4 times while the revised PCG procedures and policies gain confidence among the PFIs. Over time, subject to its performance, further leverage can be sought.

49. **The financing instrument for this sub-component uses PBCs.** PBCs were introduced to incentivize reforms and policy actions that can help improve: (a) design and efficiency in the current operational model of the PCG, (b) enhance the fund's sustainability, and (c) boost transparency and trust in the scheme. Conditions outlined through the PBCs aim at enhancing the PCG scheme by, among others, decreasing rejection rate of guarantee claims, improving methodology for guarantee coverage calculation, improving the collection of commission fees and raising awareness and capacity among market participants and BDF staff (see annex 4 for details). To that end, the component includes the following PBCs:

(a) PBC 1: Revision of PCG policies and procedures reflected in the Memorandum of Understanding (MoU) with financial institutions that are endorsed by and disseminated among the key stakeholders (US$2 million)

(b) PBC2: Increased market uptake of the guarantee product. The disbursement will be triggered based on the value of the outstanding PCG guarantee portfolio (US$28 million)

Sub-component 2.2. Bridge lending window for vulnerable SMEs (US$10 million: US$5 million IDA equivalent and US$5 million co-financed by GRiF)

50. **This sub-component will fund the creation of a new financial de-risking tool to cushion SMEs against compounding climatic shocks.** The tool will consist of a bridge-lending facility (Bridge Lending Window [BLW]) that will provide short term lending to climatic shock-affected vulnerable SMEs through BDF and a backstop insurance mechanism to protect BLW's capital from depletion. Climatic shocks, resulting from changes in temperature, precipitation, and their distributions, include droughts, floods, and landslides. Such events negatively affect the Rwandan population and the country's economy. Adverse impacts include damage to infrastructure, loss of lives and property (including crops), soil erosion, and water pollution. Furthermore, the risk of these shocks constrains the extension of credit to SMEs who remain underserved by credit markets.

51. **The objective of the bridge lending facility is to de-risk BDF's PCG scheme by reducing the risk of SMEs defaulting on their debt obligations during times of economic hardship caused by an external shock.** The sub-component is expected to particularly benefit SMEs whose operations have already been affected by COVID-19 and who may be subject to an additional compounding shock event. Upon establishment by BDF of the necessary operating policies and procedures for implementing the BLW (see annex 3 for details), the sub-component will disburse US$7 million as initial capital. The initial capitalization will be co-financed by a recipient executed grant of US$3.5 million from the GRiF, implemented through a traditional Investment Project Financing (IPF) modality.

52. **The BLW will be established and capitalized at the BDF.** The BLW will be a facility designed to provide interim bridge loans to SMEs through PFIs to cover debt servicing cost in case of a relatively frequent and moderate shock.[17] The resources extended through the BLW will enable shock-affected SMEs to pause debt servicing costs for a pre-agreed period to provide time to enable financial recovery and thereafter resumption of the loan repayment (for example, 3 months). Thereafter, SMEs would resume debt service payments obligations and cover the cost of the bridge loan. Effectively, the loan to the shock affected SME would be restructured to facilitate repayment capacity of the bridge loan.

53. **The BLW will target the needs of SMEs affected by or at risk of suffering from a compounding shock event.** The process flow will work as follows:

(a) **Participation:** The BDF has standing agreements with banks, MFIs and SACCOs that agree with their borrowers to protect loans with BDF guarantees. Shock-exposed SMEs that borrow from these institutions will be eligible for bridge loans from the BLW. Only SMEs that are affected by eligible shocks will receive financing.

(b) **Activation:** The BLW will be activated in the event of an eligible shock occurring within a sub-region affecting borrowing SMEs. The specific criteria will be detailed in the PIM, including the eligibility of shocks. The activation will be based on data but leave sufficient flexibility to account for unforeseen impacts on the ground. The activation criteria will be designed by the BDF supported by TA. Appropriate expert governance structures will be set up in

[17] The shock, intensity and frequency will be defined in the PIM, and will be reflected in the contractual agreement between BDF and PFIs.

collaboration with local stakeholders to determine the appropriate activation criteria. The window would be activated for relatively frequent, lower severity events, occurring approximately once every 2-5 years. In the initial phase, the BLW will focus on drought and flooding, looking to expand to additional shocks over time.

(c) **Bridge loans:** When activated, the facility will provide a bridge loan to cover credit servicing cost of the underlying credit contract between the SME and the financial institution for a specified limited time. The financial institution will work with the SME to reschedule its loan repayment terms to suit the financing and cash flow position of the SME. With the bridge loan covering the servicing cost of the underlying loan, the SME receives financial space to cope with the shock and thereby avoids defaulting on its loan. The financial institution will repay the bridge loan to BDF, including a small interest fee to cover operational cost of the BLW. The SME will in turn cover the bridge loan cost and repay directly to the financial institution as part of its overall outstanding loan.

54. **The BLW will be a standalone facility that provides several complementary benefits to BDF's PCG scheme.** Among others, these include the following: (a) The BLW seeks to enable borrowing SMEs to honor their credit agreements, while the PCG only disburses in the event of SME default, enabling financial institutions to keep clients and receive repayment of their loans. (b) The bridge lending will become available automatically to financial institutions upon the occurrence of a shock as determined by objective data (for example, rainfall data, districts reports). This increases transparency of the mechanism will lead to rapid disbursement of resources, attractive to both financial institutions and SMEs who would avoid the negative effect of defaulting on their obligation while trying to recover.

55. **The sub-component will also fund an insurance backstop to protect the capital in the BLW from severe shocks.** The funds will be used to finance premium payments of an insurance product to backstop the capital in the BLW. The BDF, with TA from the World Bank, will design an insurance contract to protect the capital in the BLW. In the event of a severe shock,[18] the insurance contract will trigger a payout which will disburse and top up the capital in the BLW. The trigger upon which to base the insurance payouts will be based on the severity of a shock event in targeted locations and/or another shock-related quantitative parametric index. During the first 1-2 years of the project, BDF will procure a risk model which will form the basis of the insurance contract. Once designed, the BDF will engage with local and international insurance companies to finalize the insurance contract and transfer the risk. The sub-component will fund US$3 million of insurance coverage over the life of the project, which again will be co-financed by a recipient executed grant of US$1.5 million from GRiF, implemented through a traditional IPF modality.

56. **Any insurance payouts will be paid into the BLW with the primary role being to replenish/top-up the fund's capital during shock scenarios.** This will protect the capital from bridge loan defaults given the severe nature of the shock. Any excess resources from the insurance payout will increase the capital in the BLW, enabling it to scale up lending to shock affected SMEs during severe shocks. Thus, the insurance backstop will enable the BLW to deploy additional funds in a counter-cyclical manner, scaling up disbursements during shocks years.

[18] The shock, intensity and frequency will be defined in the PIM, and will be reflected in the contractual agreement between BDF and PFIs.

Component 3: Institutional Strengthening and Implementation Support (US$12 million: US$9.5 million IDA equivalent and US$2.5 million co-financed by the Global Risk Financing Facility - GRiF)

Sub-component 3.1. Strengthening Firms' capability for resilience and recovery (US$3.8 million)

57. **The objective of this sub-component is to support firms through the provision of tailored Business Development Services (BDS) and technical assistance to address constraints on the demand side.** BRD and BDF will provide TA services under this sub-component. BDS support to MSEs, through BDF, aims to address the lack of capacity to develop bankable business plans, the poor quality of financial statements and records, digital skills, the inability to manage risk, the lack of knowledge of business development and management, among others. It will also include regular tailored coaching and mentoring support by BDF depending on the needs and the capacity of MSEs. In parallel, BRD will provide technical advisory support to growth oriented and high potential firms that plan to expand their operations or diversify their products and services in sectors which have domestic, regional and international market links, such as manufacturing and agro-processing.

58. **This sub-component will provide support to firms to successfully access the resources and financial support designed under components 1 and 2.** The project aims to provide integrated support to enable firms to effectively benefit from the provided financing and recover from the impact of the pandemic and thrive. The TA aims to address the challenges businesses face in terms of financial literacy, maintaining financial records and bookkeeping, digital literacy and access and adapting to the new economic realities by reformulating their targeted segment/customer base, marketing strategy and by providing technical advisory support for expansion and diversification of products and services. BRD and BDF will provide targeted and tailored support to formal large and medium enterprises on one hand and small and micro enterprises on the other as their need and challenges are different. Trainings to address gender specific constraints will be included to address gaps in communications skills, negotiation, and leadership, among others, depending on the gaps identified. Trainings will be structured keeping in mind women-specific constraints that may include logistical access/transport, childcare and family responsibilities, to ensure that women have equitable access.

59. **Complementary to the financial intermediation support under components 1 and 2, targeted and differentiated business development support will be provided to address demand side constraints of the private sector.** Specifically, BRD and BDF will provide tailored technical assistance and business advisory services. The objective is to: (a) equip small and micro enterprises with the right financial knowledge, book keeping and business management practices to successfully benefit from the financing and the support being provided under the project; (b) enhance digital literacy and access so that businesses can reap the benefit of digital technologies to access new markets and financial services and to diversify the distribution channel for their products and services; and (c) support the recovery and growth of high potential and growth oriented large, medium and small enterprises, in sectors with high potential for domestic, regional and international markets such as manufacturing and agro-processing by providing tailored technical advisory support, such as value chain assessment, technology assessment, strengthening environmental safeguards compliance to help firms adapt to the evolving economic realities and diversify and expand their operations. While these interventions are specifically designed to address specific challenges, they will be offered as a comprehensive business development package that

include standardized trainings, one to one coaching and mentoring and targeted technical assessments and advisory.

60. **It will also be necessary to have effective communication and awareness creation campaigns on the financing and the TA support to be provided by the project.** To ensure intended private sector beneficiaries have full information on the project and the business development support, BDF and BRD will have an effective awareness creation and communications campaign to the public and the business community, including transparency on the eligibility and criteria for accessing the support. Women led businesses will be a key target segment to ensure that they have the information about the project and the TA. Women's business associations and other organizations will be leveraged as partners for this outreach to better communicate with the target segment.

61. **Interventions under this sub-component will follow two tracked approach for the provision of business development support: (a) focusing on Small and Micro Enterprises and (b) focusing on high potential large, medium and small enterprises.** Accordingly, the implementation will also be differentiated. BDF will provide structured business development trainings as well as one to one coaching and mentoring to small and micro enterprises by leveraging its existing business advisory services and its extensive presence at the district level. The individualized TA to support the well-established firms will be provided by BRD through targeted technical advisory support on value chain assessment, technology assessment, environment compliance, business expansion and turnaround strategies, and so on.

Sub-component 3.2. Institutional Strengthening (US$3.8 million: US$1.3 million IDA equivalent and US$2.5 million co-financed by GRiF)

62. **This sub-component intends to enhance the capacity of the implementing agencies.** The project will finance the TA support to upgrade the operations of BRD and BDF. The success of the project is heavily dependent on the capacity of these entities. The upgraded operations will also continue to support the expansion of access to finance for MSMEs beyond the project. The detailed contents of the support are described in annex 3.

63. **The project will provide TA to support the BDF's effort to revamp the PCG.** BDF has already identified the main aspects to be addressed as part of this strategy. The priority areas to be supported by the Project TA will focus on improving policies and operational procedures to (a) decrease the high rejection rate on guarantee claims, (b) improve the calculation of the guarantee coverage, (c) collection of fees, and (d) capacity building of staff in BDF PFIs, among others. The initial phase of consultations with lenders has already started. The project will provide international expertise and cover other TA costs including, workshops, and training programs. The marketing and awareness campaigns for PFIs and other stakeholders will be self-financed by the BDF.

64. **In addition, funds will be provided to BDF to strengthen their capacity and systems to enable the effective implementation of the de-risking instruments under component 2.** Internal capacity, operating procedures and systems will be strengthened to enable the successful launch and implementation of the BLW. Upon project effectiveness, the focus will be on establishing the systems, policies and procedures for the capitalization of the BLW. Once these are in place, the project will capitalize the BLW using funds from sub-component 2.2 (see annex 3 for more details). In parallel, BDF

will focus on the key activities to enable rapid disbursements from the BLW, as well as to procure the insurance backstop.

65. **TA will also be provided to private sector financial service providers and government stakeholders.** BDF will carry out activities for this sub-component. Financial institutions and insurers will be included in the planning and design of the BLW and the insurance backstop from the start. Through a collaboration with the International Finance Corporation (IFC), the project team will deliver customized trainings and capacity building to both government and private sector stakeholders on the technical aspects of the program, as well as disaster risk financing principles. Discussions will be held with all stakeholders to determine the best suited and most cost-effective potential insurer(s) to underwrite the insurance product and to ultimately place the product in the market. This sub-component will also provide resources to explore the potential of developing a national disaster risk financing strategy with MINECOFIN. This sub-component will be co-financed by a recipient executed grant of US$3.5 million from GRiF, implemented through a traditional IPF modality.

Sub-component 3.3. Project management and Monitoring (US$4.4 million IDA equivalent)

66. **This sub-component will ensure smooth implementation of the project.** The sub-component will support all aspects of project management related to (a) project staffing and their training; (b) procurement and FM; (c) environmental and social framework (ESF) implementation and compliance; (d) monitoring and evaluation (M&E); (e) equipment and operating costs; and (f) communication and knowledge management.

Component 4: Contingency Emergency Response Component (CERC) (US$0 million)

67. **This component is a contingency component that can be activated in case of a relevant emergency event.** Following an eligible crisis or emergency, the Borrower may request the World Bank to re-allocate project funds to support an emergency response. Once triggered, this component will draw from the then uncommitted loan resources under the project to address the emergency. Definition of eligible emergency, as well as a positive list of activities will be in the CERC Annex in the Project Operations Manual.

C. Project Beneficiaries

68. **The expected project beneficiaries are private businesses that have been impacted by the COVID-19 pandemic.** There are three clearly identifiable target groups: (a) MSMEs impacted by the pandemic, (b) underserved MSME, a subset of (a) facing tighter conditions and credit rationing compared to the average MSME, and (c) firms looking at adapting, expanding or starting their business lacking sources of long-term sources of finance. The project will support viable and potentially viable businesses in all sectors. Priority will be given to strategic and prioritized sectors as defined under the ERF guidelines, including manufacturing, transport and logistics, agriculture, and those linked to domestic and global supply chains. Strategically important sectors include those contributing to domestic production for food security, to import substitution and to export growth/foreign currency earnings. Eligibility criteria for project beneficiaries will vary by component and will be detailed in the PIM. In the case of the investment facility, it is expected that at least half of the total volume of the credit line will go to the MSME sector. In

addition, the project results framework will incorporate indicators to monitor the number and volume of financing provided to women-inclusive firms. PFIs will include banks, MFIs (banks and limited liability companies), and SACCOs.

69. **Eligible businesses include those that can demonstrate operating status before the crisis and have viable business plans to enable their recovery.** In addition, the investment facility will provide longer term finance and will be open to new businesses and expansion of existing businesses in priority sectors. Enterprises investing in strategic and dynamic sectors are a priority. MSEs/informal workers are also beneficiaries through the microbusiness facility and guarantees offered by the ERF. MSMEs will benefit from a reduction of financial constraints and increased availability of financing, which will help alleviate cash flow constraints and support recovery plans. This will allow MSME beneficiaries to preserve jobs, maintain viable operations and economic relationships and adjust their operations through the economy's recovery. Firms will also benefit from training and TA that will increase their capacity to adjust their business models to a new context and increase their chances of accessing formal sources of finance. MSMEs and financial institutions will also benefit from improvements in regulatory and supervisory capacity of BNR in support of a sound financial sector, crisis preparedness and conducive environment for access to finance.

D. Gender

70. **Women entrepreneurs are a vital force in Rwanda's economy.** Women head 42 percent of enterprises and comprise 58 percent of enterprises in the informal sector, which accounts for 30 percent of GDP. Women entrepreneurs employ between 3 to 5 workers in their businesses. Key constraints faced by women comprise limited access to three important factors: information, business skills training and development, and finance. Furthermore, they grapple with issues such as high taxes and transportation costs as well as discrimination in property ownership.

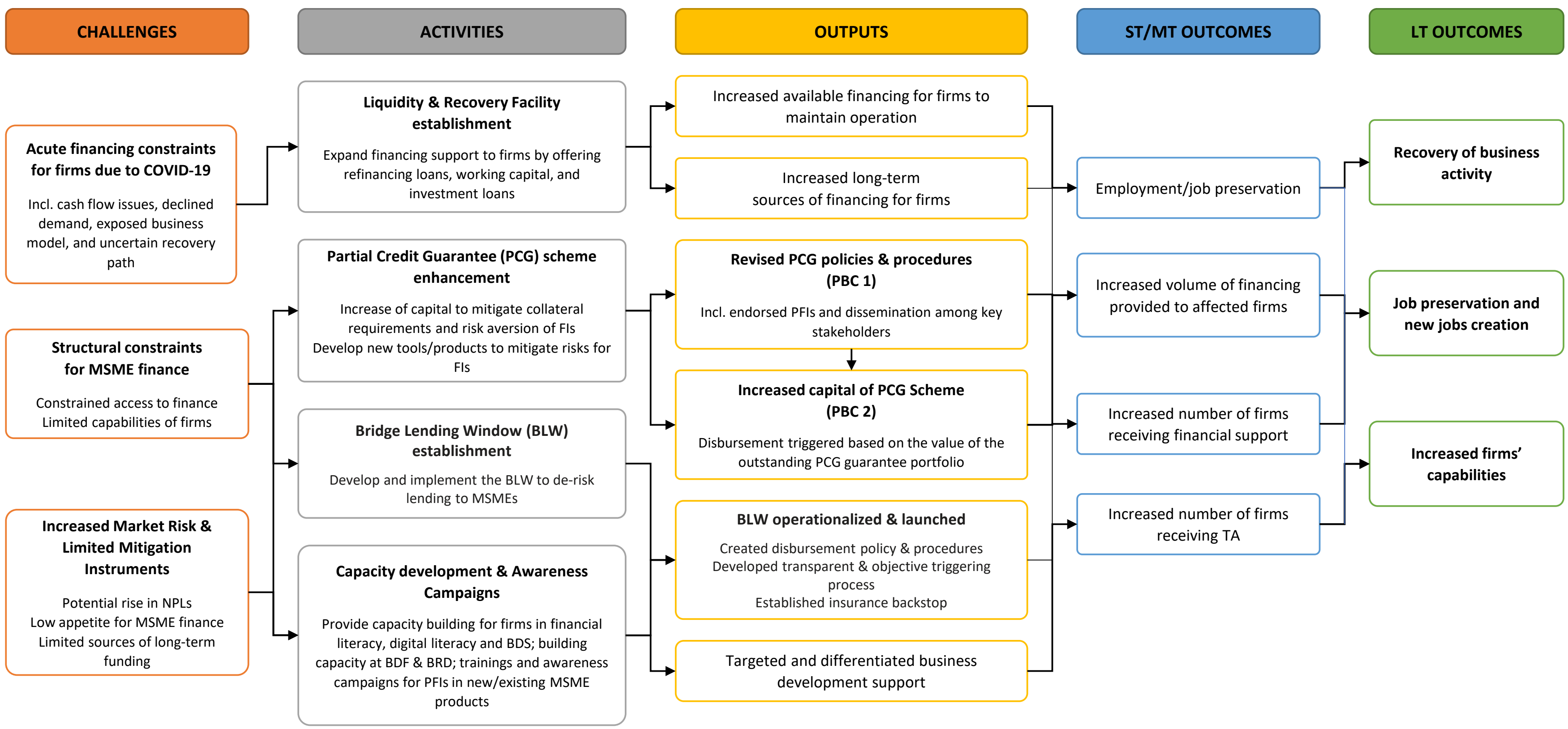
71. **A baseline is being established considering available data.** Complete data is hard to come by especially for micro enterprises. Based on the 2019 Enterprise Survey, which only includes formal enterprises, 24.5 percent firms with women top managers had access to bank loan/line of credit compared to 35.1 percent of firms with male top managers, indicating a gender gap of more than 10 percentage points. On an individual level, women accounted for 28 percent of bank loans between 2008-13 and in the 2020 FinScope survey 7 percent women (10 percent men) had borrowed from banks while 15 percent women (22 percent men) had borrowed from other formal sources. These are individual loans which include business purposes but also other consumption loans. Put together, it is evident that there is a gender gap in access to finance for women led firms in Rwanda. The project will address this gender gap by increasing the proportion of women led firms able to access financing under component 1.

72. **Women have been adversely affected by the COVID-19 pandemic, and measures to contain the spread of the virus have deepened some of the existing challenges faced.** In the face of drops in demand or disruptions in the supply chains, jobs have been lost or are at the brink while loans, taxes and rent are going unpaid. Due to known barriers women in business face, there is a legitimate concern that without a deliberate effort, women-owned/led MSMEs are likely to remain ill-informed and their uptake of the project supported programs less than optimal.

73. **The project aims to support women-inclusive[19] firms through targeted awareness raising campaigns and by providing BDS and TA to increase their uptake of programs.** BDF established the Women's Guarantee Fund (WGF) to facilitate women entrepreneurs and SMEs without collateral to obtain loans in commercial banks and micro-finance institutions at affordable terms and conditions. WGF provides up to 75 percent of credit guarantees and a grant of 15 percent of the total loan disbursed. The project will include additional activities and specifically target women in the provision of TA with the objective of increasing the chances for women to access finance through PFIs. The improved PCG scheme with increased capital will help the COVID-19 affected women led SMEs to access credit in the short run, especially through the investment sub-component, but it will have a lasting positive impact in deepening the Rwandan women owned SME markets. In addition, the BDS support will include targeted outreach to women owned and/or managed businesses to increase the participation of women in the TA that will enhance their bankability and eligibility to meet the project criteria and the various financial products available for them.

[19] Women-inclusive enterprises are defined as: (i) at least one female shareholder and with at least one woman at chief-level (c-level), or ii) employing a ratio of women that is higher than the average ratio observed in the respective sector.

E. Results Chain



Note: FI = Financing institution; LT = Long-term; MT = Medium-term; ST = Short-term

F. Rationale for Bank Involvement and Role of Partners

74. **The World Bank's engagement is critical given the severity of the economic crisis.** Given the unprecedented depth and breadth of the shock, governments throughout the world have prioritized the provision of liquidity support to private sector firms to help them survive the temporary disruption with minimum permanent losses in terms of output and employment. In June 2020, the GoR launched the ERF with US$101 million financing from the IMF under the Rapid Credit Facility to support businesses adversely affected by the COVID-19. In addition to financing, the FCDO and USAID are supporting with a range of TA projects aimed at addressing the economic impact of the crisis. While the existing support has provided breathing space to businesses, it remains insufficient, and the severity of the economic shock on firms far exceeds the resources available to the government to expand its support. The project will assist the GoR to fill the existing financing gaps and direct the support to market segments that have been particularly adversely impacted by the COVID-19 shock, allowing firms to remain viable through the worst of the COVID-19 crisis and enable a more rapid recovery.

75. **In addition to financing support, the World Bank's value addition is the ability to provide implementation support in the design of new instruments that can leverage private sector resources and attract other development partners.** A resilient recovery will require a suite of instruments that strengthen the existing recovery ecosystem, ranging from financial instruments that alleviate access to finance constraints to adjustment mechanisms that will strengthen and expand existing support programs. Without risk sharing, financial institutions may be unwilling to extend financing. The proposed risk-sharing instruments under the project will directly address these binding constraints and will incentivize PFIs to lend to the private sector, thus maximizing the effectiveness of and increasing the impact of the government's liquidity support. Importantly, the newly designed risk-sharing instruments have crowded-in grant resources and will be co-financed by a US$7.5 million grant from the GRiF. Moreover, through a collaboration with IFC, the project team will deliver customized trainings and capacity building to both government and private sector stakeholders on the technical aspects of the risk-sharing program, as well as disaster risk financing principles.

76. **The project includes co-financing by AIIB and provides a platform for other development partners to provide support to Rwanda.** This will be AIIB's first operation in Rwanda. AIIB will provide financing of up to US$100 million to co-finance the Investment component relying on the World Bank's fiduciary and ESF arrangements through a Project Co-Lenders' Agreement (CLA) which will be developed between the World Bank and AIIB and will spell out all services to be carried out by the World Bank. In addition, the team has coordinated with IFC, which has already provided financing to one of their existing clients to support working capital financing for SMEs and will consider leveraging the risk-sharing instruments proposed under the project in their planned interventions. Finally, the project has worked through the existing donor coordination mechanism and consulted bilaterally with other development partners to ensure that activities are aligned. In particular, the project will complement the sectoral capacity building activities of partners such as FCDO and USAID, as well as the access to finance activities by KfW.

G. Lessons Learned and Reflected in the Project Design

77. **The Project design reflects the emerging global consensus on the urgent measures needed to alleviate the impact of COVID-19 on the economy.** Given the unprecedented depth and breadth of the shock, governments throughout the world are using a variety of policy responses to help firms survive the temporary disruption, minimize potential permanent losses in terms of output and employment, while recognizing the need for businesses to adapt to the new environment. The following principles guiding global responses[20] have been included in project design: (a) firms that receive financial support returned to normal faster; (b) informal firms matter for the stock of employment, but less for job growth; (c) targeting of support should be kept as simple as possible during the response phase and gradually evolve during the recovery phase to focus on productivity-driven and resilient growth; (d) instruments to ensure that particularly vulnerable firms are not left out of the support should be considered; and (e) immediate measures should focus on cash flow problems of MSMEs, to support the preservation of productive assets and economic relationships, which are costly and time-consuming to rebuild.

78. **The World Bank Principles for SME Credit Guarantee Schemes guided the design of the PCG sub-component.** The areas for improvement in the BDF PCG were identified against the Principles and experiences from other PCGs supported by World Bank projects. Building trust with lenders is the key first step necessary to increasing uptake for a PCG. In some cases, where the PCG scheme is at an early stage of operation, maintaining a leverage of 1 or close to 1 can help build trust. A low leverage provides assurance to PFIs that the guarantees are backed by cash. The decision to increase the leverage can be made based on the experience of the scheme and can be done in a transparent manner to protect the trust built up with PFIs. The project will maintain a conservative level of leverage in its initial phase to improve the financial footing of the scheme and overall market confidence. Additional lessons incorporated include making the scheme user friendly for PFIs. Among other features, this entails making the claims process transparent and predictable. The project will work on addressing existing gaps to improve this process and decrease the current high rejection rate of between 30 to 50 percent.

79. **The design features of the BLW are built on international best practice for implementation of risk financing mechanisms both regionally and globally.** With the capitalization and development of an insurance back stop for the BLW, the project seeks to utilize a 'risk layering' approach to financial risk management, cited as best practice in multiple flagship publications of the World Bank.[21] In addition, using a combination of qualitative information and quantitative information as a basis to mobilize resources from the BLW is also based on successful implementation of risk financing mechanisms in the region (such as the disaster risk finance component under the northern Uganda social action fund project in Uganda) and recognizes the Rwandan context where micro-climates exist (where quantitative, insurable data does not always capture shock events).

80. **Lessons from recent research and other BDS programs have been incorporated in the project design to ensure targeted interventions effectively benefit the firms to overcome the impact of the**

[20] 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." Internal paper, World Bank.

[21] World Bank, 2017 - Assessing Financial Protection against Disasters: A Guidance Note on Conducting a Disaster Risk Finance Diagnostic; World Bank, 2017 - Sovereign Catastrophe Risk Pools: World Bank Technical Contribution to the G20.

pandemic and get on a growth trajectory. An Impact evaluation conducted by the World Bank[22] found out that market-based approaches, where firms are supported either to hire a specialized expert or outsource the function, were more effective at improving business practices than business training, and at least as effective as consulting at half the cost. Better business practices lead to higher sales, profits and employment. Market based approaches may be considered as an alternative to the traditional business training when governments are looking to directly help firms through a business support program. Governments can have a role to play in reducing the frictions that prevent the market for business services from functioning more efficiently (such as reducing information frictions and helping provide a way for providers to signal quality and for positive and negative reputations to develop).

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

81. **The Project will be implemented by the BRD and the BDF.** In addition to implementing their respective TA activities, the implementing agencies will lead the implementation of the project components as follows: (a) BDF will implement sub-component 1.1 - Micro-businesses Credit Line and component 2 - Risk-sharing Facility, and (b) BRD will be responsible of sub-component 1.2 - Refinancing Credit Line and sub-component 1.3 - Working Capital and Investment Credit Line. The agencies will also be responsible for day-to-day project implementation, including project reporting, M&E, FM, procurement, and implementation and monitoring of Environmental and Social Standards (ESS) instruments prepared under the project. An existing Single Project Implementation Unit (SPIU) in BRD has been implementing several World Bank-funded projects in accordance with the World Bank policies and procedures. These include the Renewable Energy Fund Project (P160699), the Housing Finance Project (P165649), and the Socio-economic Inclusion of Refugees and Host Communities in Rwanda Project (P164130). BRD will recruit additional staff who will be fully dedicated to and responsible for day-to-day management of project implementation. BDF will enroll a project officer, a BLW coordinator, a procurement specialist, an FM specialist, an environmental and a social specialist to support implementation. The BLW coordinator will be responsible for implementation of the de-risking instruments under component 2 as well as ensuring coordination across relevant stakeholders and will be funded using the GRiF grant finance.[23] The BLW coordinator will also provide input into capacity development materials targeting MSMEs, strengthening their understanding on the processes to access the PCG and BLW. For implementation of the project components, MINECOFIN will enter into Subsidiary Agreements with the BRD and BDF. For the provision of lines of Credit, PCG, and BLW, the implementing agencies will enter into a participation agreement with the relevant eligible retail financial intermediaries to on-lend to eligible beneficiaries.

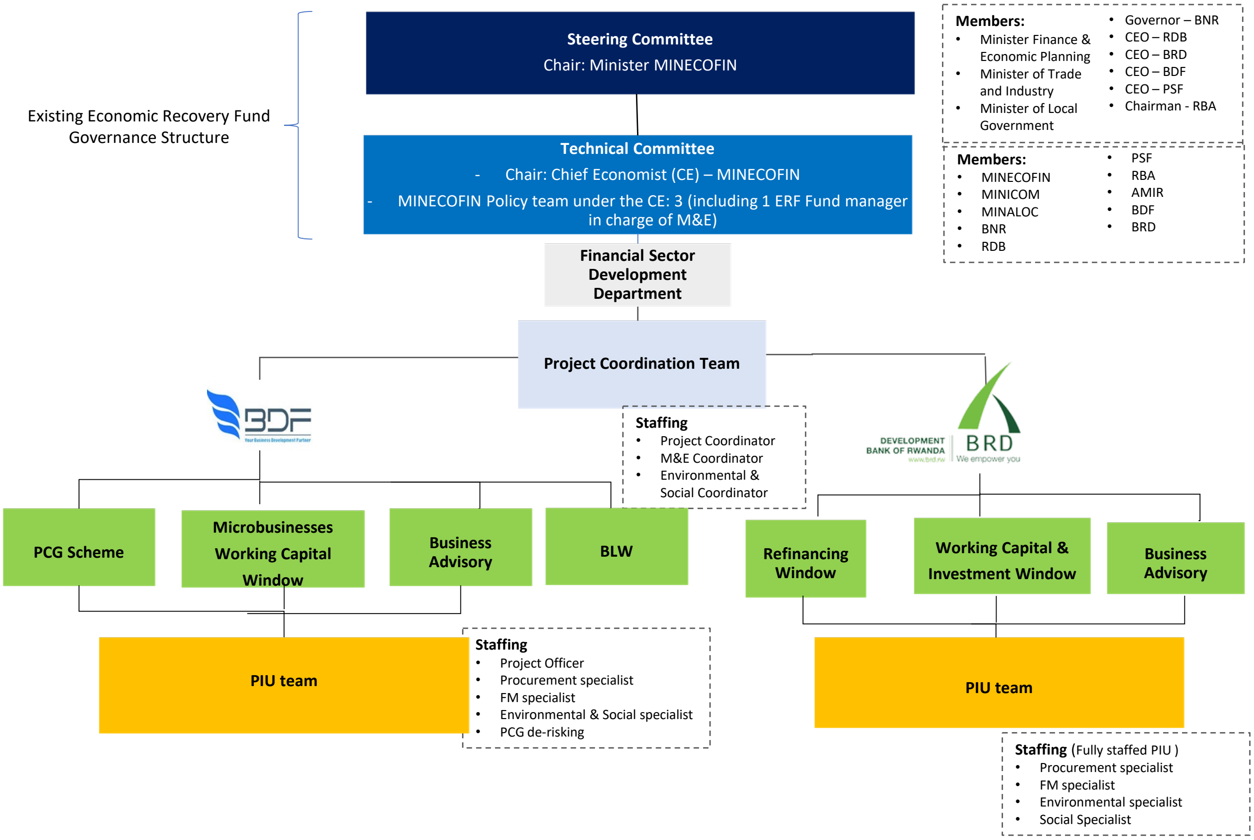
[22] Anderson, S, and McKenzie, D. “Improving Business Practices and the Boundary of the Entrepreneur: A Randomized Experiment Comparing Training, Consulting, Insourcing and Outsourcing”, World Bank Policy Research Working Paper 9502, December 2020.
[23] Relevant stakeholders include the BDF, the BNR, MINECOFIN, banks, MFIs, SACCOs, insurance companies, and in-country development partners.

82. **Project Coordination Team (PCT).** The project will build on the existing ERF[24] governance and operation structure (Figure 2) to ease implementation. MINECOFIN will be responsible for convening other relevant counterparts and coordinating the project's activities, including preparation of PIM through the PCT. The PCT will mainly comprise of a Project Coordinator, an M&E Specialist, and an E&S 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 tasks of the PCT will include (a) overall responsibility for day-to-day coordination and management, including direct support to the two implementing agencies; (b) project management; (c) overall project M&E; and (d) progress reporting on a quarterly basis. To strengthen environmental and social risk management under the project, the E&S Coordinator to be based at MINECOFIN will coordinate environmental and social risk management across two Project Implementation Unit (PIUs), one under BDF and the other under BRD.

83. **National Steering Committee (NSC).** The ERF coordination is led by a high-level NSC, comprising the Minister - MINECOFIN (Chair), the Minister - Ministry of Trade and Industry (MINICOM), the Minister – Ministry of Local Government, the Chief Executive Officer - Rwanda Development Board (RDB), the Governor - BNR, the Chief Executive Officer - Private Sector Federation (PSF), and the Chairman - Rwanda Bankers' Association (RBA). The Chief Executive Officer – BRD and the Chief Executive Officer – BDF will also join the existing NSC reflecting their role in implementing the Project. The NSC discusses policy and strategic issues related to the ERF. With regards to project implementation, the NSC will provide the general framework for policy coordination and high-level project oversight. Members of the NSC are expected to meet at least on a quarterly basis each year and as needed. The PIM will further detail the role and responsibilities of the NSC.

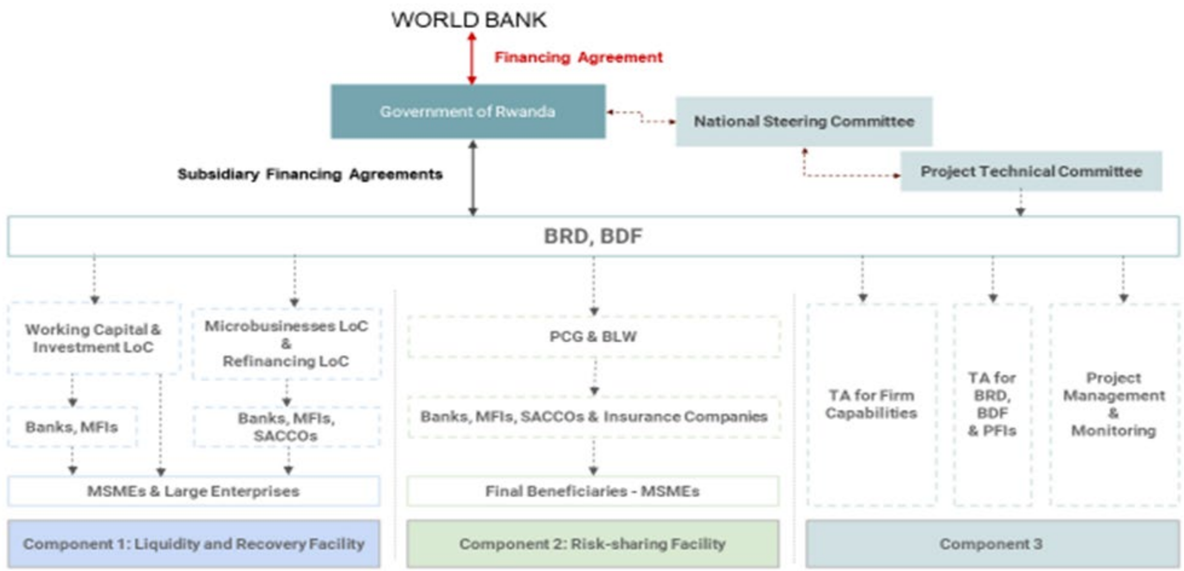
[24] The ERF was established by the Cabinet resolution of April 30, 2020 to support businesses in the sectors hit hardest by COVID-19. The steering committee comprises the Minister in charge of Finance and Economic Planning (Chair), Minister in charge of Trade and Industry, CEO - RDB, Governor - BNR, CEO - PSF, and Chairman - RBA. The technical committee comprises representatives from MINECOFIN, MINICOM, RDB, BNR, PSF, RBA, AMIR, and the BDF.

Figure 2. Project Implementation Structure



84. **Project Technical Committee (PTC).** The project will also leverage the existing ERF technical committee, which comprises of the Chief Economist - MINECOFIN (Chair) as well as representatives from MINICOM, RDB, BNR, BRD, BDF, RBA, and the Association of Microfinance Institutions of Rwanda (AMIR). The PTC shall be responsible for, among other things, (a) providing strategic guidance and technical advisory support for project implementation to the PIUs and (b) 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 each year and as needed to review the project results, discuss key issues, and agree on key milestones over the following six months. Figure 3 provides an overview of the project's implementation arrangement.

Figure 3. Implementation Arrangement



B. Citizen Engagement

85. **Outreach and inclusion.** Citizen engagement is embedded in the project design through several proactive mechanisms and will continue throughout the lifecycle of the project to ensure that targeted groups and beneficiaries can gain access and provide feedback to the design and rollout of the project. For components 1 and 2, outreach will be conducted through a public awareness campaign launched through broadcast media to inform beneficiaries about the financing facilities available through the project. For activities under component 2, broad stakeholder consultations will be undertaken. Special outreach and awareness raising campaigns targeting women will be implemented to ensure increased access for women for all components of the project. The Stakeholder Engagement Plan (SEP) includes the specific measures to be used for awareness and consultations. Citizen engagement mechanisms will build on existing practices for outreach and engagement such as through information desks and officers within government, financial institutions, web platforms, and social media. The project design will place additional emphasis on transparency mechanisms in the use of funds and the inclusiveness of project beneficiaries. The results framework incorporates indicators[25] to measure citizen engagement during project implementation.

86. **Beneficiary feedback.** Potential beneficiaries will be able to receive information on the project facilities and if necessary, join working groups to improve the program. A mid-term beneficiary survey will be conducted on a subset of firms to obtain feedback on program functionality (ease of access, transparency, quality) and effectiveness. Survey results will be used to inform implementation. In

[25] These are (i) Firms that report Project financing and support reflected their needs, and (ii) Report on survey of beneficiaries prepared and disclosed.

addition, as part of the design of component 2, the project will seek feedback through consultations with all PFIs on how to improve design of the instruments to reach target beneficiaries. The dialogue will help better understand the firms' needs and obstacles regarding financing and will inform the planning and implementation of the project. The project will enable different channels for grievances such as email, direct, telephone, and social networks to ensure easy access to the service.

C. Results Monitoring and Evaluation Arrangements

87. **The implementing agencies will evaluate progress through monitoring the agreed results indicators and the PCT will report them to the World Bank.** The PCT will continuously monitor the PDO and intermediate results indicators listed in the agreed Results Framework (Section VII) and report them to the World Bank on a quarterly and semi-annual basis. The PCT will coordinate the support from the implementing agencies to collect necessary information from PFIs and beneficiary enterprises. In addition, the financial performance of BRD and BDF will be monitored through independent auditors' reports. In the case of BRD, the report will include a separate management letter confirming adherence to prudential norms established by BNR. A dedicated M&E specialist within the PCT will be responsible for overall coordination of data collection and reporting among PIUs. BDF will provide additional evidence for meeting the PBCs, which will be verified via an audit desk review by the World Bank upon submission of supporting documents.

D. Sustainability

88. **The project will promote sustainability through its design and by working through and building the capacity of existing institutions.** The project will strengthen the existing PCG program by the BDF through PBCs and will introduce innovative risk-sharing instruments to incentivize PFIs to deepen outreach to firms, especially MSMEs, and maximize the provision of private financing for development. The Project will also provide credit lines through existing financial institutions which will follow their respective market-based pricing policies to avoid market distortions and ensure sustainability of the resources. Moreover, the financial instruments supported under the Project include features to minimize mistargeting to non-viable firms and support firms' resilience, including the requirement of contribution by firms, selection of beneficiaries based on analysis of proposals, and appraisal by PFIs. An additional impact will be the revolving nature of the credit lines as repayments from borrowers and PFIs will be channeled to new projects. The TA to implementing agencies and PFIs will improve markets standards and will strengthen their capacity to intermediate financing to the real sector. Importantly, the business advisory services to firms will enhance their business acumen and will constitute an important risk mitigation against potential default/failure which would in turn contribute to the sustainability of the lenders. All these factors will facilitate the strengthening of firms' ability to access finance and sustain the growth of their businesses beyond the life of the project and thus contribute to economic recovery.

89. **In addition, overall sustainability will be facilitated by the government's strong commitment to support firms during the COVID-19 crisis.** As outlined in the Sector Context section above, the GoR has committed itself to a wide array of programs aimed at mitigating the impact of this shock on the real sector through specific policies, and including the setup and launch of the ERF in May 2020. Specifically, policies and interventions were designed to support the private sector in general, including specific measures targeting MSMEs and other underserved segments of the economy to help them survive the

acute phase of the crisis and adapt to the permanent changes in the operating environment brought about by the pandemic.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

90. **The economic and financial analysis is focused on the Project's objective to increase access to finance and support recovery of businesses affected by the COVID-19 pandemic**. The project will provide emergency relief and recovery support to the private sector. The project is expected to have a significant impact on Rwanda's economy by improving MSMEs' access to finance and supporting livelihoods**.** Gains are expected through contributions to economic development and poverty reduction**.** The approach taken is to measure the development results in relation to the amounts to be intermediated and the potential impact on the revenue and profitability of the borrowing companies. Under reasonable assumptions, the estimated economic net present value of the project is equal to US$54.1 million with an economic internal rate of return (IRR) of 17 percent.

91. **The economic analysis focused on the three credit lines under Component 1 – Microbusiness credit line, Refinancing credit line, and Working capital and Investment Credit line.** The analysis projected the costs and benefits of the project for 15 years considering the loan tenure of the investment window. The full costs of component 2 (Partial Credit Guarantees and Bridge lending window) are included in the analysis but the benefits are only partially reflected as these risk-sharing instruments mainly support the disbursement of the credit lines.

92. **The economic benefits of the credit lines are computed based on the estimated annual revenue growth and the profit margin of the borrowers.** These estimates are made for each borrower segment of the credit lines as shown in the table below. Assuming that the target borrowers of the investment window have better growth prospects, they are estimated to have higher revenue growth and profit margin compared to the borrowers of other credit lines. These companies are also expected to grow faster right after the completion of capital investment projects funded by the credit line. These assumptions are discussed with and confirmed by the BRD and BNR (given their role in data collection on financial sector lending). With the estimated average loan size and the annual loan disbursement, the three credit lines are projected to support 2,157 companies for five years.

Table 2. Key Assumptions

	Micro window		WC window		Inv window	
	Micro	SMEs	SMEs	Large	SMEs	Large
Revenue growth without project	1%	1%	1%	2%	3%	3%
Revenue growth with project	3%	5%	5%	5%	7%	6%
EBITDA margin without project	5%	6%	6%	6%	9%	9%
EBITDA margin with project	8%	8%	8%	8%	11%	11%
Average size of revenue (RWF millions)	8	200	200	2,000	500	2,000
Average loan size (RWF millions)	3	10	50	200	300	1,500

93. **The economic internal rate of return of the base case is 17 percent with the estimated economic net present value of about US$53.8 million at a discount rate of 11 percent, reflecting the government cost of borrowing in Rwanda**. The table below indicates the economic IRRs and the net present values when the annual revenue growth rates and the profit margin increase and decrease by 0.5 percentage points. For example, if the annual revenue growth of the project supported companies grew faster by 0.5 percentage points than those of the base case while the profit margin remains the same as that of the base case, EIRR is estimated to become 18 percent with the net present value of US$66.1 million.

Table 3. Sensitivity Analysis

				Base case			
Change in annual revenue growth (% point)	-0.5		-0.5		+0.5		+0.5
Change in profit margin (% point)	-0.5	-0.5				+0.5	+0.5
Number of Beneficiaries	2,157	2,157	2,157	**2,157**	2,157	2,157	2,157
Economic IRR	**13%**	**14%**	**16%**	**17%**	**18%**	**20%**	**21%**
Net present value (USD millions)	**15.0**	**26.3**	**41.8**	**53.8**	**66.1**	**81.2**	**94.3**

94. **The project is expected to produce additional benefits beyond the above analysis.** The BLW (sub-component 2.2), for example, intends to protect the SMEs affected by external shocks. The liquidity from the BLW will enable the SMEs to continue to operate through the crisis and start growing again once the external condition recovers. Sub-component 3.1 will support businesses to enhance their capability for recovery and resilience, complementing the credit lines.

B. Fiduciary

(i) Financial Management

95. **The FM risk is substantial based on an assessment conducted for the Project.** An assessment of the FM arrangements of MINECOFIN, BRD and BDF was carried out during project appraisal to determine whether the implementing entities have acceptable FM arrangements, which will ensure: (a) that funds are used for the intended purposes in an effective, efficient and economical way; (b) financial reports will be prepared in a reliable, accurate and timely manner; and (c) project assets will be appropriately safeguarded. The assessment complies with World Bank policy and directives on investment project financing (IPF).

96. **The key risks identified are:** (a) the nature of the project is complex giving rise to potential accountability challenges in ensuring that funds have been disbursed to the right beneficiaries or otherwise used for intended purposes; (b) staffing gaps in Government on World Bank FM procedures specifically for BDF; (c) disbursement delays in funds reaching the final beneficiaries and (d) inadequate and delayed implementation of external and internal audit recommendations.

97. **The proposed mitigating measures are as follows:** (a) develop detailed FM guidelines for the project as part of the PIMs of each implementing agency; (b) recruit or appoint a dedicated FM Specialist for this project at MINECOFIN and BDF with Terms of Reference (ToR) to be agreed with the World Bank; (c) World Bank to provide support and training on World Bank FM and Disbursement procedures to staff

in MINECOFIN, BRD and BDF before project effectiveness and as needed during project implementation, and (d) enroll the project into the respective FM systems of the project implementing agencies.

98. **The arrangements for project oversight and accountability are acceptable.** These arrangements comprise management oversight (that is, NSC, PTC, MINECOFIN, BRD, and BDF), internal oversight bodies (that is, internal audit, audit committee), external oversight bodies (that is, Private Audit Firms recognized by the Institute of Public Certified Accountants of Rwanda that will also audit the project activities carried out by BRD and BDF and will provide separate audit opinions for the project activities; while the activities by MINECOFIN shall be audited by the Office of the Auditor General) and Parliament that approves the government's budget. The existing FM arrangements of BRD provide reasonable assurance that the financing proceeds will be used for intended purpose in a transparent, effective, and efficient manner. The BRD PIU is experienced in the implementation of World Bank-financed projects (Renewable Energy Fund, Rwanda Housing Finance Project and Social-Economic Inclusion of Refugees and Host Communities in Rwanda Project). BDF has no prior experience in implementing World Bank financed projects and will need FM training from the World Bank team before project effectiveness and ongoing during project implementation.

(ii) Procurement

99. **Procurement for the proposed project will be carried out in accordance with the 'World Bank Procurement Regulations for Borrowers under Investment Project Financing',** dated November 2020, hereafter referred to as 'Procurement Regulations'. The project will be subject to the World Bank's Anticorruption Guidelines, dated July 1, 2016 and beneficiary disclosure requirements. The proposed project will use Systematic Tracking of Exchanges in Procurement (STEP), a planning and tracking system that will provide data on procurement activities, establish benchmarks, monitor delays, and measure procurement performance.

100. **A Project Procurement Strategy for Development (PPSD) has been developed to understand the project implementation context, market situations and associated potential risks to achieve value for money and the PDOs.** The PPSD sets out the selection methods to be followed in the procurement of Goods, Works, and Non-Consulting and Consulting Services financed under the project. The PPSD describes the overall project operational context, market situations, implementing agencies capacity and identifies possible procurement risks and mitigation measures. Following the market analysis, based on information obtained from the industry, and the implementing agencies' prior experience, the PPSD will advise whether there is risk of supply market or not. The underlying Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

101. **A procurement capacity and risk assessment has been carried out by the World Bank for the two implementing agencies BDF and BRD, who have procurement activities.** The two implementing agencies will have procurement activities financed from the non-Financial Intermediary component of the project. BRD has adequate prior experience in implementing World Bank financed projects and hence has led preparation of the PPSD. Given that BDF has no prior experience in implementing World Bank financed projects, technical assistance will be needed to enhance its capacity, by adding one procurement officer and providing procurement training on World Bank procurement regulation. Risks associated with the

project are mainly arising from lack of experience of BDF. Project procurement risks identified in the PPSD are: (a) with recent increase in number of projects implemented by BRD, the workload is beyond capacity of the existing procurement staff and this can delay the project implementation, (b) likewise, BDF has only one procurement staff and cannot manage procurement of the project in addition to his current workload, and (c) BDF has no prior experience in implementing World Bank financed projects and this can lead to the risk of delaying the project execution and there can be the risk of procurement non-compliances. Recommended risk mitigation measures are: (a) one procurement specialist/office each should be hired with finance from the project, both for BRD and BDF, in addition to their existing procurement officers, and (b) BDF to arrange procurement training jointly with World Bank Procurement officer to familiarize with World Bank procurement regulation and STEP.

102. **Based on the above outlined assessment and as presented in the PPSD in detail, project procurement risk is rated "moderate".** With implementation of above recommended mitigation measures the risk can be revised to lower risk rate during project implementation.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

103. **The project's risk rating is assessed as substantial for both environmental and social risks.** The project, through the establishment of environmental and social management systems (ESMSs) for apex-FIs (BRD and BDF) which shall be a condition for fund disbursement, and the Environmental and Social Management Framework (ESMF), complies with the World Bank Environmental and Social Framework (ESF) and Environmental and Social Standard (ESS) 1 -Assessment and Management of Environmental and Social Risks and Impacts (ESS1), 2 -Labor and Working Conditions (ESS2), 3 -Resource Efficiency and Pollution Prevention (ESS3), 4 -Community Health and Safety (ESS4), 5 -Land Acquisition, Restrictions on Land Use and Involuntary Resettlement (ESS5), 6 -Biodiversity Conservation and Sustainable Management of Living Natural Resources (ESS6), 8 -Cultural Heritage (ESS8), 9 -Financial Intermediaries (ESS9), and 10 -Stakeholder Engagement and Information Disclosure (ESS10). In line with the requirements of ESS1 and ESS9, the two FIs will each develop an ESMS satisfactory to the World Bank and in compliance with the ESF that shall be used for the duration of the Project and apply to all the project funded activities. The main E&S risks and impacts of the project are anticipated to be related to labor and working conditions, Occupational Health and Safety (OHS), community health and safety risks, dust and noise emissions, water/energy use, generation of waste and soil and water pollution at the subproject level, discrimination and sexual harassment. These are expected to be site-specific, reversible and can be addressed through standard mitigation measures. Consistent with the project's ESMF and ESMSs for BRD and BDF, companies to be financed (such as large companies, SMEs), based on the screening result, will prepare, implement and monitor relevant site specific environmental and social instruments (for example, Environmental and

Social Impact Assessments [ESIAs], for substantial risk subprojects)/Environmental and Social Management Plans [ESMPs], or Summary Project Reports (SPR)) where relevant and required.

104. **An SEP has been developed and disclosed on May 7, 2021 on World Bank external website and in-country on May 11, 2021.** Since the loan will be implemented as a separate and traceable credit line, the SEP will apply only to the purposes envisaged by the project documentation, and not the entire BRD/BDF and PFIs' portfolio as it has been defined in the Environmental and Social Commitment Plan (ESCP). The ESMS is applicable to all selected PFIs. In this respect, BRD and BDF will provide the support to PFIs. BRD and BDF will ensure that their ESMSs are cascaded to PFIs and SMEs through the participation agreements as well as the project's ESMF (which will reflect World Bank Environmental Health and Safety Guidelines, among others) as required. PFIs will monitor the entire World Bank-financed portfolio and report to BRD and BDF, in a manner which is acceptable to the World Bank. BDR and BDF will be required to monitor and supervise the environmental and social performance of the PFIs and their portfolio exposures on this credit line. The content of semi-annual reports will be detailed in the PIM. The World Bank will monitor BRD ad BDF, while they monitor the environmental and social performance of PFIs for their sub-borrowers under this credit line. The World Bank will conduct prior review of the environmental and social performance for an initial five set of Environment and Social Due Diligence (ESDD) reports conducted for the benefiting PFIs (under each of the Apex FIs) from components 1 and 2 and thereafter conduct supervision spot checks for a number of sub-projects. The details of prior and post review will be described in the PIM.

105. **Under this project, sub-projects will be screened for environmental and social risks prior to the loan approval, within BRD and BDF ESMS and ESMF approved by the World Bank**. During project implementation, BRD and BDF will implement the developed and disclosed ESMS and ESMF before commencing activities. This will include, but not be limited to, environmental policies, goals, procedures for the identification, assessment, and management of the environmental and social risks and impacts, monitoring and review procedures, and other elements of ESMS and ESMF, in compliance with the ESF and satisfactory to the World Bank.

106. **The eligibility criteria established for the project excludes the following types of activities from project financing**: sub-projects with high risk, sub-project activities requiring involuntary resettlement, and those with impacts on sensitive areas (for example, nationally and internationally protected areas) and cultural heritage. No major civil works are expected for any of the sub-projects. Child and forced labor will be prohibited under the Exclusion Lists of Financial Intermediaries. The requirements related to pollution prevention, resource efficiency, and management of specific types of waste will all be integrated into the ESMS and ESMF. A grievance redress mechanism for complaints including for labor grievances (including gender-based violence) will also be part of the ESMS and ESMF.

107. **Citizen engagement is embedded in the project design through several proactive, two-way mechanisms and will continue throughout the life cycle of the project to ensure that beneficiaries can gain access and provide feedback to the design and rollout of the project.** First, the design of the LoC, which will be reflected in the PIM, will be discussed through focus group discussions and semi-annual dialogues/roundtables (face-to-face, virtual) with large companies, MSMEs and PFIs to enable feedback on the functionality (access, quality) of the credit facility. Secondly, BRD and BDF will conduct a survey of beneficiary enterprises under component 1 to solicit views on experience with project implementation.

The survey content will be agreed with the World Bank, and the surveys will be conducted no later than when 50 percent of each loan proceeds are allocated to sub-projects or at project mid-term, whichever comes earlier. A summary of survey results will be shared with beneficiaries and with the World Bank team and will inform further project implementation, as appropriate. The BRD and BDF will each also conduct focus group meetings with beneficiary enterprises and PFIs to share the survey results and provide feedback on actions taken to address any concerns expressed in the surveys. Finally, citizen engagement is supported by the institutionalized grievance redress mechanisms focusing on consumer protection and reporting of corruption available for addressing user/beneficiary complaints. The project will further strengthen grievance redress and beneficiary feedback mechanisms to allow for intake of all citizens' inquiries and complaints. Information about the grievance redress mechanisms will be made available on PIUs' websites, at public events, and in annual reports. According to the entity-level laws on freedom of access to information, public authorities are required to provide requested information to citizens and legal entities within a period of 15 days. The grievance redress and beneficiary feedback mechanisms at the entity development banks are described in further detail in the SEP.

V. GRIEVANCE REDRESS SERVICES

108. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

109. **The overall Project risk rating is Substantial but considered manageable with the provision of technical assistance**. The major risk to the Project's ability to achieve its development objectives include macroeconomic risks as well as institutional capacity for implementation and sustainability risks which are considered substantial. These risks partially reflect the unprecedent nature of the COVID-19 pandemic and associated high-level degree of uncertainty.

110. **Macroeconomic - Substantial.** The immediate challenge facing the Project is the impact of the COVID-19 pandemic on the private sector, especially in sectors more exposed to external shocks, as well on the financial sector through rising nonperforming loans and potential insolvency of firms. Those impacts might carry implications on the take-up of programs, as well as appetite of PFIs to lend to the private sector. A weaker-than-expected economic recovery might create additional pressures beyond planned interventions under the existing program. Development partners' financing support, including

activities planned through this proposed operation (liquidity, risk-sharing instruments, and business advisory services), as well as the return/gain in terms of extra growth and tax revenue to be generated by firms benefiting from this project will mitigate these risks. Furthermore, the macroeconomic risk is mitigated to some extent by Rwanda's commitment to incurring mostly concessional debt and the pursuit of a sound fiscal policy, supported by an active International Monetary Fund (IMF) program.

111. **Sector Strategies and Policies - Moderate.** The sector strategies follow by and large good practices. The GoR's ERP announced in April 2020 sets out the government's program across sectors that would provide support to households and businesses and boost employment and growth towards recovery. The plan includes interventions to support the private sector which are aimed at protecting businesses and employment, providing new employment opportunities, and positioning for long-term growth through increased access to financing and business advisory services. The NST1, encompassing the period 2017 to 2024, includes objectives to improve access to financial services, and more generally to improve the effectiveness of the financial sector to promote investments. Several development partners are currently engaged and/or expressed interest in supporting the country's strategies for private sector development.

112. **Institutional Capacity for Implementation and Sustainability - Substantial.** One of the two implementing agencies (BDF), has no prior experience in implementing World Bank projects. These risks will be mitigated by the technical assistance program that is a critical component of the project. The project PIUs will also be staffed with competent consultants and experienced resources which will be achieved through clear ToRs for key project staff across the agencies. Further, the PCT under MINECOFIN will provide a platform for regular coordination and decision making among the implementing agencies. The residual risk after mitigation measures is rated substantial.

113. **Fiduciary - Substantial.** Overall FM risk is assessed as substantial. The FM risk identified include (a) complexity of the project giving rise to potential accountability challenges in ensuring that funds reach intended beneficiaries and are used for intended purposes, (b) one of the two implementing agencies lack experience with implementation of World Bank financed projects and procedures, (c) potential delays in funds reaching the final beneficiaries, and (d) inadequate and delayed implementation of external and internal audit recommendations. The residual procurement risk once proposed mitigation measures are implemented is assessed as low. Current identified risks are: (a) increased number of projects implemented by BRD has increased the workload beyond capacity of the existing procurement staff and this could delay the project implementation, (b) BDF has only one procurement staff and cannot manage procurement of the project in addition to the current workload, and (c) BDF has no prior experience in implementing World Bank financed projects and this can result in delaying the project execution and there can be risk of procurement non-compliances. These risks will be mitigated by hiring competent resources through the project and training activities geared towards familiarizing them with the World Bank procurement regulations and FM requirements.

114. **Environmental and Social - Substantial.** The potential environmental risks and impacts are mostly related to the Liquidity and Recovery Facility with US$160 million (about 58 percent of the project funds) which will target large companies and SMEs in manufacturing sectors such as agro-processing, construction materials, light manufacturing and cross-cutting enablers; and the limited institutional capacity of BDF and their clients (SMEs) to manage the E&S risks as specifically BDF has no: (a) ESMSs, (b)

qualified environmental and social risk management staff, and (c) prior experience in implementing similar projects. The impacts are expected to be site-specific, reversible and addressed through standard mitigation measures and compliance with relevant national laws and World Bank's ESS 9 requirements and other ESSs that apply. The project will also provide capacity building/training to BRD and BDF staff on E&S risk assessment and management.

115. **Other - Substantial.** The expected demand under the investment window, including both potential businesses benefiting from the project along with a viable pipeline of projects, is ambitious and could present challenges in terms of absorption capacity for the Rwandan market. The risk for climatic shocks for Rwanda is assessed as moderate. The country is exposed to climatic shocks, including droughts, land-slides, floods and windstorms, which can inflict a combined annual economic loss of US$132 million. Should multiple severe climatic shocks occur in the initial years of the project, there is a risk that the de-risking instruments supported could lose a significant amount of their capital. The team are seeking to mitigate this risk through the procurement of a risk transfer product for the BLW, which in turn reduces the climatic exposure of the PCG to shocks.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Rwanda
Access to Finance for Recovery and Resilience Project

Project Development Objectives(s)

The Project Development Objective (PDO) is to increase access to finance and support recovery and resilience of businesses affected by the COVID-19 pandemic.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Increase Access to Finance for Businesses			
Number of firms receiving financial support under the Project (cumulative) (Number)		0.00	10,000.00
Volume of loans provided under the Project (cumulative) (Amount(USD))		0.00	205,000,000.00
Support Business Recovery and Resilience			
Average tenor for investment loans supported by the project (Years)		8.00	10.00
Employment multiplier (Text)		NA	>1
Private Capital Mobilized (Amount(USD))		0.00	40,000,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Component 1 - Liquidity and Recovery Facility			
Number of microenterprises receiving loans under the project (cumulative) (Number)		0.00	1,300.00
Number of firms receiving loans for refinancing, working capital and investment under the Project (cumulative) (Number)		0.00	700.00
Women inclusive firms receiving financial support through the project (cumulative) (Percentage)		18.00	35.00
Non-performing loan (NPL) ratio of project portfolio (Percentage)		4.50	5.00
Component 2 – Risk Sharing Facility			
Number of firms receiving loans guaranteed by BDF disaggregated by firm size (cumulative) (Number)	PBC 1, 2	0.00	8,000.00
Bridge lending window established (Yes/No)		No	Yes
Number of firms with loans covered by bridge lending window (cumulative) (Number)		0.00	5,000.00
Volume of loans covered by bridge lending window (cumulative) (Amount(USD))		0.00	10,000,000.00
Share of loan portfolio guaranteed by BDF supporting women-inclusive firms (Percentage)		39.00	50.00
Rejection Rate on Claims submitted to BDF (Percentage)		25.00	5.00
Guarantee Recovery Rate (Percentage)		0.30	20.00
Non-performing loan (NPL) ratio of BDF guaranteed portfolio (Percentage)		14.00	8.00
Component 3 - Institutional Strengthening and Implementation Support			
Number of small and micro enterprises receiving business development services through the project, through BDF		0.00	1,064.00

Indicator Name	PBC	Baseline	End Target
(cumulative) (Number)			
Share of women inclusive firms receiving business development services through the project (cumulative from BDF and BRD) (Percentage)		0.00	50.00
Number of businesses receiving technical assistance support through BRD (cumulative) (Number)		0.00	118.00
Citizen Engagement			
Firms that report Project financing and support reflected their needs (Percentage)		0.00	70.00
Report on survey of beneficiaries prepared and disclosed (Yes/No)		No	Yes

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of firms receiving financial support under the Project (cumulative)	Number of firms financed under the Project (cumulative) including loans and guarantees, disaggregated by firm size and type of financing.	Quarterly	BRD, BDF	Data collected by PIUs / PFI reporting	PCT/PIUs
Volume of loans provided under the Project (cumulative)	Volume of total loans provided under the Project (cumulative, USD)	Quarterly	BRD, BDF	Data collected by PIUs / PFI reporting	PCT/PIUs

Average tenor for investment loans supported by the project	Average tenor in years for loans supported by the project through subcomponent 1.3 categorized as investment loans.	Quarterly	BRD	BRD/PFI Reporting	PCT/PIU
Employment multiplier	Ratio/percentage of weighted average change in employment of the firms financed under the Project, over the average change of employment in their respective sector. This will measure whether firms supported under the Project show better developments in employment than their peers. Indicator will be weighted by firm size.	Annual	BRD, BDF, National Institute of Statistics	Data collected by PIUs / PFI reporting	PCT/PIUs
Private Capital Mobilized	Amount of private capital mobilized by the project through credit lines as counterpart financing and partial credit guarantees (cumulative, USD).	Semi-annual	BRD, BDF	Data collected by PIUs/PFI reportin	PCT/PIUs

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of microenterprises receiving loans under the project (cumulative)	Number of firms receiving loans through the microbusiness credit line of the project for working capital and investment, disaggregated by firm size, and type of loan.	Quarterly	BDF/PFI reporting	BDF data collection/Project Reports	BDF PIU
Number of firms receiving loans for refinancing, working capital and investment under the Project (cumulative)	Number of firms receiving loans through the project for working capital, refinacing and investment, disaggregated by firm size, and type of loan.	Quaterly	BRD/PFI Reporting	BRD/PFI Reporting	PCT/BRD PIU
Women inclusive firms receiving financial support through the project (cumulative)	Number of women inclusive firms that received financial support through the project. Women-inclusive enterprises are defined as: (i) firms owned by women with at least one female shareholder AND with at least one female chief-level (c-level) manager, or ii) firms employing a ratio of women that is higher than the average ratio observed in the respective sector.	Quarterly	BRD, BDF/Data from final sub-borrowers, National Statistics Department	Data collected by PIUs / PFI reporting	PCT/PIUs

Non-performing loan (NPL) ratio of project portfolio	Percentage of non-performing loans (NPLs) in Project sub-loan portfolio should not exceed 10 percent during project implementation. NPLs defined as loans >90 days in arrears.	Quarterly	BRD, BNR / PFIs Reports	Data reported by PFIs	PCT/PIUs
Number of firms receiving loans guaranteed by BDF disaggregated by firm size (cumulative)	Number of loans originated by PFIs and guaranteed by BDF after the first capital disbursement (cumulative, number).	Quarterly	BDF / PFI reports	BDF reporting based on data submitted by PFIs	PCT/BDF PIU
Bridge lending window established	Bridge lending window established as new derisking instrument to support MSME resilience to shocks	One time	BDF	BDF Report	BDF PIU
Number of firms with loans covered by bridge lending window (cumulative)	Number of bridge loans covered by the BDF from the bridge lending window (cumulative, number)	Semi-annual	BDF / Project Reports	BDF reporting based on reports received by PFIs	PCT/BDF PIU
Volume of loans covered by bridge lending window (cumulative)	Value of bridge loans disbursed by the BDF from the bridge lending window (cumulative, USD)	Semi-annual	BDF/ Project reports	BDF reporting based on claims received from PFIs.	PCT/BDF PIU
Share of loan portfolio guaranteed by BDF supporting women-inclusive firms	Percentage of loans originated by PFIs and guaranteed by BDF after the	Quarterly	BDF / PFI / Project reports	BDF report based on data submitted by PFIs	PCT/BDF PIU

	first capital disbursement supporting women-inclusive firms (cumulative). Women-inclusive enterprises are defined as: (i) firms owned by women with at least one female shareholder AND with at least one female chief-level (c-level) manager, or ii) firms employing a ratio of women that is higher than the average ratio observed in the respective sector.				
Rejection Rate on Claims submitted to BDF	Share of total claims from PFIs that are rejected by BDF	Quarterly	BDF / Project Report	BDF based on claims submitted by PFIS and approved/rejected by BDF	BDF PIU
Guarantee Recovery Rate	Amount of money recovered by BDF after payment of claim to PFI divided by total claims paid out.	Semi-annual	BDF/ Project Report	BDF based on claims paid out and post-recovery amount.	BDF PIU
Non-performing loan (NPL) ratio of BDF guaranteed portfolio	Percentage of non-performing loans (NPLs) in Project guaranteed portfolio should not exceed 15 percent during project implementation. NPLs defined as loans >90 days in	Semi-annual	BDF / PFIs/Project Reports	PFIs reports to BDF	PCT/PIUs

	arrears.				
Number of small and micro enterprises receiving business development services through the project, through BDF (cumulative)	Business Development Services includes training, coaching, mentoring, advisory service on business management, financial literacy, digital literacy, financial record keeping and/or bookkeeping, marketing development and/or strategy, new product/ service offerings, new distribution channels and/or strategy, business and risk assessment, value chain study etc. (cumulative, number)	Semi-annual	BDF/BRD PIUs	Data collected by PIUs	PCT/PIUs
Share of women inclusive firms receiving business development services through the project (cumulative from BDF and BRD)	Business Development Services includes training, coaching, mentoring, advisory service on business management, financial literacy, digital literacy, financial record keeping and/or bookkeeping, marketing development and/or strategy, new product/ service offerings, new distribution channels and/or strategy, business	Semi-annual	BDF/BRD PIUs	Data collected by PIUs	PCT/PIUs

	and risk assessment, value chain study etc. Women-inclusive enterprises are defined as: (i) firms owned by women with at least one female shareholder AND with at least one female chief-level (c-level) manager, or ii) firms employing a ratio of women that is higher than the average ratio observed in the respective sector. (cumulative, number)				
Number of businesses receiving technical assistance support through BRD (cumulative)	Number of firms that received technical assistance provided by BRD	Semiannual	BDF/BRD PIUs	Data collected by PIUs	PCT/PIUs
Firms that report Project financing and support reflected their needs	Firms that report Project financing and support reflected their needs (%)	Project Mid-term	Beneficiary Firm Survey	Survey of project beneficiaries	PCT/PIUs
Report on survey of beneficiaries prepared and disclosed	Preparation and disclosure of a report summarizing the findings of the citizen engagement survey and proposed recommendations for adjustments. The survey will be conducted on subset of beneficiaries and designed to assess overall	One time	Project Beneficiaries	Beneficiary Survey	PCT/PIUs

	satisfaction of services (including ease of access, quality, process, disclosure, responsiveness of needs, etc.).				

Performance-Based Conditions Matrix

PBC 1	Revised PCG policies and procedures reflected in the MoU with financial institutions that are endorsed by and disseminated among the key stakeholders.			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	2,000,000.00	0.67
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
December 2022	Yes		2,000,000.00	BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy issued.
December 2023	Yes		0.00	BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy issued.
December 2024	Yes		0.00	BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy issued.

December 2025	Yes		0.00	BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy issued.

PBC 2	Increased market uptake of the guarantee product			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	Yes	Amount(USD)	28,000,000.00	4.71
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	27,000,000.00			
December 2022	30,000,000.00		7,000,000.00	Total outstanding guarantees will exceed RWF 30 billion based on the latest quarterly PCG portfolio report.
December 2023	40,000,000.00		7,000,000.00	Total outstanding guarantees will exceed RWF 40 billion based on the latest quarterly PCG portfolio report.
December 2024	50,000,000.00		7,000,000.00	Total outstanding guarantees will exceed RWF 50 billion based on the latest quarterly PCG portfolio report.
December 2025	65,000,000.00		7,000,000.00	Total outstanding guarantees will exceed RWF 65 billion based on the latest quarterly PCG portfolio

			report.

Verification Protocol Table: Performance-Based Conditions	
PBC 1	Revised PCG policies and procedures reflected in the MoU with financial institutions that are endorsed by and disseminated among the key stakeholders.
Description	The BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy and procedural document of the PCG replacing the BDF Guarantee Requirements will be developed. The revised and/or newly developed document(s) (collectively called as "new PCG policies") will be approved by the BDF's Board of Directors. The documents should cover, at a minimum: (a) Guarantee processing policies and procedures including the eligible PFIs, eligible use of funds, limits on the size of the loans that can be guaranteed, and suitable debt service and guarantee coverage; and (b) Guidance for PFIs including guarantee fees, reporting requirements, handling of loan defaults, procedure and requirements for claims, and loan recovery. The Memorandum of Understanding (MoU) with PFIs will be revised based on the new PCG policies. The new PCG policies and the revised MoU will be presented to and endorsed by PFIs, SME representatives and other stakeholders. The new PCG policies and revised MoU will be disseminated among PFIs, SMEs representatives and other stakeholders via BDF website and awareness raising events.
Data source/ Agency	BDF
Verification Entity	World Bank
Procedure	A report describing the approved and endorsed new PCG policies and revised MoU, as outlined in the definition of the PBC, is prepared by the BDF, along with supporting documentation including the new PCG policies and revised MoU, meeting minutes of the Board meeting, meeting minutes of the consultation and dissemination meetings with PFIs, SMEs representatives, and other stakeholders, and descriptions of other dissemination channels and activities. BDF can select the attendees of the consultation meetings but they should at least include all the existing PFIs. The report will be assessed by the World Bank. Verification will include a review of the report described above for consistency with PBC definition. These verified results will accompany any disbursement request to the World Bank by the BRD along with the eligible expenditures.

PBC 2	Increased market uptake of the guarantee product
Description	The total outstanding guarantees will exceed RWF 30 billion, RWF 40 billion, RWF 50 billion, and RWF 65 billion based on the latest quarterly PCG portfolio report (US$7M will be disbursed for each).
Data source/ Agency	BDF
Verification Entity	World Bank Desk Review
Procedure	A quarterly PCG portfolio report prepared by the BDF and assessed by the World Bank. The capital increase will need to be approved by the Board of the Directors of BDF. Verification will include a review of the report described above for consistency with PBC definition. These verified results will accompany any disbursement request to the World Bank by the BRD along with the eligible expenditures.

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Rwanda
Access to Finance for Recovery and Resilience Project

Overall Implementation Arrangements

1. **The project will leverage the existing ERF governance structure established by the Cabinet resolution of April 30, 2020.** A Steering Committee[26] provides overall policy guidance to the Technical Committee[27] on the implementation and monitoring of the Fund. The Technical committee assesses the performance of the fund and recommends measures to the steering committee to improve the effectiveness and efficiency.

2. **The Project will be implemented by BRD and BDF.** In addition to implementing their respective TA activities, the two implementing agencies will lead the implementation of the project components: (a) BDF will implement component 2 - Risk-sharing Facility and sub-component 1.1 - Micro-businesses Credit Line, and (b) BRD will be responsible for sub-component 1.2 - Refinancing Credit Line and sub-component 1.3 - Working Capital and Investment Credit Line.

- **Sub-component 1.1 - Micro-businesses Credit Line (US$8 million IDA equivalent).** Under this component, the proceeds of the LoC will be on-lent by the BDF to final beneficiaries—MSEs/informal sector—through SACCOs. The BDF will assume the credit risk on SACCOs while SACCOs will assume credit risk of the financed businesses. The cost of on-lending will include, at a minimum, the cost of LoC funds to SACCOs plus the SACCO administrative costs, a credit risk mark-up associated with the SACCO, and expected profit. Pricing should be adequate to encourage SACCOs to compete. This will be further detailed in the PIM.
- **Sub-component 1.2 - Refinancing Credit Line (US$37.5 million IDA equivalent).** Under this component, the Project will finance the provision of credit lines (LoC) by the BRD to PFIs for on-lending purposes to highly impacted sectors and firms. PFIs will include banks and MFIs. LoC proceeds will be used to support target beneficiaries through refinancing of existing financial commitments in priority sectors which will be detailed in the PIM. Target beneficiaries will include large, medium, small and micro enterprises. The BRD will assume the credit risk on the PFIs while PFIs will assume credit risk of the enterprises. The cost of on-lending to final sub-borrowers will include, at a minimum, the cost of LoC funds to PFIs plus the PFI administrative costs, a credit risk mark-up associated with the PFI, and expected profit. Pricing should be adequate to encourage PFIs to compete as it will be further detailed in the PIM.
- **Sub-component 1.3 - Working Capital and Investment Credit Line (US$160 million - US$60 million IDA equivalent and US$100 million co-financed by AIIB).** The component will be managed by BRD, which will act both as retailer and wholesaler of the LoC funds to PFIs to support investment and working capital financing to high growth potential sectors and

[26] Comprises the Minister of Finance and Economic Planning (Chair), Minister of Trade and Industry, CEO - RDB, Governor - BNR, CEO - PSF, and Chairman - RBA.
[27] Comprises representatives from MINECOFIN, MINICOM, RDB, BNR, PSF, RBA, AMIR, and the BDF.

businesses. Final beneficiaries will include large companies and SMEs, who will receive financing either directly from BRD, or via credit lines extended by BRD to PFIs. In case of direct lending, BRD will assume the credit risk on the enterprises and, for wholesale lending, BRD will assume the credit risk on PFIs while PFIs will assume credit risk of the enterprises. The cost of on-lending to sub-borrowers through PFIs will include, at a minimum, the cost of IDA funds to GoR plus an on-lending margin reflecting BRD and the PFI administrative costs, a credit risk mark-up associated with the PFI, and expected profit. Pricing should be adequate to encourage lenders to compete - this will be further detailed in the PIM. The component will be jointly co-financed by the World Bank and AIIB, and will follow the World Bank's environmental and social, FM and procurement arrangements. Following the institutional co-financing framework between the two Banks, a Project CLA will be developed between World Bank and AIIB and will spell out all services to be carried out by the World Bank.

- **Component 2 - Risk-sharing Facility (US$40 million - US$35 million IDA equivalent and US$5 million co-financed by GRiF).** Under this component, the project proceeds will be used to enhance access to finance through risk-sharing solutions. Specifically, the proceeds will be used to (a) capitalize the BDF PCG scheme to help offset collateral requirements by PFIs to unlock financing to the SME sector and (b) capitalize a BLW that will provide short term lending to shock-affected vulnerable MSMEs through BDF, and finance premium payments of an insurance backstop loss mechanism to protect the capital of the BLW from depletion in the event of a severe or catastrophic shock.

3. **Overall project coordination.** MINECOFIN will be responsible for convening other relevant counterparts and coordinating the project's activities, including preparation of the PIM through the PCT. The PCT will mainly comprise of a Project Coordinator, an M&E Specialist, and an E&S Coordinator. The Project Coordinator will report to and act under the direction of the Chief Economist - MINECOFIN. The main tasks of the PCT will include (a) overall responsibility for day-to-day coordination and management, including direct support to the two implementing agencies; (b) project management; (c) overall project M&E; and (d) progress reporting on a quarterly basis. To strengthen environmental and social risk management under the project, an E&S Coordinator will be based at MINECOFIN to coordinate environmental and social risk management across all PIUs.

4. **For implementation of the project components, MINECOFIN will enter into Subsidiary Financing Agreements with the BRD and BDF.** For the provision of the Credit Lines, PCG, and BLW, the implementing agencies will enter into participation agreements with the relevant eligible PFIs to on-lend the project proceeds to eligible beneficiaries.

5. **The BDF and BRD will establish PIUs and will maintain them throughout Project implementation. The BRD will leverage the existing SPIU for project implementation**. The PIU for each of the two implementing agencies will be fully staffed by each agency. At the minimum, PIUs will have the following dedicated staff: one project officer, one procurement specialist, one FM specialist, one Environmental and one Social specialist and, in the case of BDF, also one BLW coordinator to oversee implementation of component 2. The PIU responsibilities will include (a) coordinating project activities and reporting requirements with the PCT, (b) ensuring that the project proceeds are on-lent to final beneficiaries in accordance with the terms and conditions recorded in the Subsidiary Financing

Agreements and PIM for their respective components; (c) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank; and (d) M&E based on the agreed results indicators. The PIU for each implementing agency will also be responsible for the selection of and on-lending to PFIs and for monitoring of PFIs to ensure compliance with Project criteria. PIUs will include sufficient number of staff dedicated to performing each of the PIU responsibilities listed above. A detailed PIU plan with assigned staff and resources and clear distribution of responsibilities will be included in the PIM.

Procurement

6. **Procurement for the proposed project will be carried out in accordance with the 'World Bank Procurement Regulations for Borrowers under Investment Project Financing'**, dated November 2020, hereafter referred to as 'Procurement Regulations'. The project will be subject to the World Bank's Anticorruption Guidelines, dated July 1, 2016 and beneficiary disclosure requirements. A PPSD was developed to understand the project implementation context, market situations and associated potential risks to achieve value for Money and the project development objectives. The PPSD sets out the selection methods to be followed in the procurement of Goods, Works, and Non-Consulting and Consulting Services financed under the project. The PPSD will describe the overall project operational context, market situations, implementing agencies capacity and identifies possible procurement risks and mitigation measures. Following the market analysis, based on information obtained from the industry, and the implementing agencies' prior experience, the PPSD will also advise whether there is risk of supply market or not. The underlying Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Box 1.1. Summary of the PPSD

The project procurement profile comprises procurement of the following:

A. BRD procurement activities

- Project structuring and documentation/Initial designs of business structure.
- Market research and other market related activities supporting the revenue growth.
- Feasibility studies and strategic plans.
- Review of funding readiness and advise on source of financing.
- Consultancies environmental safeguards strengthening.
- Developing, implementing and supervising turnaround strategies.
- Hiring external expertise to strengthen identified weak areas.
- Skills and funding gap assessments.
- Training and capacity building.
- Holistic company financial and operational review.
- Strengthening Governance structures.
- Value chains assessments.
- Review of expansion readiness and advise on the appropriateness of timing.
- Training and capacity building.
- Develop, review and facilitate the implementation of expansion strategies.
- Training workshops on appraisal process - financial modelling - Credit risk management - projects monitoring and evaluation.
- Specialized technical consultancies for some of the projects to be financed.
- Project Coordinator.
- M&E Officers.

- Product developer.
- Credit Risk Officers.
- Investment officers.
- Project Monitoring officers.
- Legal Officer.
- Embedded advisor for advisory unit for two years.
- Business analysts.
- Environmental and social analyst.
- Senior Financial advisor.

B. BDF procurement activities

- Environmental specialist.
- Social Specialist.
- PCG de-risking.
- Financial management specialist.
- Procurement specialist.
- Bridge Lending Window coordinator.
- Consulting services to carry out survey on PFI satisfaction and development of the satisfaction index.
- International expert to review PCG.
- Technical support in service delivery, process review and improvement.
- Legal/finance expert to review MoU.
- Integrated management information system (MIS) and M&E system provider.
- Technical Advisors for BDS.
- Capacity building for BDF and PFI staff.
- Technical support to undertake guarantee product review (model, procedures, pricing structure, and so on).

C. Procurement method

After careful evaluation of various options for the procurement approach and contracting strategy, international market approach using Quality- and Cost-Based Selection (QCBS), and Selection of Individual Consultants (IC) would be the optimum selection arrangement for procurement of the identified consultancy services under the component-3 of the project. In case Works and Goods procurements will be identified in due course, National Market approach will be used based on the availability in the national market and volume using National Competitive Bidding (NCB) and Request for Quotations (RFQ) which are optimum procurement methods which will be used given the low value of the contracts.

The SPIU-BRD is currently implementing projects of similar nature funded by the World Bank. The BRD staff are familiar with the World Bank's procurement guidelines whereas for the BDF staff, this is the first time to implement such project. Trainings will be organized in coordination with the World Bank at the country level for all new project staffs.

The analysis revealed that there is no risk of market, both in terms of competitiveness of the market and quality of the services. Mainly international market approach for consultancy services and national market approach for Goods, Works and non-consultancy services are recommended, whereas, other methods including RFQ, Direct Contracting (DC), QCBS, Quality-Based Selection (QBS), Consultants' Qualifications Based Selection (CQS), Fixed Budget Based Selection (FBS) & IC selection methods will be used as may be found appropriate in rare cases.

Though there is no major market risk both in terms of competitiveness and quality, number of minor risks that need to be mitigated are identified. These are, (a) with recent increase in number of projects implemented by the BRD, the workload is beyond capacity of the existing procurement staff and this can delay the project implementation, (b) likewise, BDF has only one procurement staff and cannot manage procurement of the project in addition to his current workload, and (c) BDF has no prior experience in implementing World Bank financed project and this can lead to the risk of delaying the project execution and there can be risk of procurement non-compliances. Recommended risk mitigation measures are: (a) one procurement specialist/office each should be hired with finance from the project, both for BRD and BDF, in addition to their existing procurement officers, (b) BDF to arrange procurement training jointly with the World Bank Procurement office to familiarize with World Bank procurement regulation and STEP. This should be coordinated by the TTLs and be included in the project launching workshop.

D. Contract type

The draft PPSD proposes the use of traditional contract type where equitable rights and obligations of contracting parties is ensured.

E. Framework contracts

The World Bank procurement regulation allows use of framework agreement including existing framework contracts. However, use of the framework contract is subject to review and clearance by the World Bank of the initial bidding/selection processes to ensure that the process follows open competitive method, consistent with core procurement principles and World Bank anti-corruption provisions are included.

F. Procurement documents

For all ICB tenders, the borrower is required to use World Bank standard procurement documents. The PPSD provides use of national standards for small value and non-complex procurements. In such cases, the bidding documents shall be subject to World Bank review and clearance to ensure, the bidding document has addressed the social and environmental requirements and consistent with the World Bank Procurement Regulations and includes provision for World Bank anti-corruption guidelines and World Bank's right to audit. Rwanda has initiated electronic government procurement systems. However, both implementing agencies are autonomous and are not obliged to use the Rwanda e-Procurement system (Umucyo).

G. Procurement staffing

BRD's procurement unit structure has two Procurement officers who are supervised by the Manager Corporate Services and headed by the Head of Human Capital and Corporate Services. One Procurement Officer oversees procurement activities of all World Bank financed projects and the other handles BRD's own procurement activities. One procurement officer and Manager Corporate Services are conversant with the agency's procurement policy and procedures and the World Bank New Procurement Framework that is applicable for this project. The staff is familiar with the use of the World Bank's STEP. Nevertheless, from workload point of view, the procurement officer cannot manage the new project in addition to his current responsibility, and therefore there is a need to hire one additional procurement officer who will oversee the procurement activities for this project.

BDF procurement structure has only one procurement officer who reports to the Head of Human Resources and Administration Manager. Given the volume of current procurement transactions and with this new project added, BDF needs to get one additional Procurement officer in the unit, preferably someone familiar with World Bank regulations.

H. Oversight

Both BRD and BDF have robust oversight arrangement both internal and external. The auditors are reporting to respective board of directors, ensuring independence. The audits are conducted on yearly basis.

I. Project Procurement Risk Rate

Based on procurement assessment of the implementing agencies the project procurement risk is rated Moderate. The Procurement Risk Assessment and Management System (PRAMS) is also done and procurement performance is rated "moderately satisfactory".

7. **STEP.** The project will use STEP, a planning and tracking system, which will provide data on procurement activities, establish benchmarks, monitor delays, and measure procurement performance. Starting 1st July 2017, all procurement entities in the country started using the Rwanda E-Procurement

system for government financed and most development partners financed projects. The E-Procurement system is now used for World Bank financed projects as well since January 1, 2019 for all post review contracts. However, BRD and BDF are semi-autonomous and are not required to use Rwanda e-Procurement system (Umucyo). Therefore, the project procurement will be implemented using STEP only.

8. **Beneficial Ownership Pilot.** The preliminary assessment revealed that there will be no procurement activity under the project that would fall within Output- and Performance-based Road Contracts (OPRC) thresholds that requires applying 'beneficial ownership pilot'. However, it will apply if a contract happens to fall within OPRC threshold.

9. **Procurement risk assessment.** Assessment of procurement capacity and risks of the implementing agencies (IAs) is undertaken by the World Bank to review the organizational structure and functions, experience, staff skills and capacity, procurement cycle management, quality and adequacy of supporting and control systems and record keeping. Findings of the assessment is summarized as follows:

BDF

10. **BDF is a semi -autonomous entity with its own procurement policy and procurement standard operating procedures** driven from Comprehensive Standard Operation Procedure Framework for Government Controlled Companies by MINECOFIN and Rwanda Public Procurement law. BDF has a board of directors who is an oversight authority. On the other hand, BDF endorsed the use of Rwanda Public Procurement Authority's Standard Bidding Document (SBD)/ Social Resettlement Policy Framework and Procurement Plan Templates. BDF procurement policy and procurement standard operating procedures was assessed to have included the core procurement principles and found adequate.

11. **There is only one Procurement staff position under the Human Resource and Administration department and reports to Manager of the department.** Manager of the department in turn reports to the CEO. The only existing procurement staff is not adequate to manage procurement of the proposed project in addition to his current workload and hence the is a need to hire one additional procurement specialist to manage procurement of the project.

12. **BDF is audited by externally sourced auditors and office of Auditor General on an annual basis.** BDF has a functioning procurement complaints resolution mechanism. This is a communication channel which the non-satisfied bidders use to lodge a protest and are responded to accordingly. This is stated in BDF procurement policy that a non-satisfied bidder may lodge a complaint and will be treated by the ad hoc Independent Review Panel. Bidders are communicated of that mechanism through the provisional notification letter. BDF has a structure and business mapping process showing who does what and when, ensuring accountability and transparency.

13. **BDF has an electronic procurement records keeping protocol.** BDF has archive and electronic record keeping called Globodox system where the procurement files are electronically kept and made available for audit. Through Globodox system, any one with authorization can access procurement files (from tender advertisement to contract administration).

14. **BDF has fairly good experience on procurement of Works, Goods and Consulting Services.** Despite its procurement experience, BDF had never implemented World Bank financed projects in the past and hence is not familiar with World Bank procurement regulations.

15. **Understaffing of the procurement unit and lack of experience on World Bank procurement regulations are potential risks of the project as well as major procurement risk of BDF.**

BRD

16. **BRD is a semi-autonomous entity and has its own procurement policy and standard operating procedures.** BRD procurement policy and procurement standard operating procedures was assessed to have included the core procurement principles and found adequate.

17. **BRD has a procurement unit structure with three positions.** Corporate Services Manager and two Procurement Officers are well qualified and have adequate experiences. However, the number of existing procurement staffs is not adequate to manage procurement of the project in addition to their current workload. Therefore, there is a risk of procurement underperformance unless one additional procurement staff is hired under the project. In addition to corporate services with cross cutting units such as procurement and FM, BRD has put in place SPIU structure which has an overall responsibility for implementation of the projects.

18. **BRD has strong oversight arrangement with internal audit unit** of four staffs and external independent auditors both report directly to the Board of Directors. In addition to the Board of directors, the External auditors report to the General Assembly. BRD has a complaint redressing mechanism like that of the BDF. The BRD procurement policy allows to have an independent review committee in charge of handling all procurement complaints depending on the nature of complaints. The committee is appointed by the CEO and based on the case and when the need arises.

19. **BRD has gained adequate experience in implementing World Bank Projects since 2018.** Currently BRD is implementing three projects, namely, the Renewable Energy Fund, the Rwanda Housing Finance Project and the Socio-Economic Inclusion of Refugees & Host Communities in Rwanda Project. Payments to suppliers, contractors and consultants are made within no longer than ten working days, unless there are specific contract terms that allow more number of days.

20. **The recommended risk mitigation measures for the identified procurement risks are:** (a) hiring of one procurement specialist/officer with finance from the project, both for BRD and BDF, in addition to their existing procurement officers, and (b) BDF to arrange procurement training jointly with World Bank Procurement office to familiarize with World Bank procurement regulation and STEP. This will be included as part of the project launch workshop.

21. **The performance management system is in place for both agencies** and based on the planned activities and the responsibilities, performance contracts are signed at the beginning of the financial year between the staff and their supervisors. The performance contracts clearly show the targets to be achieved in a certain period and their clear Key Performance Indicators as a measurement tool. These are reported monthly or quarterly depending on the activity.

22. **In case of procurement activities that will follow international market approach, the use of World Bank standard procurement documents is mandatory**. However, there could be few or no activities falling within international competitive bid and hence the respective agencies' standard procurement documents will be used. When agencies' standards are used, the bid documents shall be

subject to World Bank review and clearance to ensure, the bid documents are consistent with World Bank regulation and includes provision for World Bank anti-corruption guideline and World Bank's right to audit, consistent with Rwanda's public procurement law and the ESF instruments prepared for the project ESMF, SEP, ESCP, and Labor Management Procedures. The project procurement profile comprises mainly procurement of consultancy services including various firm and individual consultancy services under both BRD and BDF. No Works, Goods and Non-Consultancy Services are identified at this stage.

23. **The assessment revealed that adequate number of suppliers/contractors/consultants from international and national markets are available.** In general, the assessment confirmed that transparency and accountability of the procurement process by the IAs are ensured in the procurement process. However, there are few identified weaknesses in the past, with other agencies in the country, including lack of timely uploading of procurement documents in STEP and lack of having a realistic plan. The IAs and World Bank will work on this to overcome this weakness.

24. **Preliminary procurement plan with list of procurable items, descriptions, cost estimates, review types, selection methods and market approach will be presented in the PPSD.** The Bank's standard procurement documents should be used for all procurements using international market approach.

25. **Use of borrowers' procurement procedures.** The IAs shall follow World Bank procurement regulation as required by the financing agreement. For other procurements including projects financed by government or from other development partners, if any, the IAs' own procedures will be used as appropriate and as provided by the World Bank procurement regulation. When in use, agencies' SPD will be reviewed by the World Bank to make sure provision for application of World Bank Anti-Corruption guideline and World Bank's right to audit and all ESF requirements are included.

26. **Procurement of Works, Goods and Non-Consultancy Services:** for procurement of works, goods and non-consultancy service contract, IAs own procurement procedures and SBDs as agreed with and deemed satisfactory to the World Bank will be used, when approaching the national market. Procurements while approaching the international market will be done using the World Bank's Standard Procurement Documents. Small value works, goods and non-consultancy service will be undertaken through request for quotation procedures. The request for quotation will indicate the specifications of works, goods and non-consultancy service as well as the delivery/completion time and the contract award will be based on comparing price quotations from several qualified contractors/suppliers, with a minimum of three, to ensure competition. When the value of the contract of such works, goods and non-consultancy service exceeds the request for quotation threshold and when procured through NCB procedures, the IAs SBDs acceptable to the World Bank will be used. Direct contracting shall be used where the PPSD informs so and it is to the benefit of the project and in accordance with the procurement regulation.

27. **Procurement of consultancy services.** Procurement methods to be used are specified in the PPSD. Project staffs required for the implementation will be hired following Bank regulation for positions identified as consultant (IC) and following Project implementation Support Personnel, paragraph 7.32 of Procurement Regulations, for positions not identified as consultants (IC).

28. **Operating costs.** The items to be identified as operating cost in the PPSD will be procured using the Borrower's procurement and administrative procedures subject to review and acceptable to the

World Bank including selection of project implementation support personnel not identified as consultant (IC).

29. **Record keeping.** All records pertaining to award of tenders, including bid notification, register pertaining to sale and receipt of bids, bid opening minutes, bid evaluation reports and all correspondence pertaining to bid evaluation, communication sent to/with the World Bank in the process, bid securities, and approval of invitation/evaluation of bids will be retained by respective agencies and in electronic or hard copy and uploaded in STEP.

30. **Disclosure of procurement information.** The following documents shall be disclosed on the agencies' websites: (a) a Procurement Plan and updates; (b) an invitation for bids for goods and works for all contracts; (c) Request for Expression of Interest for selection/hiring of consulting services; (d) contract awards of goods, works, and non-consulting and consulting services; (g) a monthly financial and physical progress report of all contracts; and (h) an action taken report on the complaints received on a quarterly basis.

31. **The following details shall also be published in the United Nations Development Business and the World Bank's external website:** (a) an invitation for bids for procurement of goods and works following open international market approaches, (b) Request for Expression of Interest for selection of consulting services following open international market approaches, and (c) contract award details of all procurement of goods and works and selection of consultants using open international market approaches.

32. **Fiduciary oversight by the World Bank.** The World Bank shall prior review contracts according to prior review thresholds set in the PPSD/Procurement Plan. All contracts not covered under prior review by the World Bank shall be subject to post review during implementation support missions and/or special post review missions, including missions by consultants hired by the World Bank or third-party independent auditor delegated by the World Bank. To avoid doubts, the World Bank may conduct, at any time, independent procurement reviews of all the contracts financed under the loan. All procurement post reviews are carried out online in STEP. For this reason, uploading of procurement documents of post review contracts should be done in a timely manner and kept up to date at all time.

33. **Contract Management.** Currently, high-risk and high-value procurements have not been identified for increased contract management support. However, if such contract is identified in due course of implementation, the agency will develop key performance indicators (KPIs) for such identified contracts and the KPIs will be monitored during actual execution of contracts. The World Bank team will provide additional due diligence and independent review of the contract performance of such identified procurements. A fully staffed PIU will be responsible for overall project/contract management.

Financial Management

FM Conditions and FM Covenants

34. **Based on the assessment, the following conditions and covenants are proposed**:

(a) Develop detailed FM guidelines for the project for MINECOFIN, BRD and BDF as part of their PIMs before Project effectiveness.

(b) Recruit or appoint a dedicated FM specialist for this project at MINECOFIN, BDF and a Project accountant at BRD, as per the provisions of the legal agreements.

Country System and Use of Country System

35. Rwanda's public financial management (PFM) system is anchored in:

(a) The 2003 Rwanda Constitution, revised in December 24, 2015, Articles 162 to 166.

(b) The Organic Law N° 12/2013 of 12/09/2013 on State Finances and Property that establishes principles and modalities for sound management of State finances and property. The organic law applies to all budget entities at the central and decentralized levels and sets up fundamental public finance management principles as comprehensiveness, transparency, accountability, uniformity, consolidation and gender balance in public State finance management.

(c) The Ministerial Order N°001/16/10/TC dated 26/01/2016 on financial regulations that regulates the structure and functioning of public FM, the preparation and implementation of the State budget; the accounting and reporting of all financial transactions, and financial control. The Order applies to the management of public finances of all public entities including of the Central Government, decentralized entities, public institutions and subsidiary entities.

(d) Government Accounting Policies Manual.

(e) Articles 165-166 of the Rwanda revised Constitution and the Law N° 79/2013 of 11/9/2013 determines the mission, organization and functioning of the Office of the Auditor General of State finances.

36. **The PFM system had gone through a series of reforms since 2008**, guided by the PFM strategy plan 2008–2012, the PFM SSP 2013–2018 and the 2018–2023 PFM strategy. At the national level, progress has been made in budget planning, expenditure efficiency, enhancement of the internal audit function, external audit coverage, and financial reporting. The Public Expenditure and Financial Accountability (PEFA) 2016 confirmed these strengths. Nevertheless, areas for improvement include the weak consultative approach to budget preparation, access to fiscal information, lack of critical mass of qualified PFM staff and low alignment of budget with policies. The project's arrangements will rely on the existing PFM system at central and decentralized levels, and on the individual FM Systems in each of the implementing agencies with some amendments to consider the project's and the World Bank's FM requirements.

Table 1.1. FM Risks and Mitigating Measures

Risk	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating
Inherent risk		**Substantial**
Country level The country's political environment is deemed stable with ongoing judicial and legislative reforms. Governance challenges including retention of adequate accounting and internal audit capacity across government, weak linkage between budgeted and actual performance. Likely macroeconomic challenges due to the impact of COVID-19.	Establishment of Medium-Term Expenditure Framework (MTEF) as a basis for government budgeting, adoption of International Public Sector Accounting Standards, implementation of Smart Integrated Financial Management Information System (IFMIS). Regular oversight through the Office of the Auditor General, which is deemed independent and effective. Ongoing Bank support to PFM and accountability.	Moderate
Entity level BRD has previous experience in implementation of World Bank projects. However, BDF does not have previous experience in implementation of World Bank projects.	World Bank to provide support and training on World Bank FM and Disbursement procedures to staff in BDF before project effectiveness and as needed during project implementation.	Substantial
Project level There may be challenges executing, monitoring, and coordinating the various complex project activities.	A detailed PIM to be prepared that clarifies roles, responsibilities and authority of all stakeholders in the project. Dedicated teams at MINECOFIN, BRD and BDF in charge of day-to-day coordination, while high-level NSC and PTC provide overall oversight.	Substantial
Control Risk		**Substantial**
Budgeting Unreliable budget forecast	MINECOFIN to strictly follow national budget procedures and timeline, while BRD and BDF are to follow their respective approved internal budget procedures. Engage all project stakeholders effectively early during planning and budgeting process (NSC, PTC, MINECOFIN, BRD, BDF and World Bank). Ensure that annual work plans and budgets are in line with procurement plan to prevent any delays.	Substantial
Accounting Existing accounting capacity BDF may be overstretched due to additional project workload. The accounting/reporting system of BDF is partially computerized.	Recruit a dedicated FM specialist at BDF. Enroll the project in respective FM Systems of the implementing agencies. BDF to update the World Bank regularly on the execution of the plans to fully computerize the FM System.	Substantial
Internal Controls and Internal audit Due to complexity of the project, risk of	A detailed PIM to be prepared that clarifies roles, responsibilities, and authority of all stakeholders	Substantial

Risk	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating
some funds not used for intended purpose. Ineffective audit function due to inadequate coverage of project activities.	in the project. Internal Audit of BRD and BDF to include project activities in their annual approved audit plans and to present audit reports to project management annually.	
Funds Flow Potential funds flow delays may affect delivery of critical project activities.	Open Designated Accounts (DAs) in BNR for MINECOFIN, BRD and BDF. Project Accounts in local currency may be opened in a Commercial Bank approved by the World Bank for BRD and BDF to make payments in local currency including operational costs. Funds disbursed by the World Bank on six-month cash flow need.	Moderate
Financial Reporting and Monitoring Unreliable interim financial report (IFRs) and delay in submitting the IFRs.	Enroll the project into IFMIS for MINECOFIN; and the respective FM Systems of BRD and BDF to ensure near real time processing. Monthly Management reviews of FM reports should mitigate unreliability of IFRs and delays in submission as the same systems, processes and people should deliver.	Moderate
External Auditing Delay in submitting the audit report.	Private external auditors to be engaged by BRD and BDF on time to ensure the audit reviews start early so that reports are availed on time.	Low
Fraud & Corruption Risk of fraud and corruption.	Monitor the Grievance Redress Mechanism. Few cases of fraud detected under program financed by Government own funds and correctives measures have previously been taken.	Moderate
Overall Risk		**Substantial**

37. **The overall residual risk rating is Substantial**.

38. **Planning and budgeting.** MINECOFIN will follow GoR's planning and budgeting procedures. BRD and BDF will follow their approved internal procedures which shall be consistent with the activities and procurement plans. The project budgets shall be presented for approval by their respective Board of Director's as part of the annual budget approval process. The first project budget approval may have a separate Board Approval as it might not coincide with the annual planned budget approval timelines. The approved budgets will be monitored on a monthly and quarterly basis by the preparation and analysis of budget execution report including: (a) budget for the period and for the year; (b) actual expenditure for the period and to date; (c) future expenditure commitments; and (d) balance of period budget remaining

(actual expenditure and commitments together compared to period budget). The annual workplan and budget shall be submitted to the World Bank for no-objection.

39. **Internal control.** Each implementing entity (MINECOFIN, BRD and BDF) shall develop a PIM that will reflect the FM arrangements under this Project. The PIMs will reflect detailed internal control arrangements for the project including extent of segregation of functions in payment processing and internal check mechanisms in addition to payment approval and authorization arrangements. To enhance internal control arrangements for the proposed project, the internal audit units in BRD and BDF will conduct at least annual reviews of project activities and submit reports to the project management team and to the World Bank during implementation support missions. A dedicated FM specialist for this project will be recruited or appointed in BDF and MINECOFIN to ensure effective FM oversight including timely financial reporting.

40. **Accounting and financial reporting.** The project financial records at MINECOFIN shall be maintained using the government IFMIS, while the financial records at BRD and BDF shall be maintained using their FM systems and shall be prepared in accordance with the International Financial Reporting Standards (IFRSs); these systems shall be modified to accommodate any special financial reporting requirements prescribed by the World Bank. The project implementing agencies (MINECOFIN, BRD and BDF) will each prepare and submit quarterly interim financial reports to the World Bank within 45 days after the end of the quarter. The interim financial reports will be used to monitor project financial progress including the rate of budget execution and level of disbursements. In the same way, the respective agencies will prepare annual project financial statements, which will be submitted for external audit within three months after the financial year-end. Financial Reports shall at a minimum include:

(a) Consolidated Sources and Uses of Funds (revenues and expenditures statement).

(b) Consolidated Financial Position statement.

(c) Consolidated Cash flow statement.

(d) Consolidated Budget execution report.

(e) DA activity statement.

(f) Notes on accounting policies.

(g) Appendices.

Table 1.2. Financial Reporting

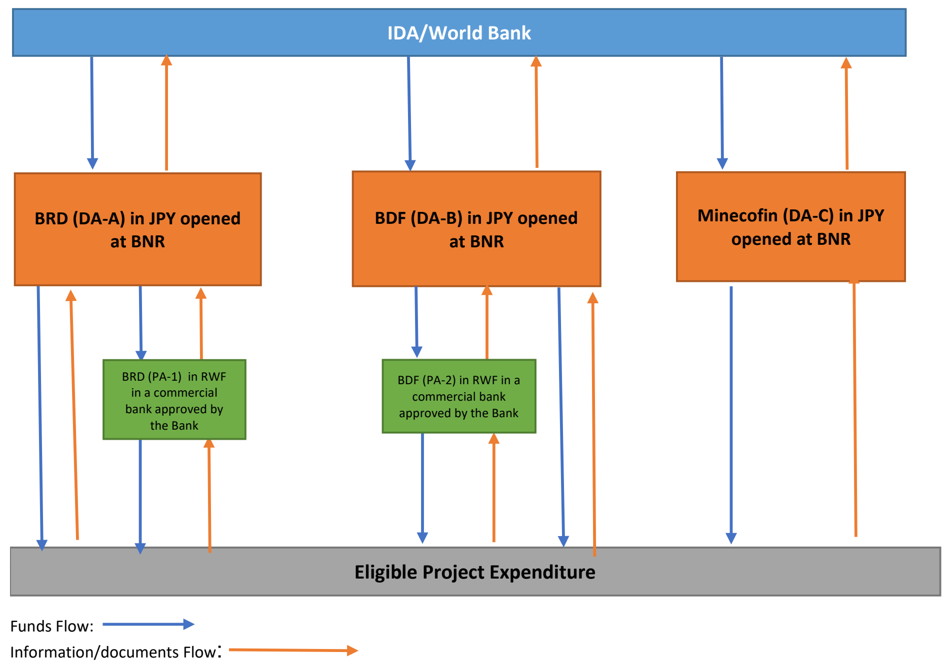
FM Activity	Frequency	Outputs
Desk reviews		
IFRs review	Quarterly	Interim Financial statements review report
Audit report review	Annually	Audit review report
Internal audit of project activities	Annually	Internal Audit review report
Review of other relevant information such as internal control systems reports	Continuous as they become available	FM review report
On-site visits		

FM Activity	Frequency	Outputs
Review of overall operation of the FM system including internal controls.	Twice every year (as part of Implementation Support Missions)	FM review report
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed	FM review report
Transaction reviews (if needed)	Annually or as needed	FM review report
Capacity building support		
FM training sessions	By effectiveness and thereafter as needed	Training sessions held

41. **External audit.** The activities managed by MINECOFIN shall be subject to external audit by the Office of the Auditor General. The activities to be managed by BRD, and BDF shall be subject to external audit by Private Audit Firms that are regulated by the Institute of Certified Public Accountants of Rwanda. The ToR for the Private Auditors shall be acceptable to the World Bank. The audit reports and management letters will be submitted to the World Bank within six months after the financial reporting year-end. The audit reports will be publicly disclosed in accordance with the World Bank Access to Information Policy. Upon receipt of the audit reports, each of the implementing/reporting agencies will be expected to prepare an action plan to address the audit findings. Follow up on the implementation of audit recommendations will be conducted as part of regular World Bank FM supervision missions and quarterly review of IFRs.

42. **Funds flow arrangements.** The project will maintain three segregated DAs for MINECOFIN, BRD and BDF, at BNR denominated in JYP. BRD and BDF will open segregated project accounts in local currency (Rwandan Franc - RWF), in Commercial Banks approved by the World Bank, to make payments in local currency including project operating costs. DA-A under BRD shall maintain funds relating to sub-component 1.3 - Working Capital and Investment Credit Line and sub-component 1.2 - Refinancing Credit line; DA-B under BDF shall maintain funds relating to sub-component 1.1 - Microbusinesses Credit line and component 2 - Risk-sharing Facility. Both DAs shall also maintain funds in relation to Component 3. DA-C under MINECOFIN shall maintain funds for its share of project management and monitoring expenses. Disbursements will follow the Interim Financial Report-based method. However, the project may also use direct payments, transaction-based Statement of Expenditure method, reimbursement and special commitments depending on the case. Contracts denominated in Foreign Currency will be settled from the DA or via direct payment from the World Bank. Upon effectiveness, each of the project implementing agencies will submit to the World Bank, a request for withdrawal of funds accompanied by six months' cash forecast. Based on the request, the World Bank will transfer the proceeds of the loan/grant to the various DAs. Subsequent replenishment of the DAs will be based on the submission of application for withdrawal accompanied by a Statement of Expenditure. Disbursements for sub-component 1.3 will follow co-financing agreement with AIIB in the ratio of 37.5 (World Bank) to 62.5 (AIIB). This will be detailed in the PIM and in the consolidated annual work plan of activities proposed for implementation under the project for each following fiscal year.

Project Figure 1.1. Flow of Funds Arrangements



43. **The project will have the flexibility of using retroactive financing.** Withdrawals up to an aggregate amount not to exceed 20 percent of the total IDA credit may be made for payments made prior to the date of signing the Financing Agreement but on or after December 1, 2020, for Eligible Expenditures under Categories one, two, and three as further detailed in the Financing Agreements. All expenditures, for which retroactive financing is sought, will be submitted to the World Bank to verify their eligibility as per the project description, withdrawal table, environmental and social policies and procurement requirements as follows: (a) activities financed through retroactive financing are related to the development objective and are included in the project description; (b) payments are for items procured in accordance with the applicable World Bank procurement regulations; (c) total amount of retroactive financing is 20 percent or less of the IDA financing; and (d) payments are made by the government during the period between December 1, 2020 and the date of the signed Financing Agreement.

Environmental and Social Management

44. **The project's risk rating is assessed as substantial for both environmental and social risks.** The project, through the establishment of ESMSs for apex-FIs (BRD and BDF) which shall be a condition for fund disbursement, and the ESMF which complies with the World Bank ESF and Environmental and Social Standard (ESS)1 - Assessment and Management of Environmental and Social Risks and Impacts (ESS1), 2 - Labor and Working Conditions (ESS2), 3 -Resource Efficiency and Pollution Prevention (ESS3), 4 - Community Health and Safety (ESS4), 5 -Land Acquisition, Restrictions on Land Use and Involuntary Resettlement (ESS5), 6 -Biodiversity Conservation and Sustainable Management of Living Natural Resources (ESS6), 8 -Cultural Heritage (ESS8), 9 -Financial Intermediaries (ESS9), and 10 -Stakeholder Engagement and Information Disclosure (ESS10). In line with the requirements of ESS1 and ESS9, the two FIs will each develop an ESMS satisfactory to the World Bank and in compliance with the ESF that shall be

used for the duration of the Project and apply to all the project funded activities. The main E&S risks and impacts of the project are anticipated to be related to labor and working conditions, OHS, community health and safety risks, dust and noise emissions, water/energy use, generation of waste and soil and water pollution at the subproject level, discrimination and sexual harassment. These are expected to be site-specific, reversible and can be addressed through standard mitigation measures. Consistent with the project's ESMF and ESMSs for BRD and BDF, companies to be financed (such as large companies, SMEs), based on the screening result, will prepare, implement and monitor relevant site specific environmental and social instruments (for example, ESIAs, for substantial risk subprojects)/ESMPs, or SPRs) where relevant and required.

45. **A Stakeholder Engagement Plan (SEP) has been developed and disclosed.** Since the loan will be implemented as a separate and traceable credit line, the SEP will apply only to the purposes envisaged by the project documentation, and not the entire PIUs (financial intermediaries) and PFIs' portfolio as it has been defined in the ESCP. The ESMS is applicable to all selected PFIs. In this respect, PIUs (FIs) will provide the support to PFIs. PIUs (FIs) will ensure that PFIs have ESMSs in place, which are acceptable to the World Bank, before any sub-loans are approved. PFIs will monitor the entire World Bank-financed portfolio and report to PIUs (FIs), in a manner which is acceptable to the World Bank. PIU (FIs) will be required to monitor and supervise the environmental and social performance of the PFIs and their portfolio exposures on this credit line. The content of semi-annual reports will be detailed in the PIM. The World Bank will monitor PIUs (FIs), while they monitor the environmental and social performance of PFIs for their sub-borrowers under this credit line. The World Bank will conduct prior review of the environmental and social performance for an initial 5 set of ESDD screening reports conducted for the benefiting PFIs (under each of the Apex FIs) from components 1 and 2 and thereafter conduct supervision spot checks for a number of sub-projects. The details of prior and post review will be described in the PIM.

46. Under this project, sub-projects will be screened for environmental and social risks prior to the loan approval, within PIUs (FIs)/PFIs ESMS approved by the World Bank. During project preparation and implementation, PIU (FIs) will implement the developed and disclosed ESMS 30 days into effectiveness and PFIs before commencing activities. This will include, but not be limited to, environmental policies, goals, procedures for the identification, assessment, and management of the environmental and social risks and impacts, monitoring and review procedures, and other elements of ESMS, in compliance with the ESF and satisfactory to the World Bank.

47. The eligibility criteria established for the project excludes the following types of activities from project financing: sub-projects with high risk, sub-project activities requiring involuntary resettlement, and those with impacts on sensitive areas (for example, nationally and internationally protected areas) and cultural heritage. No major civil works are expected for any of the sub-projects. Child and forced labor will be prohibited under the Exclusion Lists of Financial Intermediaries. The requirements related to pollution prevention, resource efficiency, and management of specific types of waste will all be integrated into the ESMS. A grievance redress mechanism for complaints including for labor grievances (including gender-based violence) will also be part of the ESMS.

48. **Citizen engagement is embedded in the project design through several proactive, two-way mechanisms and will continue throughout the life cycle of the project to ensure that beneficiaries can gain access and provide feedback to the design and rollout of the project.** First, the design of the LoC, which will be reflected in the PIM, will be discussed through focus group discussions and semi-annual

dialogues/roundtables (face-to-face, virtual) with large companies, MSMEs and PFIs to enable feedback on the functionality (access, quality) of the credit facility. Secondly, BRD and BDF will conduct a survey of beneficiary enterprises under component 1 to solicit views on experience with project implementation. The survey content will be agreed with the World Bank, and the surveys will be conducted no later than when 50 percent of each loan proceeds are allocated to sub-projects or at project mid-term, whichever comes earlier. A summary of survey results will be shared with beneficiaries and with the World Bank team and will inform further project implementation, as appropriate. BRD and BDF will each also conduct focus group meetings with beneficiary enterprises and PFIs to share the survey results and provide feedback on actions taken to address any concerns expressed in the surveys. Finally, citizen engagement is supported by the institutionalized grievance redress mechanisms focusing on consumer protection and reporting of corruption available for addressing user/beneficiary complaints. The project will further strengthen grievance redress and beneficiary feedback mechanisms to allow for intake of all citizens' inquiries and complaints. Information about the grievance redress mechanisms will be made available on PIUs' websites, at public events, and in annual reports. According to the entity-level laws on freedom of access to information, public authorities are required to provide requested information to citizens and legal entities within a period of 15 days. The grievance redress and beneficiary feedback mechanisms at the entity development banks are described in further detail in the SEP.

Implementation Support Plan and Resources Requirements

49. **The following implementation support strategy is proposed, considering the risks and mitigation measures related to the Project:**

(a) **Technical Support.** World Bank implementation support will include Financial Sector Specialist(s) based in the World Bank office in Rwanda and at World Bank Head Quarters to guide BRD and BDF during project implementation. On-site implementation support missions will be conducted at least twice per calendar year once travel restrictions due to COVID-19 have been lifted.

(b) **FM.** During project implementation, the World Bank will supervise the project's financial management arrangements in two main ways: (i) review the project implementing agencies' (BDF and BRD) interim unaudited financial reports as well as their annual audited financial statements and auditor's management letter; and (ii) during the World Bank's supervision missions, review the project's FM and disbursement arrangements (including a review of a sample of Statements of Expenditures and movements on the DA) to ensure compliance with the World Bank's minimum requirements. The frequency of these visits will be determined in accordance with the risk rating associated with the Project which will be monitored over the life of the Project.

(c) **Safeguards.** Implementation support will be provided as needed by the World Bank Specialists on Environmental and Social Safeguards, based in the World Bank's office in Rwanda and Ethiopia.

Table 1.3. Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate
Year 1	Task management	Project management (Kigali and HQ based)	8 staff weeks (SWs)
	Technical reviews	Financial Sector Specialist (HQ based)	6 SWs

Time	Focus	Skills Needed	Resource Estimate
	FM supervision	FM Specialist (Kigali based)	3 SWs
	Safeguards	Safeguards specialists (Kigali and Addis based)	3 SWs
Year 2-4	Task management	Project management (Kigali and HQ based)	6 SWs per year
	Technical reviews	Financial Sector Specialist (HQ based)	4 SWs per year
	FM supervision	FM Specialist (Kigali based)	3 SWs per year
	Safeguards	Safeguards specialists (Kigali and Addis based)	3 SWs per year

ANNEX 2: Private Sector Diagnostic

1. **Prior to COVID-19, Rwanda was booming, with economic growth exceeding 10 percent in 2019.** Strong growth has been accompanied by significant improvements across various human development indicators, such as poverty reduction and rising life expectancy.[28] Like many African Countries, job creation lies at the heart of Rwanda's development challenge with an estimated 230,000 young Rwandans entering the labor force.

2. **Total number of enterprises in formal sector have increased by 71 percent from 2014 to 2018.** Formal employment has also increased by 38 percent during the same period. In the formal sector, 47.1 percent of enterprises employ between 4 and 30 persons (small businesses), while in the informal sector, 84.3 percent of enterprises employ not more than 3 persons (micro businesses). However, percentage of employed women in the formal sector has declined from 33 percent in 2014 to 29.6 in 2018. 36 percent of formal businesses were owned by a single individual; around 45.7 percent were limited companies and 5.4 percent were cooperatives. 43.6 percent of businesses were operational for less than 5 years and around 11 percent had been in existence for at least 20 years. Kigali has the greatest number of formal and informal enterprises (NISR 2018).

3. **Most Rwandan firms are young, informal, and small and lack economies of scale for competitiveness.** Eighty one percent of firms had fewer than five employees, about 93 percent of the enterprises that were operational in 2018 were established after 20086, and 92 percent were informal. Firms are concentrated in the non-tradeable sector, primarily low value-added services such as wholesale and retail trade and accommodation and food services. accounted for 75 percent of all firms.

4. **However, key cross-cutting constraints, on top of structural challenges, make it difficult for firms to compete and market opportunities to be created**. The Country Private Sector Diagnostics (World Bank Group, March 2019) identified low level of skills, access to and high cost of energy, high transportation costs, and ICT services cost as major constraints for firm productivity and competitiveness.

5. **MSMEs account for over 95 percent of business and more than 70 percent of in-establishment employment in Rwanda.** Micro companies take up 92 percent of all businesses while other SMEs account for 7 percent. Micro businesses give 47 percent of in-establishment workers and MSMEs together a total of 72 percent. Traders are over 56 percent of establishments, whereas Accommodation and food services take up 28 percent.[29]

6. **The COVID-19 pandemic has triggered (a) an adverse supply shock through disruptions to supply chains and shortage of labor and (b) an adverse demand shock through a decline in consumer confidence and willingness to spend.** On the supply side, (a) many firms were forced to halt or reduce production as the disease spread and social distancing measures were mandated and (b) the effect at the firm level has been amplified through disruptions to global supply chain networks, especially as major economies, such as the United States, Europe, and China, experienced outbreaks and as more borders

[28] Adrienne Lees, Giulia Mascagni and Fabrizio Santoro: Simulating the Impact of COVID-19 on Formal Firms in Rwanda, August 2020.
[29] Manufacture Africa Program, FCDO.

were closed to travel. On the demand side, (a) firms postpone investment faced with high uncertainty and (b) consumers reduce spending amid social distancing measures, declines in incomes and job losses.

7. **MSMEs in Rwanda have been significantly impacted by the COVID-19 pandemic due to low demand, disruption of production and markets, supply, and trade**. This has impacted employment as well as the continuity of the businesses. A study conducted from March to August 2020[30] on SMEs indicate that economic activity of SMEs has declined by 30 percent as compared to pre-COVID-19 period. Similar decline was also observed in the average number of employees per company, going from 35 employees pre-COVID-19 down to 24 employees in August 2020, a decline of 31 percent.

8. **Despite limited available data, the impact on MSEs has been devastating.** While there is no comprehensive survey of the impact of COVID-19 pandemic on micro and informal enterprises, an early survey (June 2020) of over 600 businesses conducted[31] found that about 50 percent of MSMEs would not survive more than 3 months. It also found out that almost 20 percent do not have any collateral, while over 70 percent only have personal assets. Additionally, their main financiers - MFIs and SACCOs – were struggling with liquidity challenges.

9. **It is expected that most MSMEs will have a better chance of quick recovery as they serve the local market and are less dependent on global demand and the economic slowdown**. However, MSMEs will need support in terms of working capital to help them pay their employees and their operating/ fixed costs during the low demand period as well as to jumpstart production/operations after the economic slowdown since the pandemic.

10. **As part of the recovery strategy, the Government of Rwanda has also prioritized growth oriented and high potential sectors to spur quick economic recovery**. The economic recovery plan will support established and high potential firms to diversify and expand their operations in sectors which have high potential for domestics, regional and international market and export growth, including manufacturing, agro-processing, construction etc. These are sectors with high potential for export and/or import substitution and job creation.

[30] BPN, March to August 2020, Measuring the Impact of COVID-19 on Rwandan Entrepreneurs.
[31] Manufacture Africa Program, FCDO.

ANNEX 3: Detailed Project Description

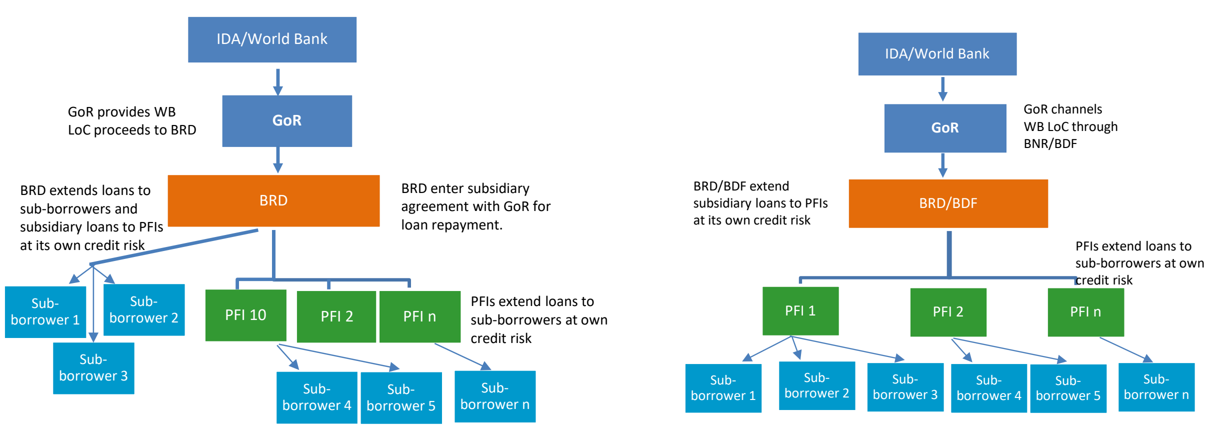
Component 1

1. **The objective of this component will be to provide lines of credit for financial relief and recovery of COVID-19 affected businesses, including for investments to support business adaptation and expansion.** BDF will act as apex institutions to channel the LoC proceeds through PFIs for onlending to final beneficiaries (businesses). BRD will act both as wholesaler and retailer of LoC proceeds depending on the market/financial sector appetite to lending to certain segments and sectors. All implementing institutions will take the credit risk of PFIs. In addition, BRD will take the credit risk of beneficiary businesses in the case of direct lending. PFIs will bear the full credit risk of final borrowers. The main difference between the LoCs intermediated by the two implementing agencies relies on (a) targeted beneficiaries and (b) sub-loan purpose. The BDF LoC will provide liquidity to SACCOs for working capital and investment of their clients. SACCO targeted beneficiaries include both formal and informal workers, as well as traditionally underserved segments such as women and farmers. The refinancing LoC will provide liquidity to banks and MFI banks and companies to support refinancing of existing debt obligations. Targeted beneficiaries are all businesses regardless of size affected by the COVID-19 pandemic. Finally, the BRD LoC will provide loans to PFIs for onlending purposes for working capital and investment sub-loans. BRD will also provide direct lending to sub-borrowers that are not served or currently underserved by the market. Targeted final beneficiaries of the BRD LoC will be SMEs and large companies seeking to adapt or expand their business in response to the COVID-19 pandemic. The World Bank loan proceeds will support all three credit lines. AIIB co-financing LoC will be channeled solely to BRD for the benefit of large companies and SMEs.

2. **The facility will target viable and potentially viable firms that have been negatively affected by the pandemic and/or strategically important sectors and firms.** Sub-loans originated within the facility are expected to enable business continuity and support business expansion and new investments necessary for overall recovery of the economy. It will be open to both local and foreign companies to support their operation and investment in Rwanda.

Figure 3.1. Flow of Funds - LoC Structure

Working Capital and Investment Credit Line | **Microbusinesses and Refinancing Credit Lines**



3. **Sub-component 1.1 will provide financial support to MSEs and generally underserved segments, including but not limited to women, farmers and informal workers.** To protect business and jobs and stimulate consumption of households, the sub-component will support MSEs via SACCOs. BDF will intermediate the LoC. Project flexibility allows for both working capital and investment loans, but it is expected that most of the loan demand will be for financing MSEs urgent liquidity and working capital needs. Fiscal and monetary responses to the COVID-19 pandemic adopted by the GoR have limited effect in reaching this target segments.

4. **Sub-component 1.2 will support refinancing of existing loans.** The Loc will be channeled through BRD to banks, MFIs (banks and limited companies). The objective is to support enterprises through refinancing of existing financial commitments to ease hardship caused by the COVID-19 crisis in priority sectors to support economic recovery. Target beneficiaries include large, medium, and MSEs. BRD will provide LoC to PFIs for on-lending purposes. PFIs will include banks and MFIs. The refinancing window has so far targeted only existing borrowers pre-COVID-19 in the hospitality and transport sectors. However, GoR is considering adding target sectors as the impact of the pandemic has widened to other sectors. These will be included in the PIM.

5. **Sub-component 1.3 will support the establishment of a lending facility at BRD to support business adaptation and expansion through investment and working capital loans.** It is expected that the LoC will enable access to longer term sources of finance to support investments and exports regionally and globally and/or substituting imports with local production, including supporting jobs that can transition the population from subsistence agriculture. Project flexibility allows for both working capital and investment loans. Investment loans will support purchase of machinery, technology, and inputs for businesses to expand and adapt to new market conditions. In addition, loans may also finance operational expenditures related to building scale and working capital to high growth potential investments to drive economic recovery. BRD will act both as retailer and wholesaler of the funds to other PFIs. The objective of BRD acting as retailer will be to fill in for market failures where private commercial banks are not yet providing needed finance, particularly considering heightened perceived risks amid the COVID-19 pandemic. The PIM will detail the conditions in which BRD will act as retailer and other safeguard measures to support market competition for commercial banks.

6. **Target beneficiaries are firms affected by the COVID-19 pandemic, MSMEs and underserved MSME segments.** Final beneficiaries will include MSMEs and large companies, who will receive financing either directly, or via credit lines extended to PFIs. The official definition of MSMEs is provided in the table below. The definition to be used for Project reporting for MSME will be included in the PIM as well as the detailed eligibility criteria for beneficiaries. Specifically, subcomponents 1.1, 1.2, and 1.3 will target the following group of beneficiaries.

- **Highly Impacted MSMEs:** This group comprises firms negatively affected by the COVID-19 pandemic and which in the absence of the pandemic, would have operated profitably.
- **Highly Impacted Underserved MSMEs:** High-risk perception towards certain categories of enterprises including women-inclusive enterprises, young enterprises, informal workers and enterprises in rural areas results in higher credit rationing to these groups compared to an average MSME. This group of firms is expected to be impacted even more severely by the

COVID-19 crisis. Therefore, at the minimum, US$8 million of the loan proceeds will be allocated for microbusinesses falling in this category.

- **Enterprises looking at adapting, expanding and/or starting their business:** Under Subcomponent 1.3, the Project will target existing venture/expansion-ready firms that seek expansion capital. These firms comprise of both existing firms ready to add scale and new ventures ready to exploit new business opportunities. The support will be open to all economic sectors with priority given to key manufacturing sectors such as agro-processing, construction materials, and light manufacturing.

Table 3.1. Current Definition of Firms by Size [32]

Enterprise Size	Annual Sales (RWF, millions)	Number of Employees
Micro	<1	1–2
Small	1-20	3–20
Medium	20-500	21–100
Large	>500	>100

Source: Entrepreneurship Development Policy. ** Start up: Early stage company (< 3 years in existence) that is trying to solve problems with scalable, often innovative and technology-oriented business solutions.*

7. **The LoCs adopt eligibility conditions for PFIs and firms.** The LoCs will target select sectors: agro-processing; construction materials; light manufacturing; and cross-cutting enablers of the aforementioned sectors. Linked value chains, that provide inputs to, or take outputs from, the target sectors are also eligible. 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 World Bank standards, including meeting the criteria established in the Project's environmental and social documents.

8. **The pricing methodology will be included in the PIM.** As a general rule, the pricing of LoCs will aim at minimizing any potential distortions in the financial sector, while accounting for special constraints faced by segments not yet being served by the formal financial sector, in particular MSMEs.

Component 2

Sub-component 2.1 - Partial Credit Guarantee

9. **This sub-component aims to strengthen the operation of the BDF's PCG scheme and increase overall number and value of guarantees issued.** The impact of the COVID-19 pandemic in the economy has heightened perceived risks by financial institutions, making it more difficult for SMEs to access financing to weather the crisis. The PCG will help offset collateral requirements by PFIs to unlock financing to the SME sector. The sub-component will build on the existing PCG scheme and related programs managed by BDF and will improve the design and operational efficiency. The disbursement of this

[32] The PIM will provide a definition of enterprises for reporting purposes.

subcomponent will be based on PBCs to improve results. The facility will largely benefit registered SMEs affected by the pandemic looking at accessing working capital or investment financing from PFIs.

10. **The PCG will help in enhancing access to credit for SMEs, including through the loan facility structured under component 1.** The planned TA will support BDF's on-going efforts to review and improve the PCG procedures, policies, and the guarantee agreement with PFIs. The upgraded PCG with a robust operational structure for long-term sustainability is expected to increase PFIs' demand for the guarantees and in response, the project will provide the funds to increase the PCG capital based on PBCs. The improved PCG scheme with increased capital will help the COVID-19 affected SMEs to access credit in the short run, especially through the working capital and investment windows, and it will have a broader positive impact in deepening the Rwandan SME and agriculture finance markets.

11. **BDF provides pari-passu guarantees to SME and agriculture loans.** BDF's PCG is mainly funded by the GoR. In 2020, its guarantee portfolio stands at RWF 26.8 billion (US$27 million) against the capital of RWF 15 billion (US$15 million), leverage of approximately 1.8 times. The typical guarantee coverage is 50 percent on loans mostly on an individual loan basis. The loans for female and youth entrepreneurs as well as COVID-19 affected borrowers benefit from a higher coverage of 75 percent. The cumulative guarantee amounts to about RWF 54 billion (US$54.4 million) for 11,600 loans. There are more than 400 PFIs including commercial banks, BRD, as well as a large number of MFIs and SACCOs, but the usage in terms of value is skewed to several large banks, notably BRD.

12. **BDF guarantee program offers special conditions to benefit women entrepreneurs.** BDF established the WGF to facilitate women entrepreneurs and SMEs without collateral to obtain loans in commercial banks and micro-finance institutions at affordable terms and conditions. WGF provides up to 75 percent of credit guarantees and a grant of 15 percent of the total loan disbursed. The improved PCG scheme with increased capital will help the COVID-19 affected women led SMEs to access credit in the short run, especially through the investment window, but it will have a lasting positive impact in deepening the Rwandan women owned SME markets.

13. **The usage of the BDF PCG remains limited.** The growth of the guarantee portfolio has been modest compared to that of total private sector credit. While the SME guarantees increased in number, the agriculture guarantees have declined considerably both in value and number. In addition, the usage of the PCG in the framework of the ERF has so far been slow. BDF's strategic plan declares that expansion of the PCG as one of its main strategic actions in order to expand access to finance among SMEs. It also includes the value and number of guarantees as key performance indicators of the organization.

14. **The project will provide US$30 million to increase BDF's capital.** BDF is seeking additional funds to increase the level of capital supporting the PCG scheme. BDF would like to increase the level of guarantees without a substantial increase in leverage. The current capital is approximately RWF 15.0 billion (US$15.1 million). The amount of capital increase envisaged is RWF 29.8 billion (US$30 million) and will support the GoR program. The capital needs have been estimated based on BDF's strategic document; consultations with financial institutions; the investment window; and a projection of the SME and agriculture lending in Rwanda. It is projected that the BDF guarantee portfolio will exceed RWF 65 billion by the end of 2025 assuming that the guarantee uptake will be boosted by the improvement of the PCG policies and the investment window. The gradual capital injection will contribute to keep leverage of the capital guided by the criteria to make the scheme sustainable. A leverage of around 1.2-1.4 times of total

capital is projected in the initial stage of the project implementation while the revised PCG procedures and policies gain confidence among the PFIs.

15. **The financing instrument for this sub-component uses PBCs.** PBCs were introduced to incentivize reforms and policy actions that can help improve (a) design and efficiency in the current operational model of the PCG, (b) enhance the fund's sustainability, and (c) boost transparency and trust in the scheme. Conditions outlined through the PBCs aim at enhancing the PCG scheme by, among others, decreasing rejection rate of guarantee claims, improving methodology for guarantee coverage calculation, improving the collection of commission fees and raising awareness and capacity among market participants and BDF staff.

16. **The PBCs are designed to incentivize the changes in the PCG policies and uptake of the guarantees.** Disbursement of World Bank funds will be determined by both the achievement and verification of the PBCs, as well as provision of eligible expenditures agreed with the World Bank. PBCs are costed based on assessed technical significance of the proposed actions. Eligible expenditures for all PBCs will be BDF's capital increase for the provision of guarantees. To that end, the component includes the following PBCs:

(a) PBC 1: Revision of PCG policies and procedures reflected in the MoU with financial institutions that are endorsed by and disseminated among the key stakeholders. (US$2 million)

(b) PBC2: Increased market uptake of the guarantee product. The disbursement will be triggered based on the value of the outstanding PCG guarantee portfolio (US$28 million)

Sub-component 2.2 – Bridge Lending Window

17. **This sub-component aims at addressing existing vulnerabilities for MSMEs to access credit, particularly those expose to climatic shocks, droughts and floods.** 33 percent of MSMEs said that access to finance was single greatest problem; 79 percent of MSMEs said that the financial sector did not cover their needs, which inhibits their ability to expand their operations, increase output, employment and economic output. A key reason for this is their severe vulnerability and exposure to climatic shocks such as droughts and floods. This was confirmed through meetings and consultations with financial institutions for whom lending seems too risky. The objective of the BLW is to reduce this vulnerability and thereby enhance the overall extension of credit to MSMEs from financial institutions. The mechanism would be expected to particularly benefit MSMEs whose operations have already been weakened by COVID-19 and who may be at risk of experiencing a compounding shock event.

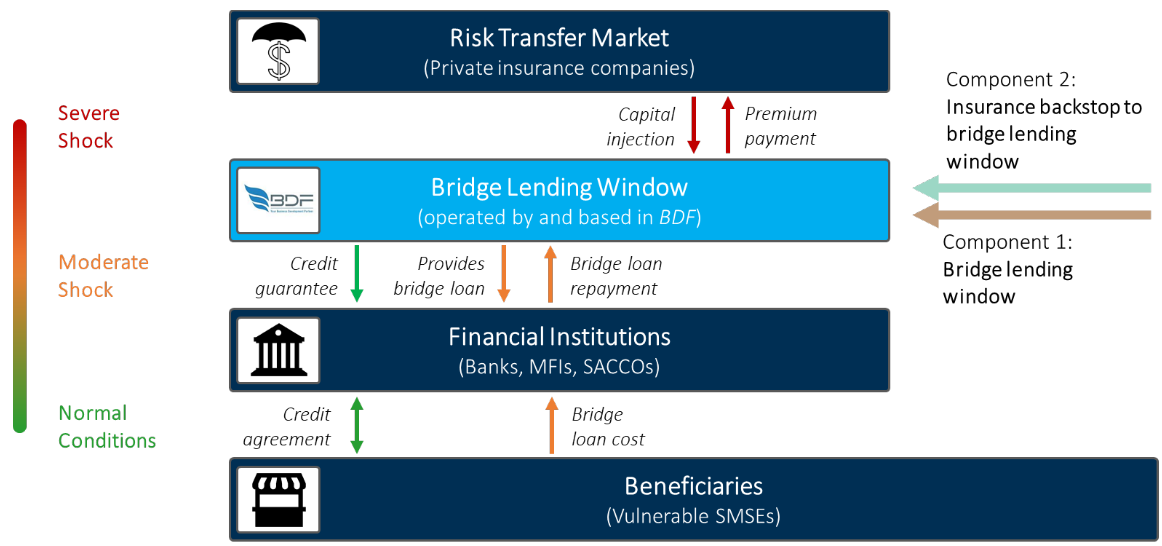
18. **The BLW would enable short term ("bridge") lending to shock-affected vulnerable micro, small and medium enterprises (MSMEs) through the BDF.** The design proposes to: (1) capitalize the BLW to be housed at the BDF (an additional de-risking instrument alongside the PCG); and (2) develop and purchase an insurance backstop for the BLW with the objective of recapitalizing the BLW in event of severe shock. The proposed structure is presented in the figure below.

19. **The BLW would be established and capitalized at the BDF.** A new policy and procedural document for the BLW will be developed (BLW policies) by the BDF, which will be approved by the BDF's Board of Directors. The document should cover, at a minimum: (a) the eligibility criterion for PFIs to access

the BLW; (b) shocks, and the data upon which a determination whether a shock has occurred, which are eligible to trigger a disbursement from the BLW; (c) limits on the size and repayment terms of loans disbursed, as well as suitable collateral coverage; and (d) guidance for PFIs including interest costs of BLW loans, reporting requirements, handling of loan defaults. The MoU with PFIs will be revised based to incorporate the BLW policies. A report describing the approved and endorsed BLW policies will be prepared by the BDF, along with meeting minutes of the Board meeting, meeting minutes of the consultation and dissemination meetings with PFIs, SMEs representatives, and other stakeholders, and descriptions of other dissemination channels and activities. BDF can select the attendees of the consultation meetings but they should at least include all the existing PFIs. The report will be assessed by the World Bank, and upon verification, a disbursement request for capitalization of the BLW can be made with the eligible expenditures.

20. **The BLW would provide interim bridge loans to PFIs to cover debt servicing cost on behalf of affected borrowing MSMEs** in case of a relatively frequent, moderate shock event occurring once every 2-5 years (for example, droughts). These shock-affected MSMEs could pause debt servicing costs for the duration of the bridge loan (for example, 3 to 6 months). Thereafter, they would resume debt service payments and also cover the cost of the bridge loan. Effectively, the loan to the shock affected MSME would be restructured to give them more time for repayment.

Figure 3.2. Proposed Structure of BDF BLW and Insurance Backstop



21. **The BLW has multiple advantages, primarily protecting BDF's guarantee capital.** When MSME loans are covered by the BLW, the credit contract can be maintained (that is, they are not written off) and so the collateral and credit scores of borrowing MSMEs are protected. In addition, the lending institutions are more likely to ultimately receive the full value of the extended credit and so would not call on the BDF guarantee capital. The de-risking effect of the BLW would also strengthen overall financial stability.

22. **There are a number of important differences between the proposed BLW and the existing PCG scheme that hold some promise for it to reach greater scale.** Among others, these include the following: (1) The BLW seeks to enable borrowing MSME to fully honor their credit agreements in case of shock, while the PCG only protects the non-collateralized portion of the loan and only triggers in instances of

default. This should in principle create greater interest from financial institutions in the product, and; (2) For the BLW, it is proposed that bridge lending will become available automatically to financial institutions upon the occurrence of a shock as determined by objective data (for example, rainfall data, districts reports). BLW therefore provide additional cushion to financial institution by maintaining healthy portfolio quality during severe shocks.

23. **In addition, the BLW will be protected by an insurance backstop.** For severe shocks, the capital in the BLW might come under stress due to surge demand and/or MSMEs may default on bridge loans due to the shock. To protect the BLW capital against this risk, an insurance backstop is proposed. The backstop will be an insurance contract between the BDF and local insurance company(ies). The insurance would be structured to provide payouts for the most severe shocks occurring approximately once every 5-10 years. Payouts would be used to top-up the BLW capital. In this way, the financial sustainability of the BLW will be ensured.

24. **Shocks covered.** Initially the BLW will cover climatic shocks (droughts and floods) with a view to expanding the coverage also to other shocks over time (for example, epidemic).

25. **Sustainability.** The facility is structured to be financially sustainable. After the initial capitalization of the BLW, disbursed funds will be repaid by benefiting MSMEs (via the financial institutions). Thus, the mechanism would be established with the objective of being sustainable and independent of additional external financial means going forward. When the project closes, it is expected that the BLW will remain in the BDF, continuing to support MSMEs impacted by shocks and defending them from default scenarios. In addition, the proposed grant funding would be provided on the assumption that the BLW will be sustainable beyond the duration of the project.

26. **Disbursements.** It is expected that the BLW would disburse bridge loans frequently, at least once a year, in response to shocks in different parts of Rwanda. This will maximize the de-risking impact of the mechanism and increase its utility. When a shock occurs in a given area, borrowing MSMEs from that area will be eligible to access the BLW. The BLW will provide a loan to the affected MSMEs through PFIs to cover loan servicing cost of the MSME, for example, for 6 months. This way, the MSME will have time to recover and resume loan servings. At the end, the (not-for-profit) cost of the BLW loan to the PFI is added to the loan balance of the MSME. Effectively, the MSME loan is thus restructured, the MSME is not forced to default on its debt, and the PFI can receive the full loan balance.

27. **Eligibility.** MSMEs can participate in the scheme via financial institutions who have received a PCG from the BDF. This way, the BLW protects the PCG capital in the BDF as the bridge loans are provided to MSMEs who otherwise would have defaulted and therefore led to a call on the PCG. Initially it is expected that agriculture-related MSMEs will receive the bulk of disbursements, given: i) the exposure of the agriculture sector to shocks and ii) rural communities have the greatest incidence of poverty and food-insecurity in Rwanda.

Component 3: Institutional Strengthening and Implementation Support

Sub-component 3.1. Strengthening firms'' capability for resilience and recovery

28. **The objective of this sub-component is to support firms through the provision of tailored technical assistance and BDS to address constraints on the demand side.** BDS support to businesses can address the lack of capacity to develop bankable business plans, the poor quality of financial statements and records, lack of digital skills, the inability to manage risk, the lack of knowledge of business development and management, and so on. It will also include tailored coaching and mentoring support depending on the needs and the capacity of firms.

29. **This sub-component will provide support to firms to enable them to successfully access the resources and financial support designed under components 1 and 2 of this project.** The project aims to provide an integrated support to enable firms to effectively benefit from the financing instruments and recover from the impact of the pandemic and thrive. The TA under this sub-component aims to address the challenges businesses face in terms of financial literacy, maintaining financial records and bookkeeping, digital literacy and access and adapting to the new economic realities by reformulating their targeted segment/customer base, marketing strategy and expansion and diversification of products and services. The project will provide targeted and tailored support to established large and medium businesses on one hand and small and micro enterprises on the other as their need and challenges are different.

30. **Complementary to the financial intermediation support under components 1 and 2, there needs to be targeted and differentiated business development support targeted to address demand side constraints of the private sector.** Specifically, BRD and BDF will provide tailored technical assistance and business advisory services. The objective is (a) to equip small and micro enterprises with the right financial knowledge, book keeping and business management practices to successfully benefit from support being provided under the project; (b) to enhance digital literacy and access so that businesses can reap the benefit of digital technologies to access new markets and financial services and to diversify the distribution channel for their products and services; and (c) to support the recovery and growth of high potential and growth oriented large, medium and small enterprises, in high potential sectors such as manufacturing and agro-processing by providing tailored technical advisory support, such as value chain assessment, technology assessment, strengthening environmental safeguards compliance and so on to help them adapt to the evolving economic realities and diversify and expand their operations . to spur fast economic recovery. While these interventions are specifically designed to address specific challenges, they will be offered as a comprehensive business development package.

31. **The assessment of the BDS and offerings in the Rwandan market indicate that the ecosystem is not yet well developed.** Most BDS are offered by financial institutions, the PSF and the chambers under it and some private sector service providers. BDF also has a dedicated function for advisory services. However, most of these services are standard classroom type trainings and are perceived to be not effective to support businesses become resilient and grow. As micro enterprises tend to be informal and unlikely to be members of formal business associations, it will be more challenging to target and support micro enterprises with BDS. The project aims to address this challenge by providing targeted business development services, including coaching and mentoring and by leveraging BDF's existing system and infrastructure.

32. **Experiences from other BDS support programs show that targeted and differentiated business development advisory support have greater impact in enhancing firm capability**. As large and medium enterprises and Small and Micro Enterprises have diverse needs and business structures, it is proposed that the approaches used to support firms, which tend to be formal and have more employees, follows a different modality from those proposed for small and micro enterprises. For established large and medium enterprises, the proposed approach is to provide individualized technical assistance and advisory through BRD, which plans to strengthen and redesign its business advisory service to focus on formal established enterprises and provide value added services such as business and risk assessment, value chain study, business plan enhancement, and so on. BRD plans to outsource these services at the beginning of its redesigning stage so that it can leverage external expertise to strengthen its own internal capacity while providing hands on support to the private sector. The aim is to target growth oriented and high potential firms that can potentially benefit from the investment financing window. For small and micro enterprises, as they tend to be less formal with small number of employees, it may be more effective to provide a combination of training (such as on business management, financial and digital literacy) and hands on coaching and mentoring to set up adequate business management systems such as record keeping, basics financial systems, business plans and so on. These enterprises will have better access for support through BDF's advisory service unit leveraging its extensive branches and existing infrastructure at the local level.

33. **It will also be necessary to have effective communication and awareness creation campaigns on financing support and the TA provided under the project.** To ensure intended private sector beneficiaries have full information on the project and the business development support, it is important for BDF and BRD to have an effective and coordinated awareness creation and communications campaign to the public and the business community, including transparency on the eligibility and criteria for accessing the support.

34. **As indicated earlier, the interventions under this subcomponent will follow two tracked approach for the provision of business development support: one focusing on established growth oriented and high potential firms and the second focusing on small and micro enterprises**. Accordingly, the implementation will also be differentiated. The individualized TA to support the well-established firms will be provided by BRD through an outsourced service provider initially. For small and micro enterprises, BDF will provide tailored training and coaching for the entrepreneurs and the micro enterprises by leveraging its existing staff and infrastructure.

Sub-component 3.2. Institutional Strengthening

35. **This sub-component intends to enhance the capacity of the implementing agencies.** The project will finance the TA support to upgrade the operations of BRD and BDF as detailed below. The success of the project is heavily dependent on the capacity of these entities. The upgraded operations will also continue to support the expansion of access to finance for MSMEs beyond the project. The detailed contents of the support are described in the respective project components above.

36. **The project will provide TA to support the BDF's effort to revamp the PCG.** BDF has already identified the main aspects to be addressed as part of the strategy. The initial phase of consultations with lenders has already started. The project will provide international expertise and cover other TA costs including marketing efforts, workshops, and training programs as described below:

(a) **There is a high rejection rate on guarantee claims.** BDF seems to be successfully managing the loss ratio at around 4 percent, but the rejection rate for claims is around 30–50 percent. This high rejection rate deters PFI participation in the scheme and creates lack of trust in the system. While large lenders seem to manage well the claims procedure, it may not be the case for SACCOs and MFIs. The project will support a review and modification of the PCG process used along with the written policies and the guarantee agreement that may be driving this negative outcome. Initial feedback received from PFIs highlighted the need for clarifying some of the provisions in the guarantee agreement, including a requirement related to the usage of the borrowed funds. The results of the review and possible modifications of these procedures and documents will be consulted with key stakeholders including PFIs, especially SACCOs and MFIs.

(b) **Calculation of the guarantee coverage rate needs to be simplified.** The guarantee coverage rate is calculated based on the collateral value as assessed by BDF and therefore, is different for every loan. This structure is intended to limit the amount of coverage on a loan considering the collateral value. In practice, it complicates the application process that may lead to declining confidence in the scheme. Most schemes in other countries use a single coverage rate sometimes with a concessional rate for specific target segments.

(c) **The collection of guarantee commissions is a cumbersome process.** PFIs are required to report the balance to BDF so that BDF can send them an invoice for the guarantee fee. PFIs are sometimes late with the report. Failure to pay the guarantee commission on a timely basis is a problem. A simpler system could be implemented for lenders to pay their ongoing guarantee commission. This could be part of the management information system (MIS) of BDF.

(d) **There is need for a new marketing and awareness raising plan** (This activity will be self-financed by the BDF)**.** The marketing plan to be supported by the project will aim to increase awareness and educate PFI staff about the revised policies and procedures of the PCG scheme. The marketing plan will be designed so that it can be ongoing and maintain regular contact with loan officers to account for staff turnover and changes in products and markets. These activities will be critical to improve uptake of the PCG by MFIs and SACCOs that are making SME and agriculture loans.

(e) **Capacity building for BDF and PFI staff is required.** The BDF workforce and PFIs need additional training in credit analysis and risk management in SME and agriculture lending. In the present structure, the new staff mostly learn from the more senior staff. Capacity building for the entire staff would benefit the newer employees and give the senior staff an opportunity to fine tune their skills. It would also be an opportunity to expose other staff members that do not directly work on loans to credit analysis.

(f) **Other issues that may arise include** (i) upgrading or modification of the MIS; (ii) market research to better understand PFIs' reservations towards portfolio guarantees; and (iii) developing strategies in effectively managing the larger number of guarantees.

37. **In addition, funds will be provided to BDF to strengthen their capacity and systems to enable the effective implementation of the de-risking instruments under component 2.** Internal capacity, operating procedures and systems will be strengthened to enable the successful launch and

implementation of the BLW. Upon project effectiveness, focus will first focus on establishing the systems and operational guidelines for the capitalization of the BLW. The BDF will initially focus on establishing the eligibility requirements, operational and reporting procedures, and systems for the BLW, in addition to the contract modalities between the various stakeholders involved. Once these are in place the project will capitalize the BLW using funds from component 2.2. In parallel, the BDF focus on the key activities to enable rapid disbursements from the BLW, as well as to procure the insurance backstop. These include (a) analytics to develop appropriate metrics to activate disbursements from the BLW in response to shocks, for example, based on weather station data, satellite rainfall data or crop yield data; (b) structuring and costing of the credit and insurance products used for both components, using risk-based pricing; (c) strengthening capacity of BDF to evaluate requests to access the BLW; (d) capacity development to place the insurance product in the market; (e) incorporation of the BLW into BDF's business strategy and plan; (f) strengthening marketing strategy and implementation to scale up lending to vulnerable MSMEs in shock prone sectors; (g) digitization, leveraging FinTech to scale up lending to shock prone sectors and geographies in Rwanda; (h) development and strategy enhancing internal BDF monitoring and auditing procedures; and (i) development and implementation of a strong M&E system to track progress of the BLW. The activities supporting the implementation of the BLW will be financed by a recipient executed grant of US$3.5 million from GRiF, implemented through a traditional IPF modality.

38. **TA will also be provided to private sector financial service providers and government stakeholders.** Financial institutions and insurers will be included in the planning and design of the BLW and the insurance backstop from the start. Through a collaboration with IFC, the project team will deliver customized trainings and capacity building to both to government and private sector stakeholders on the technical aspects of the program, as well as disaster risk financing principles. Together with the BDF, discussions will be held with all stakeholders to determine the best suited and most cost-effective potential insurer to underwrite the insurance product and to ultimately place the product in the market. This subcomponent will also provide resources to explore the potential of developing a national disaster risk financing strategy with MINECOFIN.

ANNEX 4: Performance-Based Condition Disbursement and Verification Protocol

Table 4.1. Definition of PBCs and Verification Protocol

Subcomponent 2.1 - Partial Credit Guarantee

Performance-Based Conditions	Amount	Definition	Scalability of Disbursements	Verification Method	Procedure
PBC 1: Revised PCG policies and procedures reflected in the MoU with financial institutions that are endorsed by and disseminated among the key stakeholders.	US$2 million	The BDF Guarantee Requirements dated February 4th, 2012 will be revised or a new policy and procedural document of the PCG replacing the BDF Guarantee Requirements will be developed. The revised and/or newly developed document(s) (collectively called as "new PCG policies") will be approved by the BDF's Board of Directors. The documents should cover, at a minimum: (a) Guarantee processing policies and procedures including the eligible PFIs, eligible use of funds, limits on the size of the loans that can be guaranteed, and suitable debt service and guarantee coverage; and (b) Guidance for PFIs including guarantee fees, reporting requirements, handling of loan defaults, procedure and requirements for claims, and loan recovery. The MoU with PFIs will be revised based on the new PCG policies. The new PCG policies and the revised MoU will be presented to and endorsed by PFIs, SME representatives and other stakeholders.	No	Desk Review Audit	A report describing the approved and endorsed new PCG policies and revised MoU, as outlined in the definition of the PBC, is prepared by the BDF, along with supporting documentation including the new PCG policies and revised MoU, meeting minutes of the Board meeting, meeting minutes of the consultation and dissemination meetings with PFIs, SMEs representatives, and other stakeholders, and descriptions of other dissemination channels and activities. BDF can select the attendees of the consultation meetings but they should at least include all the existing PFIs. The report will be assessed by the World Bank. Verification will include a review of the report described above for consistency with PBC definition. These verified results will accompany any disbursement request to the World Bank by

Performance-Based Conditions	Amount	Definition	Scalability of Disbursements	Verification Method	Procedure
		The new PCG policies and revised MoU will be disseminated among PFIs, SMEs representatives and other stakeholders via BDF website and awareness raising events.			the BRD along with the eligible expenditures (The capital increase will need to be approved by the Board of the Directors of BDF).
PBC 2: Increased market uptake of the guarantee product	US$28 million	The total outstanding guarantees will exceed RWF 30 billion, RWF 40 billion, RWF 50 billion, and RWF 65 billion based on the latest quarterly PCG portfolio report (US$7 million will be disbursed for each). The guarantee portfolio is expected to exceed RWF 30 billion in 2022, RWF 40 billion in 2023, RWF 50 billion in 2024, and RWF 65 billion in 2025.	Yes	Desk Review Audit	A quarterly PCG portfolio report prepared by the BDF and assessed by the World Bank. Verification will include a review of the report described above for consistency with PBC definition. These verified results will accompany any disbursement request to the World Bank by the BRD along with the eligible expenditures. The capital increase will need to be approved by the Board of the Directors of BDF.

ANNEX 5: Financial Intermediary Assessment

Development Bank of Rwanda

1. **BRD will be the main implementing agency for the investment component of the project.** BRD has been selected by MINECOFIN to implement the investment window. In addition, BRD is currently the implementing agency of several World Bank projects, including the Renewable Energy Fund Project and the Rwanda Housing Finance Project.

2. **BRD's changed its legal status into a public company and received a BNR banking license in August 2011.** BRD was initially incorporated in August 1967 with the objective of providing support for priority areas identified in Government programs and Rwanda's development strategies. Since 2015, the key aspects of its business strategy are to increase resource mobilization, build strong partnerships and support well focused investments and growth to maximize the development impact. BRD has a diversified ownership structure with Class A and Class B shares where Class B shareholders are majority private owned. The bank's shareholding is currently as follows: Agaciro Development Fund (65.9 percent), Rwanda Social Security Board (32.2 percent), Belgium Government (1.2 percent), SONARWA (0.46 percent), and Bank of Kigali (0.14 percent). It also established a wholly owned subsidiary—the BDF—which focuses on providing guarantees to stimulate SME access to finance. The BRD Board currently has nine members.[33] Four of the Board members are independent members with relevant experience in the banking and financial sector.

3. **BRD is regulated and supervised by BNR.** In addition to complying with prudential regulations for commercial banks, BRD is also expected to comply with the Directive on activities and special liquidity norms for Development Banks. The bank acts both as wholesaler and retailer, providing short, medium- and long-term funding to priority sectors –particularly agriculture, exports, energy, housing and education. In addition to direct lending, BRD participates in co-financing arrangements jointly with other financial institutions local or foreign, in economically strategic projects.

4. **BRD offers a variety of financial products.** The main business include (a) credit lines facilities to finance working capital needs (13.7 percent of portfolio); short, medium- and long-term investment loans to projects in priority sectors (76 percent of total portfolio), and (b) equity participation in any company provided it does not exceed 25 percent of the company's portfolio[34] (9.7 percent of the portfolio). In addition, other services provided by BRD business include guarantee funds to cover the risks of prospective projects that impact to sustainable development, trade finance and payment system facilities to facilitate trade; and advisory services and capacity building to clients. For transactions with tenors greater than 12 months, the sector lending exposure to SMEs is as follows: Agriculture - 12 percent, Education - 5 percent, Energy - 8 percent, Exports - 21 percent, Housing - 13 percent, and Infrastructure - 31 percent.

[33] BRD charter allows up to 11 members.
[34] With the exception when the company is 100 percent owned by BRD as a subsidiary.

Financial Performance

5. **BRD is compliant with most BNR prudential requirement.** BRD's financial condition ended with positive income as at third quarter of 2020. The bank complies with capital adequacy requirements[35] for banks. As of September 2020, the total CAR for the bank was 21.9 percent against required total capital of 15 percent and core capital was 16.4 percent against minimum of 10 percent. The NPL ratio stood at 6.3 percent for the same period, compared to 7.5 percent in 2019. The NPLs as a result of the COVID-19 pandemic are expected to still be above 5 percent by the end of 2020. BRD's liquidity ratios are above minimum ratios required by BNR. The LCR stands at 386 percent above the 100 percent required by BNR.

Table 5.1. Financial Soundness Indicators (%)

	2017	2018	2019	2020
CAR	12.8	17.93	19.0	21.9
LCR	145.9	189	705	386
Tier 1 Capital Ratio	8.1	13.0	14.0	16.4
NPLs	16.3	19.3	7.5	6.3
ROE	−51.6	0.03	1.8	
ROA	−90.0	0.01	0.5	

6. BRD main sources of funding comprise (a) equity from shareholders (24 percent); (b) reserves, lines of credit (70 percent); and (c) corporate bonds and other instruments (6 percent). BRD borrows and lends in both local and foreign currencies.

Pricing Policy and Interest Rates

7. BRD current lending limits are as follows: small loans are in the amount of RWF 50 million to RWF 1 billion (US$50,000 to US$1 million); medium loans are between RWF 1 billion to RWF 3 Billion (US$1 million to US$3 million); and large loans range between RWF 3 billion and up to 25 percent of bank core capital.

8. BRD uses a loan pricing model where interest rates charged follow the following guidelines: (a) funding cost incurred, (b) operating costs of servicing the loan, (c) risk premium to compensate the bank for default risk, and (d) a profit margin/sustainability factor on each loan that provides the bank with adequate return on capital. BRD may allow for pricing exceptions from the established standard interest rates. Some of the exceptional cases may include Libor-based loans, loans based on other benchmarks such as T/Bills, co-financing deals not based on bank pricing models, syndicated facilities where the bank is invited to participate and special projects.

[35] 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.

Business Development Fund- BDF

9. **BDF is a Government Business Enterprise established as a public limited company.** BDF was initially established in 2011 as part of the financial infrastructure to promote SMEs.[36] The GoR owns 55 percent of the shareholding and the BRD owns 45 percent of shares.[37] Its objective is to assist SMEs to access finance, particularly those without sufficient collateral to obtain credit from traditional financial institutions at reasonable rates. BDF's role is to promote alternative financing avenues at reasonable costs to help small businesses access credit by providing a wide-ranging offer of products and services. BDF is in the process of obtaining a license as NBFI as provider of SME and agriculture loans.

10. **BDF provides a variety of services for the SME community.** BDF has supported over 33,900 businesses and spent over RWF 98 billion since its inception through its different business lines. BDF has built a strong relationship with different financial institutions including Banks, MFIs and SACCOs. Over 400 financial institutions have participated so far.[38] The guarantee scheme is the largest business line for BDF and includes three main programs: (a) the general fund targeted at SMEs, (b) the agriculture fund, and more recently (c) the guarantee program established under the ERF.[39] Both the SME and agriculture guarantees offer general coverage of 50 percent (and 75 percent for special groups of women and youth), while the ERF guarantees offer a general coverage of 75 percent for all clients. In addition, BDF also provides matching grants, SACCO refinancing, quasi-equity support to start-ups, Integrated Craft Production Centers Equipment Leasing and Information and Communication Technology (ICT) services and business development advisory services.[40] The fund employs a total of 130 staff, 32 of which work exclusively on the guarantee scheme.

11. **The PCG scheme constitutes the core business of BDF.** In 2019, BDF provided guarantees worth RWF 3.6 billion to 1,186 SME projects. SACCOs accounted for 66 percent of the number of loans guaranteed while banks accounted for 70 percent of the value of the guarantees. Cumulative credit guarantees now total RWF 62.5 billion supporting loans to over 10,500 projects. In 2019, BDF also did 158 agricultural guarantees for RWF 357 million. The guarantee is operated on an individual approach rather than a portfolio or hybrid approach. Although the lender makes the determination regarding whether to seek a guarantee, BDF staff review each application and prepare an evaluation. Subsequently, BDF's Investment Committee reviews the evaluation and makes a final decision. Further, BDF staff conduct a thorough analysis of the collateral offered. BDF uses a valuation report submitted by the PFI to determine the value of the collateral for the guarantee application, which is used to determine the amount of the guarantee provided.[41] The collateral valuation is done by an appraiser (engineer) certified by the central bank. The application process is automated, making it easy for PFIs to apply. BDF recognizes the need to automate as much as possible when working with over 400 participating lenders. BDF is working on

[36] https://www.bdf.rw/bdf-welcomes-new-top-management-and-board/
[37] The Board consists of seven people with the Chair, Vice Chair and five members. Six of the Board members are government representatives and one is from the private sector.
[38] https://www.bdf.rw/guarantee-fund/
[39] The scheme separates their funds into agricultural and non-agricultural. The non-agricultural fund targets general SMEs in the non-agriculture sector.
[40] https://www.bdf.rw/bdf-profile/
[41] BDF staff calculate the market value of the collateral and then discount the market value based on guidance from the Central Bank: 30 percent discount for housing, 50 percent for commercial real estate, and 70 percent for equipment.

several enhancements to make it easier for lenders to use the PCG scheme and has developed a strategy to address identified gaps.

12. **BDF plays a key role in managing the ERF programs targeting the MSME sector.** BDF manages the ERF working capital facility for micro and small businesses that has provided 1,714 loans through 136 SACCOs for a total of RWF 1.61 billion, representing 80.6 percent of the total fund allocated (RWF 2 billion).[42] The ERF guarantee facility has RWF 3 billion set aside to support guarantees to micro and small business without sufficient collateral. As of February 26, 2021, only eight applications have been approved for a total of RWF 180 Million.

Financial Performance

13. **The recent financial condition of the BDF is satisfactory.** After a loss in 2017, BDF made a profit of about US$98,000 in 2018 and US$310,000 in 2019 for a return on equity of 0.7 percent in 2018 and 2.2 percent in 2019. Global experience shows that most schemes have a goal of operating at a breakeven level. Although the information for 2020 is not yet available, BDF is affected by the same economic challenges from the pandemic as all financial institutions and it's likely that the scheme will not be profitable.

14. **BDF receives an annual funds allocation from the government to support ongoing programs.** The allocation ranges between RWF 7 and 8 billion (US$7.1–8.1 million) per year depending on the programs budgeted for in a particular year. These funds support BDF products and are meant for investment in the programs as prioritized by the government. These funds are treated as balance sheet items in BDF's financial statements and are considered as special funds for investment. The funds targeting the PCG schemes are added to the capital account supporting the guarantee programs. BDF uses the earnings on the capital to pay for operating expenses of the guarantee scheme. A substantial portion of BDF's operating expenses are related to the field office structure it maintains. The government provided slightly over RWF 1 billion to offset the expense of operating the branch network in 2019.

15. **About 50 percent of BDF's total revenue is generated by the PCG scheme.** A substantial portion of the revenue from the PCG is generated by depositing the capital in bank accounts with the remainder being guarantees fees received. Additional sources of revenue include interest from its lending facilities (SACCO refinancing, agribusiness loans, quasi equity) and income from trainings and other advisory services offered to MSMEs. Without the government's cash infusion, BDF would not be profitable as it is currently structured.

Pricing

16. **BDF has three different price levels for the guarantee fee.** Banks are charged a fee of 2 percent, SACCOs are charged a fee of 1 percent and the ERF guarantees have a fee of 0.25 percent. These fees are charged annually on the guaranteed amount. The pricing differentials are designed to encourage SACCOs to use the scheme and to facilitate the uptake of special programs such as the ERF. In addition, under the ERF Microbusiness facility, loans are made to SACCOs at 0 percent and the SACCOs onlend the funds to micro borrowers at 8 percent. BDF is currently working on improving collection of fees for the guarantee

[42] ERF Performance Weekly Report as of 19th March 2021.

after the first year. It is having trouble getting lenders to report the guaranteed balance so that BDF can send an invoice for the fee. A review of the process is necessary.

17. **Interest rates are competitive with the market.** Recent rates charged by commercial banks on guaranteed loans have been in the 16 to 18 percent range. Due to the emergency nature and the crisis response goal, loans supported by the ERF facility have lower interest rates as a result of the subsidized funding to PFIs provided by the GoR.

Sustainability

18. **NPLs in the guaranteed portfolio are expected to rise due to the COVID-19 pandemic.** NPLs are expected to hit 23 to 33 percent when the payment moratoriums issued in response to the COVID-19 pandemic begin to expire. This may cause financial problems for the scheme to achieve sustainability. Prior to COVID-19, NPLs in the guaranteed portfolio were high at 15 percent, but losses were relatively low at 4 percent. There is a high rejection rate on claims, especially from SACCOs, which may explain the high NPL rate and relatively low loss rate. In other words, many loans are showing up in the NPL calculations, but the losses associated with those loans do not show up in the loss rate because the guarantee claims are rejected. BDF has a very low recovery rate (0.3 percent) on collateral after the claim is paid. This indicates that lenders are not collecting much after the guarantees have been paid.

19. **Some changes will be needed to ensure sustainability going forward.** Based on financial modeling calculations, and using current capital projections, it is estimated that reducing the leverage of the PCG scheme to 1.5 and increasing recovery rate to 20 percent would delay the depletion of capital until about year 10. Additional changes will be necessary to reach a fully sustainable status.

Institutional Development Plan

20. **BDF has started some improvements to strengthen its operation.** BDF engaged with PFIs to identify problem areas with the guarantee scheme and have started addressing some of the issues. BDF is revising the basic agreement between the scheme and the PFIs. The revised agreement is expected to be completed by the end of May. The agreement will be drafted with significant input from the PFIs.

21. **Implementing changes will help improve the uptake of the guarantee facility.** These include issues such as calculation of the guarantee coverage ratio and refinement of the claim procedure for defaulted loans. The maximum guarantee coverage is 50 percent for most loans and 75 percent for loans to women and youth owned businesses. However, the actual coverage rate is different for every loan. It is calculated by determining 130 percent of the loan amount (the maximum collateral coverage allowed by the scheme for lenders), subtracting the discounted value of the collateral provided by the borrower from that amount, and then providing a guarantee for the remaining amount up to a maximum of 50 percent (or 75 percent) of the original loan amount plus one year’s worth of interest. This structure is intended to limit the amount of coverage on a loan to the minimum. In practice, it complicates the application process and should be revised. Most schemes use a single number for coverage or may have different coverage ratios for different programs.

22. **Improving the claims procedure and general awareness by PFIs could help reduce the high rejection rate.** The overall claims rejection rate is around 30 to 50 percent. The claims procedure seems

to be understood by the larger lenders but appears to be cumbersome for SACCOs and MFIs. As a result, there is a high rejection rate of claims from these lenders. BDF will work on simplifying the process or automating it to the point where the BDF website will help SACCOs and MFIs with the claims process.

23. **BDF plans to improve its information technology (IT) systems.** BDF plans an overhaul of its IT systems that will improve its interactions with lenders and help BDF better manage its portfolio. One of the proposals is to create a system that communicates directly to PFIs. The PFIs would use this system to apply for a guarantee, provide progress reports on the borrowers' repayments and pay the ongoing guarantee fee. The current fee collection system is manual and very paper intensive.

24. **BDF has identified many of the issues that are inhibiting uptake on the guarantee program and is taking steps to enhance its operation.** The World Bank project will provide support for this process going forward. Thus, improvement can be expected over the next few years. The main findings involve working on financial sustainability and improving the claims process. Part of improving sustainability will be working on the collection process for guarantee fees. The other part of improving sustainability will be improving the recovery on collateral. A recovery rate of 0.3 percent is very low and will rarely support a sustainable scheme. A secondary issue is the independence of the Board of Directors. With six of the seven members being government representatives, there is limited opportunity for private sector input. Including Board members with private sector experience will give the scheme additional insights into improving its operations.

Table 5.2. Summary of Alignment of BDF with International Principles for PCG Schemes

Principles	Features of Current Scheme	Compliance	Priority
Legal and Regulatory Framework			
#1 Credit Guarantee Scheme as independent legal entity	BDF is 55 percent owned by the government and 45 percent owned by the BRD. There is no ownership/management separation. There is a 7-member Board, with only one appointed from the private sector. BDF is applying for a non-bank lender license from Central Bank for direct lending. No timeline for approval.	Partial	Medium
#2 Adequate and transparent funding	Has initial capitalization, receives a portion of its annual budget from the government. Pandemic will provide a short-term setback to the goal of sustainability. Some program changes will help sustainability.	No	High
#3 Mixed ownership/fair treatment	Participation of private investors is not envisioned.	No	Low
#4 Independent effective supervision	No independent supervision by financial sector authority, no regulatory framework for credit guarantees.	No	Low
Corporate Governance and Risk Management			
#5 Clear mandate	Broad mission statement and eligibility criteria, reviewing targets for women and youth. They support SME and agriculture and provide direct lending to agriculture.	Yes	Low
#6 Independent board, sound corporate governance structure	They have a 7-member Board. Six government representatives on the board.	Partial	Medium
#7 Sound and independent internal	Have a risk management official and outside auditor, and audit and risk committee of the Board.	Partial	Medium

Principles	Features of Current Scheme	Compliance	Priority
control function			
#8 Comprehensive enterprise risk management framework	Credit risk assessment is completed by lender, then BDF does own review and collateral valuation. Decision to request a guarantee is made by bank. Investment committee at BDF approves/declines guarantee requests.	Partial	Medium
Operational Framework			
#9 Clearly defined and transparent eligibility and qualification rules for SMEs, lenders, credit instruments	Broad eligibility criteria for SMEs and credit instruments. Calculation of guarantee coverage is a problem.	Partial	Medium
#10 Select distribution approach by balancing outreach, additionality and financial sustainability	Moderate consideration of outreach and additionality. Sustainability is a goal but has not been reached yet. Additional capital is part of the World Bank project.	No	High
#11 Issue guarantees that are partial and meet prudential requirements	Scheme is partial - max is 50 percent generally, 75 percent for women and youth.	Yes	Low
#12 Set a transparent, consistent pricing policy	Pricing is transparent, but fee collection mechanism is outdated and needs some operational improvement	Yes	Low
#13 Design an efficient claims management process	Claims management process needs improvement. Large percentage declined, especially with MFIs and SACCOs. PFIs need education on the process. 50 percent of claim paid initially, 50 percent after foreclosure is completed.	No	High
M&E Framework			
#14 Audited financial statements prepared externally	Yes, audited statements prepared by PWC	Yes	Low
#15 Disclose non-financial info periodically	No requirements for public disclosure of nonfinancial information, limited data collection.	No	Medium
#16 Systematically evaluate the CGS performance and disclose findings	Auditor General of Rwanda reviews the activities of the BDF to determine if they are meeting their mission.	Partial	Medium