AFRICAN DEVELOPMENT FUND

RWANDA

SKILLS AND BUSINESS DEVELOPMENT PROGRAMME (SBDP)

APPRAISAL REPORT

FINAL

RDGE/CORW/AHHD
December 2017
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*As of November 2017*

<p>| | |</p>
<table>
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<tr>
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<tbody>
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<td>1 UA</td>
<td>1,179.52 RWF</td>
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<td>1 UA</td>
<td>1.40 USD</td>
</tr>
<tr>
<td>1 USD</td>
<td>834.70 RWF</td>
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Fiscal Year  
July 1st – June 30th

Weights and Measures

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<th></th>
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<td>1 kilogramme (kg)</td>
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<td>1 metre (m)</td>
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<td>1 millimetre (mm)</td>
<td>0.03937 inch (&quot;)</td>
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<td>1 kilometre (km)</td>
<td>0.62 mile</td>
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<td>1 hectare (ha)</td>
<td>2.471 acre</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
</tr>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BDAs</td>
<td>Business Development Advisers</td>
</tr>
<tr>
<td>BDF</td>
<td>Business Development Fund</td>
</tr>
<tr>
<td>BDS</td>
<td>Business Development Services</td>
</tr>
<tr>
<td>BICS</td>
<td>Business and Investment Climate Survey</td>
</tr>
<tr>
<td>BNR</td>
<td>Banque Nationale du Rwanda (National Bank)</td>
</tr>
<tr>
<td>BRD</td>
<td>Rwanda Development Bank</td>
</tr>
<tr>
<td>CAT</td>
<td>Certified Accounting Technicians</td>
</tr>
<tr>
<td>CESB</td>
<td>Capacity Capacity Development and Employment Services Board</td>
</tr>
<tr>
<td>CORW</td>
<td>Rwanda Country Office</td>
</tr>
<tr>
<td>CPC</td>
<td>Community Processing Centre</td>
</tr>
<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
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<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<td>Civil Society Organizations</td>
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<td>Country Fiduciary Risk Assessment</td>
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<td>DFM</td>
<td>Development for International Development</td>
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<td>Division of Labour</td>
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<td>Development Partners’ Coordination Group</td>
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<td>DMRS</td>
<td>Domestic Market Recapturing Strategy</td>
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<td>DRM</td>
<td>Domestic Resource Mobilization</td>
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<tr>
<td>EAC</td>
<td>East African Community</td>
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<td>EBM</td>
<td>Electronic Billing Machines</td>
</tr>
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<td>EDPRS</td>
<td>Economic Development and Poverty Reduction Strategy</td>
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<td>Integrated Household Living Conditions Survey</td>
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<td>ES</td>
<td>Establishment Survey</td>
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<td>Education Sector Strategy and Plan</td>
</tr>
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<td>European Union</td>
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<td>FCS</td>
<td>Fiscal Consolidation Strategy</td>
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<td>Fiduciary Risk Assessment</td>
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<td>Fiscal Year</td>
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<td>Global Competitiveness</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
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<td>Global Competitiveness Index</td>
</tr>
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<td>GoR</td>
<td>Government of Rwanda</td>
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<td>HACCP</td>
<td>Hazard Analysis and Critical Control Point</td>
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<td>Integrated Business Establishment Survey</td>
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<td>ICGL</td>
<td>International Conference of the Great Lakes</td>
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<tr>
<td>GLR</td>
<td>Great Lakes Region</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>IIAG</td>
<td>Mo Ibrahim African Governance</td>
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<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MCF</td>
<td>MasterCard Foundation</td>
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<td>MIFOTRA</td>
<td>Ministry of Public Service and Labour</td>
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<td>MIR</td>
<td>Made in Rwanda</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
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<tr>
<td>NEP</td>
<td>National Employment Programme</td>
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<td>NISR</td>
<td>National Institute of Statistics Rwanda</td>
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<td>NCD</td>
<td>National Certification Division</td>
</tr>
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<td>NMD</td>
<td>National Metrology Division</td>
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<td>NQTLTD</td>
<td>National Quality Testing Laboratories Division</td>
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<tr>
<td>NSD</td>
<td>National Standards Division</td>
</tr>
<tr>
<td>OAG</td>
<td>Office of the Auditor General</td>
</tr>
<tr>
<td>PBA</td>
<td>Performance Based Allocation</td>
</tr>
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<td>PBO</td>
<td>Policy Based Operation</td>
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<td>PCN</td>
<td>Project Concept Note</td>
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<td>PRCP</td>
<td>Programme Completion Report</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Plan</td>
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<td>PSDS</td>
<td>Private Sector Development Strategy</td>
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<tr>
<td>PSI</td>
<td>Policy Support Instrument</td>
</tr>
<tr>
<td>PSDYE</td>
<td>Private Sector Development and Youth Employment</td>
</tr>
<tr>
<td>PSF</td>
<td>Private Sector Federation</td>
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<tr>
<td>PSI</td>
<td>Policy Support Instrument</td>
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<td>Rwanda Cooperative Agency</td>
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<td>RICA</td>
<td>Rwanda Inspectorate and Competition Authority</td>
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<td>RIF</td>
<td>Rwanda Innovation Fund</td>
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<td>RPPA</td>
<td>Rwanda Public Procurement Authority</td>
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<td>RSB</td>
<td>Rwanda Standards Board</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperative</td>
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<td>SBDP</td>
<td>Skills and Business Development Programme</td>
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<tr>
<td>SBS</td>
<td>Sector Budget Support</td>
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<tr>
<td>SCF</td>
<td>Standby Credit Facility</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SEEP</td>
<td>Skills, Employability and Entrepreneurship Programme</td>
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<td>SEZ</td>
<td>Special Economy Zone</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SOEs</td>
<td>State Owned Enterprises</td>
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<tr>
<td>STS</td>
<td>Support to Science and Technology Skills</td>
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<td>SWG</td>
<td>Sector Working Group</td>
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<td>TMEA</td>
<td>Trade Mark East Africa</td>
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<td>TVET</td>
<td>Technical and Vocational Education and Training</td>
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<td>UA</td>
<td>Unit of Account</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>WDA</td>
<td>Workforce Development Agency</td>
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<tr>
<td>WGI</td>
<td>World Governance Indicators</td>
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</table>
PROGRAMME INFORMATION

INSTRUMENT
Sector Budget Support

PBO DESIGN TYPE
Programmatic Tranching

LOAN INFORMATION

Client’s information
BORROWER: Republic of Rwanda
EXECUTING AGENCY: Ministry of Finance and Economic Planning (MINECOFIN)

Financing plan

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (UA Million)</th>
<th>Instrument</th>
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<tr>
<td>African Development Fund</td>
<td>60.0</td>
<td>Loan</td>
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</table>

Off-Budget Financing Complementing SBDP Support to Made in Rwanda Initiatives

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (UA Million)</th>
<th>Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIZ</td>
<td>18.8</td>
<td>TA (off budget - related areas under SBDP: private sector development, MFIs and value chains)</td>
</tr>
<tr>
<td>MasterCard Foundation</td>
<td>35.4</td>
<td>Grant (off-budget - related areas under SBDP: Tourism and Hospitality value chain)</td>
</tr>
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</table>

ADF key financing information

<table>
<thead>
<tr>
<th>Loan</th>
<th>Amount (UA Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>UA 60 Million</td>
</tr>
</tbody>
</table>

| Service Charge                 | 0.75% per annum on amount disbursed and outstanding |
| Commitment fee*                | 0.50% per annum on undisbursed portion of the loan |
| Amortisation                   | 2.86% per annum    |
| Duration                       | 35 years           |
| Grace period                   | 5 years            |

*if applicable

Timeframe - Main stepping stones (expected)

| Concept Note approval          | August 2017         |
| Programme approval             | November 2017       |
| Effectiveness                  | December 2017       |
| Indicative First Tranche       | December 2017       |
| Indicative Second Tranche      | December 2018       |
| Indicative Third Tranche       | December 2019       |
| Completion                     | June 2020           |
### PROGRAMME EXECUTIVE SUMMARY

<table>
<thead>
<tr>
<th>Programme overview</th>
<th>The Skills and Business Development Programme is a three year Policy Based Operation. The programme cost is UA 60 million to be disbursed in three tranches in fiscal year 2017/18 to 2019/20 based on disbursement triggers agreed with the Government of Rwanda (GoR) in consultation with Development Partners (DPs). The SBDP follows successful implementation of SEEP I, II and III, which focused on building critical mass of TVET skills and creation of new start-up businesses. Specifically, SBDP will support policy reforms for boosting domestic production through skills development and enterprises growth for job creation and economic transformation. SBDP also support reforms to enhance efficiency of cooperatives. In line with aid harmonization, the programme was developed with the GoR and in consultation with DPs including Germany (including KfW and GIZ), DFID, World Bank, EU, Sweden, JICA, Swiss Cooperation, US, TMEA and MasterCard Foundation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme outcomes</td>
<td>The SBDP expected outcomes include: (i) enhanced enterprise development and (ii) enhanced domestic production to reduce imports and increase exports. The beneficiaries of the programme are the whole population (11.5 million) including youth and women. The expected outputs include: (i) increased access to finance for SMEs and cooperatives; (ii) increased access to markets for SMEs and cooperatives; (iii) Upgraded skills for SMEs and cooperatives; (iv) Strengthened value chain development; (v) enhanced quality management and certification compliance and (vi) enhanced coordination.</td>
</tr>
<tr>
<td>Alignment with Bank priorities</td>
<td>SBDP is aligned with the Bank Group’s Ten Year Strategy (TYS) 2013-2022, particularly the core operational priorities of “skills and technology” and “private sector development”, as well as TYS areas of special emphasis particularly gender (promoting gender equality and women’s economic empowerment). It reflects the Bank’s commitment to the High5’s agenda particularly on the priority on ‘Improving the quality of life for the people of Africa’ and ‘Industrialize Africa’. SBDP is aligned with Pillar II of the Bank’s CSP 2017–21 for Rwanda ‘Private Sector Development’, which focuses on skills ‘development to promote high value added economic activities and economic transformation’. SBDP also aligns with the Bank’s Human Capital Strategy (2013-2017) under its pillar of skills and technology for competitiveness and jobs; Job for Youth Strategy (2016-2025) - the Agriculture and Industrialization flagship programmes; Private Sector Development Strategy (2012-17), Gender Strategy (2014-18), and Financial Sector Development Policy and Strategy (2014-2019).</td>
</tr>
<tr>
<td>Needs assessment</td>
<td>Rwanda has experienced a shift in employment trends towards non-farm activities, dominated by micro-enterprises which are largely informal. However, growth of these enterprises into the formal small and medium categories has been limited, affecting economic growth and job creation. There is high stagnation of small business. The private sector has not expanded significantly to become the engine for economic transformation and job creation. Rwanda has very few large scale enterprises (3%) that can absorb significant numbers of the growing labour force. Census projections show that the working-age population will grow by about 240,000/year between 2016 and 2025. While there has been an increase in off-farm jobs from 104,000 (2011) to 150,000 (2016) annually, this falls below the national target of 200,000. Employment creation remains concentrated at the lower end of the enterprise spectrum and underemployment remains high at about 61%. The high concentration of businesses at micro level could be a challenge for the government to successfully achieve its agenda of boosting local production and job creation. Enterprise growth can only happen if the major constraints faced by the enterprises such as high skilled labour force, access to affordable finance, quality and standards etc. are addressed to sustain growth. The SBDP therefore will catalyze enterprise growth at various levels. Achieving these objectives requires the GoR to maintain stable and predictable public revenues and thus, sustained Bank support to the GoR will contribute to closing the financing gap.</td>
</tr>
<tr>
<td>Harmonisation</td>
<td>The programme is aligned to Made in Rwanda policy and implementation plan, Private Sector Development Strategy (PSDS) and Implementation Plan; and Domestic Market Recapturing Strategy (DMRS). The programme will use the Private Sector Development and Youth Employment (PSDYE) Joint Sector Reviews as a platform for sector dialogue and coordination with other stakeholders including DPs. The Steering Committee will provide policy guidance. The SBDP will ensure strong coordination with NEP through PSDYE SWG.</td>
</tr>
<tr>
<td>Bank’s added value</td>
<td>The Bank has considerable experience and expertise in PBO’s in Rwanda and across the continent. The Bank has been one of the major DPs providing sector budget support to Rwanda since 2012. It is thus well positioned to engage in dialogue and currently co-chairs the PSDYE SWG. The preparation of SBDP has benefitted from experiences and lessons learned during the design and implementation of similar programmes focusing on education and employability, fiscal consolidation, protection and promotion of basic services, and social inclusion in other regional member countries. The Bank has consolidated its comparative advantage which is derived from (i) flexibility in responding to the need for financial resources to meet financing gaps, (ii) ability to leverage its budget support for policy development; and (iii) the Bank’s presence in the country.</td>
</tr>
<tr>
<td>Contribution to Gender Quality and Women’s empowerment</td>
<td>The SBDP will promote economic opportunities and empowerment for especially youth and women. The programme will promote high-end skills development in business advisory services and financial sector and food safety. About 43% of cooperatives’ membership comprises women, and 40% are in production and transformation, therefore the programme focus on corporate governance and value chain development will benefit women with leadership skills and value chain management respectively.</td>
</tr>
<tr>
<td>Policy dialogue and linked technical assistance</td>
<td>Policy dialogue will concentrate on (i) SMEs access to affordable finance; (ii) enhancing quality and standards in order to make Rwanda products competitive and (iii) critical skills for SMEs’ growth. The programme will benefit from technical assistance provided under the GIZ support to skills and private sector development under the Eco-Employment programme, DFID support to RDB on enhancing FDI and Swedish Embassy to the NEP and Private Sector development and IFC on investor’s climate.</td>
</tr>
</tbody>
</table>
### RESULTS CHAIN

<table>
<thead>
<tr>
<th>Indicator</th>
<th>PERFORMANCE INDICATORS</th>
<th>Baseline</th>
<th>Target (2020)</th>
<th>MOV</th>
<th>Risks/ Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPA</td>
<td>Contribute to job creation and poverty reduction.</td>
<td>% of population living below poverty line</td>
<td>39.1% (2013/14)</td>
<td>20% (2020)</td>
<td>EICV</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Off–farm jobs created</td>
<td>1.4 m (2010)</td>
<td>2.4 m</td>
<td>EICV</td>
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<td>OUTCOMES</td>
<td>Outcome 1: Enhanced entrepreneurship and enterprise development</td>
<td>% Share of enterprises in total establishment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Large</td>
<td>3% (2015)</td>
<td>5%</td>
<td>IBES</td>
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<tr>
<td></td>
<td></td>
<td>- Medium</td>
<td>8% (2015)</td>
<td>10%</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Small</td>
<td>51% (2015)</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Micro</td>
<td>38% (2015)</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% increase in survival rate of SMEs</td>
<td>35% (2014)</td>
<td>60%</td>
<td>ES</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit to SMEs as share of GDP</td>
<td>7.8% (2016)</td>
<td>10%</td>
<td>PSDYE JSR</td>
</tr>
<tr>
<td></td>
<td>Outcome 2: Increased domestic production to reduce imports and increase exports</td>
<td>Decrease in imports as % of GDP</td>
<td>37 (2016)</td>
<td>30</td>
<td>NISR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase in exports as % of GDP</td>
<td>19 (2016)</td>
<td>22</td>
<td>NISR</td>
</tr>
<tr>
<td>Component 1: Enhancing Enterprise Growth</td>
<td>Made in Rwanda Policy approved by Cabinet</td>
<td>Draft</td>
<td>Policy approved</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High Growth Entrepreneurship Policy developed and approved by Cabinet</td>
<td>SME policy (2010)</td>
<td>New approved policy</td>
<td>MINICOM</td>
<td></td>
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<tr>
<td></td>
<td>Instrument to measure SME growth developed and operationalized</td>
<td>0</td>
<td>1</td>
<td>MINICOM/ NISR</td>
<td></td>
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<tr>
<td></td>
<td>Professional Certification Programme for Financial Sector developed and operationalized</td>
<td>0</td>
<td>1</td>
<td>MINECOFIN/ BNR</td>
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<tr>
<td></td>
<td>No. of additional U-SACCOs automated</td>
<td>0</td>
<td>60</td>
<td>RCA reports</td>
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<td></td>
<td>Cooperative Bank of Rwanda established</td>
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<td>1</td>
<td>RCA/BNR</td>
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<td></td>
<td>Management Information System (MIS) for Cooperatives developed and piloted</td>
<td>0</td>
<td>1 (piloted in 50 cooperatives)</td>
<td>RCA reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment Clinics for SMEs to list on the Capital Market operationalized</td>
<td>0</td>
<td>15 SMEs assessed &amp; trained</td>
<td>MINECOFIN /CMA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial literacy programme developed for SMEs/Cooperatives and implemented</td>
<td>None</td>
<td>1 (100 SMEs/ cooperatives reached)</td>
<td>MINECOFIN /BNR</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of Made in Rwanda Communication Campaigns and exhibitions organised</td>
<td>2 (2016)</td>
<td>10</td>
<td>PSDYE JSR report</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ministerial Order issued on: (i) specific contract value/thresholds for local SMEs participating in public procurement; (ii) implementation modalities of the local preferences, including the facilitation of prompt payments to SMEs, transfer of skills and technology; and (iii) preference to the local SMEs as per the existing Guidelines to support Made in Rwanda</td>
<td>0</td>
<td>1 Ministerial order issued</td>
<td>MINECOFIN</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of GoR annual procurement spent for procuring goods, works and services from local SMEs (e.g. Army, police, prisons and schools uniforms; garments; footwear etc.)</td>
<td>0</td>
<td>25%</td>
<td>MINECOFIN</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of Made in Rwanda Database developed and updated annually</td>
<td>0</td>
<td>1</td>
<td>PSDYE JSR report</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of SMEs Cluster Platforms established and operationalized</td>
<td>4 (2017)</td>
<td>14</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td></td>
<td>National Consolidated SME Business Upgrading Programme developed and approved by RDB Management.</td>
<td>0</td>
<td>1</td>
<td>RDB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Three-tier professional &quot;BDA accreditation programme developed.</td>
<td>0</td>
<td>1</td>
<td>MINICOM/ RDB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of SMEs coached and mentored under the SME growth programme</td>
<td>30</td>
<td>100</td>
<td>RDB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Comprehensive training programme for Cooperative Governance developed and implemented.</td>
<td>0</td>
<td>1,200 leaders trained (30%-F)</td>
<td>RCA</td>
<td></td>
</tr>
</tbody>
</table>

### Country and Programme Name: Rwanda- Skills and Business Development Programme (SBDP)

**Purpose of the programme:** To support policy reforms for boosting domestic production through skills development and enterprise growth for job creation.

1. **Risk:** Regional political instability: Protracted instability in the region would be a risk to Rwanda’s social and economic stability diverting resources from critical investments for job-creation.

2. **Risk:** Macroeconomic instability: Rwanda remains vulnerable to external and weather induced shocks, which could affect GoR’s resource mobilization and commitment to reforms and investments.

**Mitigation:** Stakeholders (through the EAC) continued demonstration of strong commitment to resolve political crises in region.

Mitigation: Continued implementation of the IMF PSI programme, and GoR’s commitment to sound fiscal and monetary policies, ongoing efforts to
<table>
<thead>
<tr>
<th>Component 2: Strengthening value chains and product quality management</th>
<th><strong>Supply Development Unit (LSU) established in RDB and operational</strong></th>
<th>Non-existent</th>
<th>1 established and operational</th>
<th>PSDYE JSR report</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong># of SMEs that access supply contract via LSU</strong></td>
<td>0</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategy to increase critical raw materials developed</strong></td>
<td>Non-existent</td>
<td>Strategy developed</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td><strong>Financing framework for meat and wood value chains developed</strong></td>
<td>0</td>
<td>1</td>
<td>PSDYE JSR report</td>
<td></td>
</tr>
<tr>
<td><strong>Cooperatives consolidated into clusters in MIR areas</strong></td>
<td>0</td>
<td>2 clusters</td>
<td>RCA report</td>
<td></td>
</tr>
<tr>
<td><strong>CPCs business model assessed, new business model developed and # of CPCs put on turn – around strategy.</strong></td>
<td>Weak model</td>
<td>New business model developed- 4 on turn-around)</td>
<td>PSDYE report</td>
<td></td>
</tr>
<tr>
<td><strong># of strategic anchor firms receiving technical assistance.</strong></td>
<td>15</td>
<td>75</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td><strong>Professional and technical training programme for 2 MIR value chains developed through PPPs</strong></td>
<td>0</td>
<td>4</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td><strong>Revised Special Economic Zone policy approved by Cabinet</strong></td>
<td>Old policy</td>
<td>Revised policy approved</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td><strong>Rwanda Quality Policy Revised and Approved by Cabinet</strong></td>
<td>Policy Outdated</td>
<td>Policy revised and approved</td>
<td>MINICOM /RSB</td>
<td></td>
</tr>
<tr>
<td><strong>Capacity Assessment for RSB conducted</strong></td>
<td>0</td>
<td>1</td>
<td>RCA report</td>
<td></td>
</tr>
<tr>
<td><strong>Institutional Support programme for RSB developed and implemented.</strong></td>
<td>0</td>
<td>1</td>
<td>RCA report</td>
<td></td>
</tr>
<tr>
<td><strong>Accreditation, and maintenance of RSB certification, testing and metrology services and standardization</strong></td>
<td>Limited RSB accreditation and certification</td>
<td>Strengthened Accreditation, maintenance &amp; extension of scope in NCD, NMD, NQTLD &amp; NSD1</td>
<td>RSB report</td>
<td></td>
</tr>
<tr>
<td><strong>Consumer Awareness Campaign on Quality and Standards developed and implemented</strong></td>
<td>0</td>
<td>1</td>
<td>RSB Report</td>
<td></td>
</tr>
<tr>
<td><strong>No. of SMEs and cooperatives coached and mentored in food safety system management (HACCP), through graduate placement programme</strong></td>
<td>0</td>
<td>60 (30% F-owned) 100 graduates placed (F- 35%)</td>
<td>RSB report</td>
<td></td>
</tr>
<tr>
<td><strong>Skills Audit for Food Safety and Quality Conducted</strong></td>
<td>0</td>
<td>1</td>
<td>CESB Report</td>
<td></td>
</tr>
<tr>
<td><strong>Curriculum on food sciences and technology revised in collaboration with private sector validated by University Council</strong></td>
<td>0</td>
<td>1</td>
<td>RSB/UR report</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component 3: Enhanced Coordination</th>
<th><strong>Multi-sectoral MIR Steering Committee established and functional.</strong></th>
<th>0</th>
<th>1</th>
<th>MINICOM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MIR Working Technical Secretariat established and functional.</strong></td>
<td>0</td>
<td>1</td>
<td>MINICOM</td>
<td></td>
</tr>
<tr>
<td><strong>Robust M&amp;E system for MIR developed and functional</strong></td>
<td>0</td>
<td>1</td>
<td>MINICOM</td>
<td></td>
</tr>
</tbody>
</table>

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1 Certified Entrepreneurship guide (CEG), Professional Entrepreneurship Guide (PEG), Master Entrepreneurship Guide  
2 NCD-National Certification Division, NMD-National Metrology Division, NQTLD-National Quality Testing Laboratories Division; NSD-National Standards Division.
I  INTRODUCTION: THE PROPOSAL

1.1 Management submits the following proposal and recommendation for a loan of UA 60 million to the Republic of Rwanda to finance the Skills and Business Development Programme (SBDP). This is a 3-year Sector Budget Support (SBS) designed to boost the government’s economic transformation and job creation agenda by increasing domestic production under the Made in Rwanda Policy. The SBS will be implemented in Fiscal Years (FYs) 2017/18 to FY2019/20. Since FY 2012/13, the Bank has been supporting the government’s agenda on job creation through the Skills, Employability and Enterprise Programme (SEEP) which has contributed to: (i) creation of 150,000 (2015) off-farm jobs annually; (ii) increased number of enterprises to 148,000 (2014), and (iii) increased critical mass of TVET graduates to 116,292 (2016). More Development Partners (DPs) are now supporting the National Employment Programme (NEP). The SBDP, which is a transition from SEEP, was jointly designed with government in consultation with DPs and Civil Society Organisations (CSOs).

1.2 While Rwanda has experienced a shift in employment trends from agriculture towards non-farm jobs, but enterprise growth has been limited thereby affecting economic growth and job creation. Rwanda has very few large scale enterprises (about 3% of total establishment in 2015) that can absorb significant numbers of the growing labour force. Census projections show that the working-age population will grow by about 240,000/year between 2016 and 2025. However, enterprises have not expanded significantly to become the engine for economic transformation and job creation. There is need to do more to enhance enterprise growth. Hence sustained Bank support in this area will be necessary to help address this challenge.

1.3 The overarching goal of SBDP is to promote inclusive growth and poverty reduction. The purpose of SBDP is to support reforms to boost domestic production through skills development and enterprise growth for job creation. The SBDP will enhance SMEs growth and Cooperatives efficiency to spur production that will promote rapid economic transformation and industrialisation, thereby improving the quality of life of Rwandans in line with the Bank’s High 5s. The SBDP will also contribute to the attainment of relevant Sustainable Development Goals (SDGs). The programme expected outcomes are: (i) enhanced enterprise development and (ii) increased domestic production to reduce imports and increase exports.

1.4 The SBDP is programmatic tranching, with the aim of improving predictability. SBDP is anchored on the government’s Economic Development and Poverty Reduction Strategy (EDPRS II), the Domestic Market Recapturing Strategy (DMRS), the Made in Rwanda (MIR) policy, the Private Sector Development Strategy (PSDS), and the Financial Sector Strategy. The prior actions (Table 4) and the conditions for disbursement (Tables 6&7) have been jointly prepared with the Government to ensure ownership and successful implementation of the programme.

II  COUNTRY CONTEXT

2.1 Political Developments and Governance Context: Rwanda remains peaceful and politically stable. It has outperformed its peers in the EAC on key governance indicators. According to the Mo Ibrahim Index of African Governance (IIAG), Rwanda’s overall

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3 Relating to Poverty, Quality Education, Decent Work & Economic Growth, Gender Equality and Reduce in Inequality.
composite index on Safety and Rule of Law, Sustainable Economic Opportunity, Human Development and Participation, and Human Rights has steadily improved from 57.8/100 in 2011, to 60.7/100 in 2014, and then to 62.3/100 in 2015. In August 2017, Rwanda held presidential election which was deemed smooth and peaceful. The insecurity in the eastern DRC continues to adversely affect Rwanda’s trade given that the DRC and the Great Lakes Region (GLR) are among the country’s major trade partners. Instability in Burundi also has several implications for Rwanda, including security and refugee burden.

2.2 Recent Economic Developments, Macroeconomic and Fiscal Indicators:

2.2.1 Rwanda’s has experienced rapid economic growth averaging 6% annually between 2013 and 2016. The real GDP growth rate increased from 4.7% in 2013 to 7.6% in 2014 due to high growth rates in services and industry sectors driven by reforms in those sectors. In 2016, the growth rate dropped to 5.9%, largely due to drought, decline in domestic demand and adjustment to macroeconomic policy aimed at addressing the growing current account deficits. Despite the expected increase of real GDP growth rate to 6.2% in 2017, the economic outlook remains subject to risks related to weather conditions, uncertain global demand patterns and unstable commodity prices. Government seeks to address this and improve the outlook through the implementation of the Made in Rwanda (MIR) policy. The MIR is expected to reduce the country’s reliance on the export of primary products by diversifying the export base thereby boosting exports of manufactured goods and services to enhance export earnings.

2.2.2 Monetary Policy: Monetary policy continued to prioritize single digit inflation and interest rates stability to support expansion in private sector credit. The National Bank of Rwanda (BNR) has continued to maintain its key policy rate at 6.5% for much of the 2016/17 financial year to support the financing of the private sector by the banking system. This is also expected to ensure positive real interest rates that would stimulate domestic savings mobilization thereby increasing the availability of credit for the private sector. The national bank aims at increasing credit to the private sector from 19% of GDP in 2016/2017 to about 30% by 2020. The annual headline inflation rose from 4.5% in January 2016 to 7.3% percent in December 2016 and the annual average went up from 2.5 percent in 2015 to 5.7 percent in 2016, mainly driven by rising food prices and transport costs. In general, monetary policy has been prudent and this has moderated the impact of economic shocks by reducing pressure on foreign reserves and maintaining relatively low interest rates thus minimizing a decline in economic activity.

2.2.3 Enhanced fiscal stability: Rwanda’s fiscal policy is focused on implementing a Fiscal Consolidation Strategy (FCS), which aims at reallocating public spending to EDPRS II priorities, reducing domestic borrowing and increasing domestic revenue mobilization. Rwanda’s past development achievements relied on official development assistance but declining aid flows have driven the country into raising tax revenue through improved tax policy and administration measures. Some of the tax policy measures introduced include use of electronic billing machines and incorporation of SMEs in the tax base. The administration measures include automation of local government tax collection, improvements in tax audit procedures, and closer scrutiny of large taxpayers. Tax revenue as a ratio of GDP has consequently increased from 14.7% in 2013/14 to about 15.8% in 2015/2016.

2.2.4 Despite the progress in tax policy and administration, tax revenue yield remains lower than the East African Community (EAC) benchmark of 25%. Rwanda remains a low income country and still needs the SBPD budget support to reinforce reforms that will facilitate growth of the private sector. This will strengthen the tax base that would ultimately finance programmes that are currently funded externally in the form of loans and grants. The
expenditure policy remains focused on addressing the binding infrastructure constraints to productivity increases, exports promotion, and employment growth for economic transformation. Correspondingly, public expenditure cuts have targeted non-essential budget items so as to minimize the impact of external shocks. Jointly, key measures under the FCS are expected to increase fiscal sustainability and share of the budget financed by domestic tax and non-tax revenue from 62.1% in FY 2015/16 to 67.2% in 2016/17.

2.2.5 External balance: The current account deficit rose from USD 1,106.4 billion in 2015 to an estimated USD 1,211.0 billion (14.4% of GDP) in 2016 which was largely due to structural factors, especially the country’s heavy reliance on primary exports. Overall, imports declined by 2.3% while exports increased by 9%. Despite the reduction in imports and increase in exports, export earnings typically cover 35.6% to 36.4% of imports such that Rwanda still has a significant trade balance. This reduction in imports reflected the impact of the exchange rate depreciation of 9.7% and the contractionary fiscal policy, especially the reduction in capital spending put in place as part of a set of adjustment policies under the Standby Credit Facility (SCF) program with the International Monetary Fund (IMF). The depreciation of the currency is largely attributable to a decline in external inflows and the SCF was aimed at shoring up Rwanda’s official reserves position so as to prevent the local currency from further depreciation. The government is aggressively implementing the Domestic Market Recapturing Strategy (DMRS) to reduce imports of construction materials, textiles and garments and agro-processed goods. There is potential for the country to reduce the trade deficit if the Made in Rwanda initiative is implemented effectively and efficiently.

### Table 1: Key Macroeconomic Indicators (% of GDP, unless otherwise indicated)

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<tbody>
<tr>
<td>Real GDP Growth (% change)</td>
<td>7.0</td>
<td>6.9</td>
<td>5.9</td>
<td>6.2</td>
<td>6.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Consumer Prices Inflation (end of period rate in %)</td>
<td>2.1</td>
<td>4.5</td>
<td>7.3</td>
<td>7.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Current Account Balance - incl. grants</td>
<td>-12.0</td>
<td>-13.5</td>
<td>-14.3</td>
<td>-10.2</td>
<td>-11.2</td>
<td>-9.9</td>
</tr>
<tr>
<td>Broad Money (M2)</td>
<td>14.9</td>
<td>26.9</td>
<td>21.1</td>
<td>7.6</td>
<td>13</td>
<td>13.2</td>
</tr>
<tr>
<td>Public External Debt (end period as % of GDP)</td>
<td>4</td>
<td>3.6</td>
<td>33.7</td>
<td>36.0</td>
<td>36.2</td>
<td>38.2</td>
</tr>
<tr>
<td>Central Government Domestic Debt</td>
<td>19.6</td>
<td>26.7</td>
<td>8.2</td>
<td>8.3</td>
<td>7.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Gross official reserves (months of imports)</td>
<td>16.8</td>
<td>19.7</td>
<td>4.1</td>
<td>3.9</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Fiscal Balance, incl. grants (FY)*</td>
<td>-12.9</td>
<td>-11.1</td>
<td>-4.6</td>
<td>-3.7</td>
<td>-3.9</td>
<td>-3.7</td>
</tr>
<tr>
<td>Fiscal Balance, excl. grants (FY)*</td>
<td>-5.3</td>
<td>-5</td>
<td>-9.3</td>
<td>-8.2</td>
<td>-8.2</td>
<td>-7.9</td>
</tr>
</tbody>
</table>

Source: MINOCOFIN and IMF Tables, 7th Review; (FY)* Fiscal year starting 2016/17 to 2019/20

2.3. Competitiveness of the Economy: Rwanda continues to improve its business regulatory environment. According to the 2018 World Bank’s Doing Business survey, Rwanda ranks 41st out of 190 countries surveyed. The 2017 survey ranked Rwanda as 56th out of 190 as compared to 62nd out of 189 economies. The improvement is attributable to improvements in the business regulations such as the introduction of online services to speed up the provision of various public services. Rwanda remains the second most competitive country in Sub-Saharan Africa behind Mauritius and the second most overall consistent reformer globally, behind Georgia, over the last decade or so. On competitiveness and productivity, the 2016/2017 Global Competitiveness Index (GCI) ranks Rwanda at 52 out of 138 countries as compared to 58 out 140 countries in 2015. The key impediments to further improvements in the GCI include high transport, electricity and water costs, infrastructure bottlenecks, inadequate access to financial capital and raw materials, and limited skilled labour force. Although Rwanda has improved the Doing Business environment, there remain constraints to enterprise growth such as capacity weaknesses among SMEs especially in relation to the preparation of financial statements to facilitate access to alternative sources of financial capital and limited financial products. There is need for measures to address these bottlenecks.
2.4. Public Financial Management: The Government has continued with implementation of PFM reforms thus yielding results both at national and district levels. Consolidating and cementing sound PFM systems at all levels of government will continue to help bolster service delivery. It will also enhance value for money in implementing government policies, and ensuring effective, comprehensive, and credible budget execution in the medium to long term. The consultative and collaborative budget preparation process underpinned by a 3-year medium term macro-fiscal framework continues to provide a sound basis for budget implementation and fiscal management. The various assessments show a generally well-performing PFM system at national level, thus maintaining fiscal discipline. They also revealed the existence of a system that provides a sound basis for resource allocation in accordance with priorities and fosters efficient service delivery. These achievements continue to be underpinned on a defined legal and regulatory framework, improved transparency, enhancement of management and reporting tools, and external scrutiny and oversight. However, for the overall PFM reforms and decentralization agenda to be accelerated, sustained and serve as a reference point, it will require an increased focus on the specialization of the human resources particularly: (i) the role of Finance Officers and Certified Accounting Technicians (CATs) at districts, sub-districts, and State Owned Enterprises (SOEs) levels; (ii) the role of Tax Advisors in the fiscal decentralization process and access to finance, and (iii) the role of financial officers in assisting with Generally Accepted Accounting Principles changes, coupled with the deepening of expertise in the financial sector including that of bankers, insurers, and actuaries so to build on the pool of experts needed to make Rwanda a financial expertise hub. A detailed Fiduciary Risk Assessment (FRA) report (Annex 2).

2.5. Inclusive Growth, Poverty and Social Context

2.5.1 Poverty and income inequality have declined due to rapid economic growth and significant investments in human development. Rwanda ranked 159 out of 188 countries on the Human Development Index (2016), demonstrating an improvement from 163 out of 188 countries (2015). Progress in human development has been broad-based, with strong improvements in health and education. These improvements can largely be attributed to dedicated investments in social and economic sectors. GDP per capita has risen from US$688 in 2012 to US$729 in 2016. The increase in per capita income has contributed to notable reduction in poverty, from 56.7% in 2005/06 to 39.1% in 2013/14. Extreme poverty declined from 24.1% to 16.3% over the same period. However, poverty remains high among women (43.9%) as compared to men (36.9%). Income inequality, as measured by the Gini coefficient, also decreased from 0.52 to 0.45 during the same period. The government is strengthening its efforts to create jobs and further reduce poverty through education, skills and enterprise development. On gender equality, Rwanda has developed a robust policy on gender equity and mainstreaming across all sectors. Indicators of gender equality have improved significantly over the years and the World Economic Forum’s 2016 Gender Gap Index ranks Rwanda number 1 among all low-and-middle-income countries in closing the gender gap, and number 5 worldwide. In spite of these notable improvements, more needs to be done to address the long standing inequalities in economic participation.

2.5.2 Rwanda’s labour market impedes inclusive growth and poverty reduction. Rwanda is endowed with an increasing young working age population and its labour market is characterized by high underemployment, informality and low levels of skills. Labour underutilization remains high at 60.3%, high among female (67.7%), in rural areas (61.3%) and among the youth– (61%). Overall, 90.8% of Rwanda’s workforce is employed in the private sector which makes it a catalytic sector in terms of reforms to ensure inclusive growth. There is therefore the need to address the dominance of micro and small enterprises (86 %) which remain largely informal and self-employed. This will require targeted and tailored
interventions that will enhance enterprise growth and boost local production and by increasing vertical integration through effective and efficient value chains across viable economic sectors.

III GOVERNMENT DEVELOPMENT PROGRAMME

3.1 Government Development Strategy and Medium-Term Reform Priorities

3.1.1 Rwanda’s long-term development strategy is its Vision 2020. Its overarching goal is to transform the country from a subsistence agricultural economy into a knowledge-based middle income economy. Its EDPRS II (2013-2018) provides the medium-term framework for achieving the country’s Vision 2020 goals. The EDPRS II aims at accelerating poverty reduction and facilitating economic transformation towards inclusive and sustainable green growth. It seeks to do so by unlocking private sector competitiveness through investments in infrastructure, energy, water and transport sector as well as improving skills to reduce the cost of doing business and increase economic productivity. Rwanda’s development framework has the potential to guide the economy towards private sector-led inclusive and sustainable economic growth.

3.1.2 National/Sector Development Programme: The government remains committed to accelerating poverty reduction and promoting economic growth through national initiatives such as Made in Rwanda (MIR). MIR is an overarching framework for promoting domestic production, enhancing competitiveness of Rwandan products and services domestically and externally, and promoting domestic resource mobilization. MIR thus aims at addressing factors constraining their quality and cost competitiveness. MIR is anchored on the Domestic Market Recapturing Strategy (DMRS) which seeks to recapture the domestic market by lowering imports through fair competition. SBDP is anchored on MIR under DRMS and Private Sector Development Strategy (PSDS). PSDS aims to develop an entrepreneurial, innovative and competitive sector that delivers broad-based and inclusive economic growth resulting in better-paid jobs for Rwandans. It focuses on improving the regulatory framework, improving infrastructure, increasing credit access and skills development and boosting economically viable value chains.

3.2 Challenges to Sector Development Programme

3.2.1 The private sector is envisaged as the engine of economic growth and job creation but is not expanding fast enough to absorb the increasing labour force. The sector remains dominated by micro- enterprises with low survival rate and not creating sufficient jobs. The sector is struggling with competitiveness and supply-side capacity issues. This is exacerbated by Rwanda’s small size and land-locked. About 97% of total establishments of 148,000 are MSMEs with limited access to affordable long-term finance, raw materials and skilled labour force. The enterprise survival rate has been low. Only 35% of firms survive after 3-years and 70% of these never grow beyond self-employment. The high concentration of businesses at the micro level could be a challenge for the government to successfully achieve its agenda of boosting local production and creating viable employment opportunities. Furthermore, 68% of jobs created since 2011 came from an increase in the number of firms rather than their growth. Therefore, enterprise growth would be critical for both local production and job creation. The private sector is a major source of current employment, accounting for 92% of the jobs created. The key challenges to enterprise growth include: (i) shortage of skilled labour force (technical and managerial) and low educational attainment; (ii) lack of affordable long-term finance and infrastructure, energy, water and transport sector as well as improving skills to reduce the cost of doing business and increase economic productivity. Rwanda’s development framework has the potential to guide the economy towards private sector-led inclusive and sustainable economic growth.

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4 IBES 2015 classifies micro enterprises as those with 1 to 3 employees, small enterprises as those with 4 to 30 employees, medium enterprises as those with 30 to 100 employees and large enterprises as those with more than 100 employees.

5 NISR. 2014 Establishment Census
high cost of finance; (iii) low participation of SMEs in public procurement; (iv) limited access to markets (both raw materials and customers) which is amplified by difficulties in acquiring standards for high-end domestic markets; and (v) high cost packaging materials - Refer to Annex 4.

3.3. Consultation and Participation Processes

3.3.1 The SBDP was designed through participatory approaches. The Bank’s identification, preparation and appraisal mission consultations involved stakeholders including government, development partners (DPs), private sector and CSOs. Field visits were conducted to gain insights into opportunities for enterprises’ growth and the challenges they faced. All these processes informed the design of the programme. The consultations pointed to a number of issues which included: (i) the weak governance of cooperatives; (ii) low utilisation of the production capacities of Community Production Centres (CPCs); (iii) lack of raw materials, high cost of packaging materials, shortage of high-end skilled labour, and low quality products; (iv) limited access to long-term affordable finance, limited financial products, and lack of specialised expertise in the financial sector; and (v) low customer awareness on quality and poor perception of locally made products. Stakeholder participation will continue during programme implementation, particularly during programme supervision missions.

IV BANK SUPPORT TO GOVERNMENT STRATEGY

4.1. Link with Bank Strategy

4.1.1 SBDP is fully aligned with the Bank Group’s Ten Year Strategy (TYS) 2013-2022, particularly “skills and technology” and “private sector development”, as well as TYS special emphasis on gender (on the pillar of women’s economic empowerment), and reinforced by the Bank’s High-5s. SBDP will contribute to two of the High 5s namely: ‘Improve the quality of life of the people of Africa’ and ‘Industrialize Africa’. SBDP is also aligned with the second pillar of the CSP – developing skills to promote high value added economic activities and economic transformation’. The Bank’s Human Capital Strategy (2013-2017) under its pillar of skills and technology for competitiveness and jobs; Job for Youth Strategy (2016-2025) - the Agriculture and Industrialization flagship programmes; Private Sector Development Strategy, (Gender Strategy (2014-18), Financial Sector Development Policy and Strategy.

Table 2: Link between the PRSP/NDP, the CSP and the Proposed Operation

<table>
<thead>
<tr>
<th>EDPRS II</th>
<th>Sector Strategies</th>
<th>CSP (2017-2021)</th>
<th>Proposed Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Objective</td>
<td>Sector Objective</td>
<td>Strategic Objective</td>
<td>Strategic Objective</td>
</tr>
<tr>
<td>Priorities</td>
<td>Priorities</td>
<td>Priorities</td>
<td>Priorities</td>
</tr>
<tr>
<td><strong>EDPRS II aims to consolidate gains in economic growth, poverty reduction and reduced income inequality. It focuses on four thematic areas. The third area which is “productivity and youth employment” emphasizes on appropriate skills and productive employment.</strong></td>
<td><strong>Made in Rwanda Policy aims at promoting domestic production, enhancing competitiveness of Rwandan products and services domestically and externally, and promoting domestic resource mobilization.</strong></td>
<td><strong>The overarching objective of the CSP (2017-2021) is to accelerate the country’s economic transformation process, thereby boosting inclusive private sector-led growth and creating higher value-added formal wage employment</strong></td>
<td>(i) promotes the development of critical skills necessary to catalyze private sector investments and value addition for enterprise growth and survival</td>
</tr>
<tr>
<td><strong>The Domestic Market Recapturing Strategy aims to recapture the domestic market through lowering imports through fair competition. Mainly reducing imports of construction materials, textile and garments and agro-processed goods</strong></td>
<td><strong>Private Sector Development Strategy - to develop an entrepreneurial, innovative and competitive sector that delivers broad-based and inclusive economic growth resulting in many more and better-paid jobs for Rwandans.</strong></td>
<td><strong>It has two pillars: (i) Investing in energy and water infrastructure to enable inclusive and green growth</strong></td>
<td>(ii) supports policy reforms for enhancing enterprise growth in “high value growth sectors mainly under Made in Rwanda (MIR).**</td>
</tr>
</tbody>
</table>

(ii) Developing skills to promote high value added economic activities and economic transformation.
4.2. Meeting the Eligibility Criteria
Rwanda has met all the eligibility criteria for Programme Based Operations (PBOs). It is, therefore, eligible to borrow from the ADF concessional window. It fulfils all general and technical prerequisite conditions for SBS operations (Annex 1).

4.2.1 Government commitment to poverty reduction and inclusive growth: Rwanda’s commitment to Poverty Reduction remains very strong. The medium term economic framework, EDPRS II, emphasises poverty reduction, job creation, improving infrastructure to unlock productivity and support private sector led inclusive and sustainable growth. EDPRS II builds on the progress made in the previous two medium term reform programmes which contributed to sustained high economic growth rates and poverty reduction. Rwanda demonstrates prioritisation of rapid economic growth and poverty reduction and its spending pattern is aligned to growth oriented and pro-poor sectors. For instance, the total budget allocated to productive and social sectors which comprise health, education, energy, transport, water and agriculture in 2016/17 was 13.9% of GDP compared to 9.5% of GDP for general public services during the same year.

4.2.2 Macroeconomic stability: Rwanda’s macroeconomic management is anchored on the IMF Policy Support Instrument (PSI) which was approved on 2 December 2013. The 7th review under the PSI and the 2nd review under the SCF were successfully completed. Performance under the program has been strong and the implementation of economic policies has been satisfactory and remains prudent thus facilitating macroeconomic stability. Downside risks such as high dependence on aid and vulnerability to external shocks are being addressed by a range of policy measures which prioritise fiscal consolidation, import substitution and export diversification through MIR Policy, and regional integration. Implementation of MIR policy will encourage domestic production of certain goods currently imported and promote export diversification intended to foster external stability and growth.

4.2.3 Satisfactory fiduciary risk assessment: The overall assessment of Rwanda’s Public Financial Management (PFM) system, including the beneficiary sectors of Industry & Commerce (MINICOM), Rwanda Development Board (RSB), Rwanda Cooperative Agency (RCA), Rwanda Public Procurement Agency (RPPA) and the Rwanda Standards Board (RSB) is adequate to implement the SBDP as enforced by the 2013 Organic Law on State Finances and Property (N° 12/2013/OL of 12/09/2013). The overall fiduciary risk is deemed moderate for SBDP (Annex 2).

4.2.4 Political stability: Rwanda has been politically stable in the last two decades due to effective leadership. Political stability has prevailed beyond the August 2017 Presidential elections. The ruling party won the elections thereby guaranteeing continued peace and political stability.

4.2.5 Harmonisation: The partnership between the GoR and its DPs remains strong. Various dialogue forums exist for harmonisation. These include the Development Partners Coordination Group (DPCG) and Sector Working Groups (SWGs). The government also developed a division of labour (DoL) to enhance coordination. SBDP will benefit from the various coordination mechanisms, including the relevant SWGs. The Bank co-chairs the Private Sector Development and Youth Employment (PSDYE) SWG and this will reinforce the effective implementation of SBDP.
4.3. Collaboration and Coordination with other Partners

4.3.1 The preparation process of SBDP was in consultation with DPs. They included: Swedish Embassy, Germany Embassy, KfW, GIZ, DFID, Swiss Cooperation, JICA, World Bank, MasterCard Foundation, USAID and EU. DPs acknowledged the need to: (i) enhance SME growth through address enabling environment, access to finance, quality and standards to enhance competitiveness, (ii) promote holistic approach to enterprise growth, (iii) promote customer awareness on locally made products and standards; (iv) strong coordination between NEP and MIR; (v) strong capacity by coordinating ministry and effective coordination framework for MIR. Collaboration will continue during implementation of the programme through regular PSDYE SWG DPs meetings to identify policy dialogues with government in areas of enterprise development and value chain development.

4.3.2 Donor coordination is strong and the Bank, through its country office (CORW), continues to play an active role in policy dialogue. Donor coordination is guided by the 2013 Division of Labour (DoL) – (Annex 10) which enhances alignment with the EDPRS II themes and priorities. The DoL maps each Development Partner (DP) to three core sectors based on comparative advantage. SBDP is aligned under PSDYE SWG. The Bank co-chairs PSDYE, the Transport SWGs and the Energy Access Sub-SWG. The Bank also participates in the Education SWG and TVET Sub-Sector working groups. It also is a key member of the DPCG which is the highest-level coordination forum in Rwanda. The SBDP will create synergies with other DPs programmes in the sector – refer to Annex 8.

4.4. Relationship with other Bank Operations

4.4.1 The Bank Group’s on going portfolio in Rwanda comprises of 18 operations with a total value of about UA468.9million (Appendix 3). The operations cover transport (48.4%), energy (22.8%), private sector development (18.5%); human development (5.8%), water supply and sanitation (3.5%), multi-sector (0.7%), and agriculture (0.3%). The portfolio comprises 8 public sector projects financed through loans and grants; 2 private sector operation and 8 multinational operations. Infrastructure (transport, energy, and roads) accounts for 74.7% of the overall portfolio value. The on-going portfolio is rated as satisfactory with an overall rating of 3.4 (on a scale of 1 to 4). The disbursement rate, as at October 2017, stood at 35%. SEEP III was successfully completed, disbursed fully and PCR rating is satisfactory.

4.4.2 SBDP will integrate and complement other on-going Bank operations. These include lines of credit to BRD and Access Bank which focus on SMEs; support to the energy sector – critical for manufacturing; the Science and Technology Skills Development Project (STSDP), and the Regional ICT Centre of Excellence Project – critical skills development. The programme will also complement upcoming Bank initiatives, including Rwanda Innovation Fund (RIF) – a venture capital fund which aims at boosting access to finance and entrepreneurial skills; and Water and Sanitation Sustainable Project on access to water and waste management by industries in Kigali and secondary cities which will enhance job opportunities and boost industrialisation.

4.4.3 The previous sector budget operations in Rwanda have provided valuable lessons and have informed the design of this operation (Annex 9). The Bank Group has in the past, approved, 4 sector budget support operations for Rwanda. The operations have contributed to strengthening policy dialogue. Lessons from these operations have been taken into account in the design of this operation (Table 3).
Table 3: Lessons Learned from Previous Bank Operations in the Country

<table>
<thead>
<tr>
<th>Key lessons learned</th>
<th>Action taken to integrate lessons into the Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survival and growth of established MSMEs as a key factor of employment creation. Under SEEP although many start-up enterprises were established, a small proportion (35%) survived beyond 2 years due to lack of entrepreneurial and related soft skills as well as business mentoring.</td>
<td>The SBDP builds on the successes of SEEP in promoting business start-ups which play a critical role in business development and job creation. SBDP seeks to strengthen entrepreneurship skills such as financial management, marketing, cooperative governance through customised coaching and mentoring critical for enterprise growth and survive.</td>
</tr>
<tr>
<td>The importance of developing the entire value chain for job creation. Under SEEP the CPCs placed more emphasis on processing less so on the entire value chain. In addition, strong involvement of government than private sector.</td>
<td>The SBDP will support reforms that promote forward and backward linkages and enhance government role as a catalyst. Thus addressing supply and demand sides in access to market and finance and improve quality standards production in value chain. The role of Supply Development Unit will be vital in facilitating these linkages.</td>
</tr>
<tr>
<td>Strong coordination mechanism for multi-sectoral programmes is critical for minimizing duplication.</td>
<td>The SBDP will ensure there is a strong multi-sectoral coordination mechanism in place that includes government stakeholders and DPs. Establishment of Steering Committee and Working Technical Secretariat will enhance coordination.</td>
</tr>
</tbody>
</table>

4.5. Analytical Works Underpinning the PBO: A number of analytical works informed the design of the proposed operation. These include: CSP 2017-2021; the CSP 2012-2016 Completion Report; the SEEP III PCR; the Mid-Term Review of EDPRS-2; Sector Skills Audit Report 2017 (Mining, Manufacturing, Agriculture, Energy, and Urbanization); the AfDB Gender and Youth Employment study; the AfDB/GoR Study on Leveraging Capital Markets for SME Financing in Rwanda; the AfDB/GoR Study on Improving Tax Efficiency for Rwanda’s MSMEs; Country Policy and Institutional Assessment (CPIA, 2016); the Mid-Term Review of NEP; Encouraging Growth of SMEs through Public Procurement; the 2016 Rwanda Pilot Labour Force Survey; Integrated Household Living Conditions Surveys 4 (EICV 4) and the TMEA/PSF study Benchmarking the Cost of Production for Rwanda Based Manufacturers. Key recommendations that have informed the programme components include: (i) the need to improve quality of business development advisory services and enhancing quality and standard in order to support enterprise growth and competitiveness; (iii) the need to address high-end skills and capacities to enhance access to finance and markets and to improve corporate governance, and (iv) the need to enhance SMEs growth through public procurement.

V THE PROPOSED PROGRAMME

5.1. Programme Goal and Purpose:
The overall goal of the programme is to support Rwanda’s efforts to attain rapid economic transformation for inclusive growth, employment creation, and poverty reduction. The purpose of the programme is to boost domestic production through skills development and enterprise growth for job creation.

5.2. Programme Components:
5.2.1 Rwanda seeks to attain a middle income status by the year 2020 through rapid economic transformation, and create 200,000 off-farm jobs annually. Although the private sector was expected to create most of the off-farm jobs, a low survival rate among newly-established enterprises has constrained economic transformation and job creation. Similarly, Rwanda experiences a chronic trade deficit owing to its low industrialization and inadequate exports relative to its imports. SBDP will thus focus on reforms to boost SME growth and an enabling regulatory environment critical for the implementation of the Made in Rwanda policy. The programme will have three components: (i) Enhancing enterprise growth, (ii) Strengthening value chains and product quality management, and (iii) Enhanced coordination.
5.3. Component I: Enhancing enterprise growth

5.3.1 Challenges and Constraints

5.3.1.1 Lack of affordable finance for enterprise growth and expansion. Rwanda’s financial sector is narrow, undiversified and offers a limited range of products and services. The cost and terms of repayment are prohibitive. Prime interest rate is high between 16-18% and loan duration is less than five years with no grace period. The sector is dominated by commercial banks (66.6%), pensions constitute 17.7%, insurance 9.8%, and microfinance institutions (5.9%). Commercial banks demand more than 100% finance value in collateral. In 2016, most bank credit was extended to mortgage and hospitality sectors with manufacturing receiving only 9% of new loans. The Development Bank of Rwanda (BRD) is the main Development Finance Institution that is positioned to provide accessible and sustainable financial services to SMEs. On the supply side, the banks face challenges such as (i) limited size of loanable funds, (ii) internal capacity weaknesses and lack of technical skills to assess and support SMEs’ and cooperatives’ sector-specific financial needs. Shortages of certified and specialized skills in banking, actuaries, insurance are constraints to financial sector efficiency and SME growth. This has resulted in limited products tailored to specific sectors provided by the banks, weak risk assessment, and high dependence on customer deposits which are the largest source of funding and liquidity. The situation is exacerbated by the dearth of these deposits due to low savings mobilization. Domestic savings rates are also low at 7.1% of GDP.

5.3.1.2 On the demand side, SMEs have low capacity to design bankable projects and entrepreneurial skills are weak, raising questions about the investment readiness of enterprises. They lack skills in financial management, governance systems, robust market analysis, track records of enterprises’ banking transactions, and cash flow projection. They are largely self-owned and family-owned enterprises with limited managerial skills. Lack of all or some of these skills above affects SMEs’ access to finance. Women’s uptake of banking products/services is low as only 3% of women access loans from commercial banks. Only 24% of women are banked with commercial banks and they are largely members of Umurenge SACCOs (30%) and mostly borrow from informal groups (60%) as well as friends and family (29%) and mainly to cover living expenses and not for investing. For example, Women-owned SMEs access to guarantees through BDF was only 35.9% (2013). In the short and medium term, Umerege SACCOs (U-SACCOs) are likely to be the main source of finance for women and youth owned enterprises and rural SMEs. However, U-SACCO efficiency is low, their transactions are manual based. RCA, the regulatory body for cooperatives lacks a robust Management Information System (MIS) to monitor SACCOs’ performance and enhance efficiency.

5.3.1.3 Recent Government Actions: The Government of Rwanda has instituted a number of enabling policies to support the growth of the financial sector and enterprises’ access to finance. The government has promoted Umurenge SACCOs. More than 22% (2014) of adults are members of U-SACCOs. The government also established BRD which is providing credit to SMEs for export growth and the Business Development Fund (BDF) which provides credit guarantees for start-ups, SACCO refinancing, etc. Government has also developed the Strategy on Women and Youth Access to Finance which includes financial literacy. It has developed a new leasing law. The government is working with the Bank to develop transformative financial instruments including the Rwanda Innovation Fund (RIF) which is a venture fund.

5.3.1.4 Programme Activities: SBDP will support: (i) development of a Professional Certification Programme for the Financial Sector (banking, insurance and actuaries) to improve skills and risk analysis of SMEs; (ii) support roll-out automation of U-SACCO to improve the governance and facilitate the establishment of the Cooperative Bank of Rwanda;
(iii) develop and pilot MIS for cooperatives in order to enhance U-SACCOs’ efficiency; (iv) promoting SMES/Cooperatives financial literacy and strategic management through coaching and mentoring by BDS; and (v) Operationalise Investment Clinics for SMEs to list on the Capital Market.

5.3.2.1 SMEs have limited access to markets and low participation in public procurement. Domestically, Rwandan-made products have poor access to markets despite the country’s relatively small local market size of 11.5 million. Weak market access is attributable largely to weak supply side capacity, low purchasing power of the population, low demand for domestic products by Rwandans marked by perceptions of inferiority; high price of local products, poor quality of products due to limited knowledge in quality and standards, and limited backward and forward connections due to weak value chains. Another critical area that has potential to enhance SMEs access to markets is their participation in public sector procurement. The government constitutes the largest source of demand for goods and services. In 2012, about 12% of GDP was spent on public procurement. However, local SMEs have low access to public procurement despite an enabling legal framework. They have limited capacity to compete and struggle to: (i) meet guarantee requirements; and (ii) the administrative burden and timelines of the bidding process. Furthermore, local suppliers are unable to meet quality standards and volume requirements. They experience delays in payment thus affecting their cash flow. There is lack of training or technical assistance available to SMEs interested in accessing government contracts.

5.3.2.2 Recent Actions: The Public Procurement Law has been revised pending parliament approval. The revised law includes provisions granting exclusive preference to goods produced or manufactured in Rwanda or bidders registered in Rwanda. The government is implementing e-procurement system in Rwanda Public Procurement, including registration and categorization of all companies. Implementation of the e-procurement system (UMUCYO) and the roll-out of the new IFMIS will automate the payment process. This will prevent delays in the processing of payments that are affecting local SMEs as well.

5.3.2.3 Programme Activities: The programme will support: (i) MIR Communication Campaigns – exhibitions to address mind-set change; (ii) implementation of the revised law through ‘issuance of Ministerial Order on specific contract value/thresholds for local SMEs participating in public procurement; implementation modalities of the local preferences, including the facilitation of prompt payments to SMEs as well as sub-contracting, transfer of skills and technology; and preference to the local SMEs as per guidelines to support recapturing domestic market’; (ii) developing SMEs Training Programme on Access to Procurement. (iii) increase share of GoR annual procurement spend for procuring goods, works and services from local SMEs (iv) developing MIR Database to improve linkages with investors; and (vi) setting up of SMEs Cluster Platforms.

5.3.3 Skills for upgrading SMEs and Cooperatives technical and managerial capacity are limited: SMEs and Cooperatives have the potential to enhance domestic production and contribute to job creation but they are constrained by skills shortfalls and high labour costs. Most SMEs employ between 6 and 30 employees and a small proportion of their employees are permanent staff and the largest proportion comprises temporary workers who are largely unskilled, inexperienced, and family members. Cooperatives employ over 18,000 people. They also have low levels of skills in corporate governance, financial management, and business planning and strategic management. They are also reluctant to employ skilled employees leading to increased cases of embezzlement and fraud, and low production thus affecting their growth and threaten their sustainability. Rwanda has a limited pool of local professional business development advisors (BDAs). The BDAs focus on business creation.
and not building sustainable businesses. There is no recognized professional qualification for BDS practitioners. Shortfalls in the certified skills have resulted in use of expatriates who are expensive and beyond the reach of SMEs. Enterprise growth would require specialized and customized business advisory assistance based on the unique growth requirements of each identified SME. There are also a number of overlapping initiatives linked to skills development for SME growth. These include the RDB SME Growth Support Programme, the RCA training programme, the BDF, RICEM training and the NEP enterprise growth initiative. A holistic approach to SMEs capacity building is critical for significant impact.

5.3.3.1 Recent Government Actions: The government has taken positive steps to address the skills gaps but these have not been sufficient to for enterprise growth. The Government, in collaboration with the Private Sector Federation (PSF), has launched sector skills councils. The Government has also trained Business Development Advisors (BDAs) placed at the Umurenge level working with business start-ups. The RCA has been conducting training with cooperatives but the impact has been limited. RDB is implementing the SME Growth support programme but the scope is limited.

5.3.3.2 Programme Activities: The programme will support initiatives and reforms including: (i) developing a National Consolidated SME Business Upgrading programme that will promote holistic approaches to SME capacity building; (ii) developing a 3-tier professional BDA accreditation programme; (iii) roll-out coaching and mentoring to SMEs in areas like taxation, market access, and financial management; and (iv) developing and implementing a comprehensive training programme for cooperatives governance.

5.4. Component II- Strengthening value chains and product quality management

5.4.1 Challenges and Constraints - Strengthening Value Chain: The MIR and DMRS put emphasis on value addition. Rwanda is yet to develop viable value chains that will boost production. While there have been some initiatives in value chain analysis mainly through CPCs, the private sector’s role has been limited. Vertical and horizontal linkages in production, distribution, and consumption spheres of economic activity are generally constrained by over reliance on imported raw materials and high transport costs of raw materials and packing materials which reduces competitiveness on both domestic and external markets. There are weak linkages between anchor (relatively large) firms and smaller ones in key value chains and this reduces the extent to which the two groups can benefit from their value chains. The CPCs operate below their capacities, face standards and regulation issues and operate at a loss. They lack organisational and business skills. Most production cooperatives operate in small processing units operating in substandard conditions, have low uptake of appropriate technology and limited technical expertise in their line of production. Generally firms in value chains face a number of constraints. These are: (i) weak liquidity and lack of appropriate financing for value chains; (ii) poor logistics and storage facilities; (ii) high cost of packaging materials (iii) low labour productivity in value chains due to lack of skills and entrepreneurship; (iv) weak backward and forward linkages; and (v) there is also a general lack of a systematic way of fostering value chains. Therefore it is important to review the current business model and develop a model with more market driven value chain approach and cost efficient.

5.4.2 Recent Government Actions: In recent years, the government has been promoting CPCs which aim at enhancing value addition. The government is also working with other DPs promoting value chains in tea, coffee, mining etc. Through MIR policy, the government is determined to foster value chain approach to boost local production and enhance the role of the private sector.
5.4.3 Programme Activities: The programme will support: (i) establishing of Supply Development Unit to promote linkages or partnerships (between large and small firms) for value chain stakeholders; (ii) developing a Value Chain Financing Framework for meat and wood sectors; (iii) consolidation of production cooperatives into clusters to enhance their capacity in value chain; (iv) conducting review of CPCs business model and develop new business model that is market driven; (v) roll-out of technical assistance to strategic anchor firms; (vi) supporting finalisation of revising Special Economic Zone policy; (v) developing of professional and technical training programme for key MIR value chains through PPPs; and (vi) developing of Strategy to increase critical raw materials.

5.4.4 Standards and certification compliance is one of the factors that limit the competitiveness of Rwandan enterprises and products on both the domestic and international markets. The domestic market is by and large more price-sensitive than quality sensitive. This is exacerbated by low consumers’ knowledge of standards and safety, limited access to affordable packaging materials and the lack of marketing skills. The capacity of RSB is limited. Accreditation of RSB laboratories and services remains a major challenge that compels companies to go through international standards agencies who are very expensive. RSB limited capacity results in inadequate testing capacities hence causing delay of products getting on the market. RSB is supposed to provide credible services which are easily recognized by international markets and this can only be achieved if RSB services such as certification, testing and metrology are accredited against international standards. Enforcing standards also needs improvement. Some products enter the Rwanda market despite being of sub-standard quality. There is also limited pool of technical expertise at RSB and on the market to support SMEs. Therefore, creating awareness on the need for quality compliance and developing a pool of food safety and quality experts is critical. Higher learning institutions in Rwanda have been offering degree programmes in food sciences and technology, however, the curriculum is outdated and does not respond to the emerging demands of the labour market and needs to be revised. There is need to upgrade the national quality infrastructure if Rwandan’ products are to compete on the market.

5.4.5 Recent Government Actions: In August 2017, the government enacted a law establishing the Rwanda Inspectorate and Competition Authority (RICA) to enforce standards. RICA will monitor quality of imports entering Rwanda thus ensuring that Rwandan enterprises are not facing unfair competition from imports that also do not meet minimum quality standards. GoR is also developing Rwanda Quality Policy that seeks to improve the competitiveness of goods and services made or traded in Rwanda in terms of meeting customer needs, expectations and requirements. The law governing Standardisation, Conformity Assessment and Accreditation is being reviewed.

5.4.6 Programme Activities - The programme will support: (i) conducting a comprehensive capacity assessment of the Rwanda Standards Board (RSB); (ii) developing and support institutional capacity for RSB; (iii) RSB accreditation and maintenance of accreditation for its laboratories and extension of scope in NCD, NMD, NSD and NQTLD; (iv) Graduate placement programme for Quality Assurance Training (food safety); (vi) mentoring and coaching SME in food safety system management (HACCP); (vii) conducting skills audit for food safety and quality sector; (viii) review and revise curricula for the food sciences and technology programme in consultation with the private sector; (ix) developing and implementing consumer awareness campaign on quality and standards and (ix) finalisation of the Rwanda Quality Policy.
5.5. Component 3: Enhanced coordination

5.5.1 The multi-dimensional nature of MIR demands a strong mechanism for policy and programme coordination. This will allow coherence among key ministries/institutions and other stakeholders such as PSF and Development Partners. Under the MIR, interventions such as promoting access to finance, business advisory services, quality and standards, value chains and procurement for SMEs will be implemented and managed by a number of institutions. Moreover, as DPs are supporting related initiatives through various institutions such as NEP, an effective coordination mechanism is necessary to enhance resource efficiency, better collaborative approaches and synergies so as to reduce duplication of activities and enhance scalability where necessary. The institutional framework for the implementation and coordination of MIR interventions must therefore be linked to other existing initiatives. Overall, this calls for efforts to consolidate, rationalize and ensure coherence of implementation, and design of a robust monitoring and evaluation system to track and report on progress.

5.5.2 Programme activities: Measures supported by SBDP include: (i) establishing of MIR Steering Committee for policy guidance and overall implementation monitor; (ii) setting up of MIR Working Technical Secretariat under MINICOM to enhance coordination and reporting; and (iii) developing a robust Monitoring and Evaluation (M&E) system which will help to measure programme outputs, outcomes, impact, and achievements.

5.6. Policy Dialogue:
Policy dialogue will be carried out using the structures agreed with Government. This is done in line with the country’s Development Assistance Strategy that ensures the advancement of the principles of the Paris Declaration (2005), the Accra Agenda for Action (2008) and Busan Aid Effectiveness (2011). SWGs provide a platform for sector dialogue. The SBDP in collaboration with PSDYE DPs will pursue policy dialogue in areas including: (i) Coordination of various programmes related to enterprises development implemented by various stakeholders (ii) Value chain development etc. and (iv) coordination between MIR and NEP etc.

5.7. Prior Actions:
Before the loan proposal is presented to the Board for approval, the Government shall have provided evidence to the Fund that the measures outlined in Table 4 have been fulfilled. Four (4) prior actions have been selected to underscore the government’s commitment to boosting local production and job creation agenda.

Table 4: Prior Actions

<table>
<thead>
<tr>
<th>Component</th>
<th>Prior Actions</th>
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</thead>
<tbody>
<tr>
<td>Component 1: Enhancing Enterprise Growth</td>
<td>Draft Made in Rwanda Policy submitted to Prime Minister</td>
</tr>
<tr>
<td>Required Evidence: Letter from MINECOFIN to the Fund submitting evidence that MINICOM has submitted the draft Made in Rwanda Policy to the Prime Minister and also submit copy of the draft policy.</td>
<td></td>
</tr>
<tr>
<td>Revised procurement law submitted to Parliament</td>
<td>Status: Draft Bill submitted to Parliament</td>
</tr>
<tr>
<td>Required Evidence: Letter from MINECOFIN to the Fund submitting evidence that Prime Minister has submitted the revised draft law to Parliament.</td>
<td></td>
</tr>
<tr>
<td>Component 2: Strengthening value chains and product quality management</td>
<td>Draft Revised Special Economic Zone (SEZ) policy submitted to Prime Minister</td>
</tr>
<tr>
<td>Required Evidence: Letter from MINECOFIN to the Fund submitting evidence that MINICOM has submitted the draft Special Economic Zone Policy to Prime Minister and also submit a copy of the draft policy.</td>
<td></td>
</tr>
<tr>
<td>Law establishing Rwanda Inspectorate Competition and Consumer Protection Authority enacted and gazette</td>
<td>Status:Law enacted and gazetted in July 2017</td>
</tr>
<tr>
<td>Required Evidence: Letter from MINECOFIN submitting a copy of the gazetted law establishing Rwanda Inspectorate Competition and Consumer Protection Authority.</td>
<td></td>
</tr>
</tbody>
</table>
5.8. Application of Good Practice Principles on Conditionality:
The SBDP observes the good practice principles of conditionality in line with the Paris Declaration principles and the Accra Aid Effectiveness Agenda. It also reinforces country ownership and reflects the country’s commitment to its EDPRS II and Vision 2020. Specifically, the SBDP is anchored on DMRS, MIR Policy and PSDS. The SBDP prior actions and disbursement triggers were drawn from the government’s own policy implementation /operational matrix. They were confirmed as critical and realistic for achieving results for boosting productive and competitive cooperatives and SMEs for Rwanda. The programme is also designed to be fully aligned with the budget cycle and financing needs.

5.9. Financing needs and arrangements:
The programme forms part of GoR’s external financing sources that will help close financing gaps in FYs 2017/18, 2018/19, and 2019/20. The total budget for the FY 2017/18 is projected to increase by 6.5% from RWF 1,942.9 billion in 2016/17 to RWF 2,069.2 billion while total revenue and grants are projected to increase from RWF 1,615.8 billion to RWF 1,771.3 billion during the same period. Both total expenditure and total revenue and grants will decline as shares of GDP from 29.4% in 2016/17 to 27.4% in 2017/18 and from 22.2% in 2016/17 to 21.1% in 2017/18, respectively. The revenue and expenditure performances are expected to result in a budget deficit including grants of RWF 286.8 billion (3.8% of GDP) in 2017/18 which is lower than the RWF 307.0 billion or 4.6% of GDP in 2016/17. The proposed loan of UA60.0 million is for disbursement at UA 30 million in FY2017/18, UA15million in FY2018/19 and another UA 15 million in FY2019/20. At the current UA / RWF exchange rate, it is expected to finance 12.2% of the total financing gap in FY2017/18, 4.7% in 2018/19, and 4.9 % in 2019/20 (Table 5). This projected general decline in Bank’s contribution to financing the budget deficit is in line with the government’s plan to reduce its dependence on external deficit financing over the medium term. The Bank contribution will safeguard fiscal sustainability, that is: (i) reduce government reliance on foreign financing of its deficit; (ii) reduce the proportion of resources borrowed from the domestic financial markets thereby reducing the crowding out of lending to the private sector thus contributing to private sector growth; (iii) the ADF concessional resources will support the country to remain in a sustainable debt position; and (iv) support the growth and productivity of SMEs and increase their taxable capacity.

Table 5: Projected financing requirements and sources, date (in billions of RWF)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Present</td>
<td>Projected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Total revenue and grants</td>
<td>1,615.8</td>
<td>1,771.3</td>
<td>1,929.2</td>
<td>2,227.9</td>
</tr>
<tr>
<td>Of which: grants (excl. budget support)</td>
<td>146.0</td>
<td>175.8</td>
<td>192.2</td>
<td>216.2</td>
</tr>
<tr>
<td>B Total expenditure and net lending</td>
<td>1,942.9</td>
<td>2,069.2</td>
<td>2,281.3</td>
<td>2,601.7</td>
</tr>
<tr>
<td>Of which: interest payments</td>
<td>72.2</td>
<td>93.0</td>
<td>105.3</td>
<td>118.5</td>
</tr>
<tr>
<td>Of which: capital expenditure</td>
<td>759.5</td>
<td>461.5</td>
<td>835.2</td>
<td>981.5</td>
</tr>
<tr>
<td>C Overall balance (cash basis) (A + B)</td>
<td>-327.1</td>
<td>298.0</td>
<td>-352.1</td>
<td>-373.8</td>
</tr>
<tr>
<td>D Accumulation of arrears</td>
<td>-20.1</td>
<td>-24.2</td>
<td>-37.5</td>
<td>-42.1</td>
</tr>
<tr>
<td>E Overall balance (Payment order basis) (-C + D)</td>
<td>-347.2</td>
<td>-322.2</td>
<td>-389.6</td>
<td>-416.0</td>
</tr>
<tr>
<td>F External financing (net – minus Bank)</td>
<td>282.2</td>
<td>301.6</td>
<td>325.1</td>
<td>369.2</td>
</tr>
<tr>
<td>G Domestic financing (net)</td>
<td>24.6</td>
<td>-14.8</td>
<td>45.6</td>
<td>33.3</td>
</tr>
<tr>
<td>H Bank contribution</td>
<td>40.2</td>
<td>35.1</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>I Financing (E + G+H)</td>
<td>347.2</td>
<td>322.2</td>
<td>389.6</td>
<td>373.8</td>
</tr>
<tr>
<td>J Financing gap (-E - H), financed by:</td>
<td>307.0</td>
<td>286.8</td>
<td>370.7</td>
<td>360.4</td>
</tr>
<tr>
<td>P Nominal GDP in RWF (billion)</td>
<td>6,618</td>
<td>7,548</td>
<td>8,505</td>
<td>9,544</td>
</tr>
</tbody>
</table>

Source: MINECOFIN

5.10. Rwanda is classified as an ADF country and therefore eligible for financing under the “ADF-Loan window”. Its debt burden indicators remain positive and new borrowing has been undertaken on terms that are generally conducive to long-term debt sustainability. Total
public and publicly guaranteed (PPG) debt (external and domestic) is estimated to have increased from USD 2.52 billion (32.5% of GDP) in June 2015 to an estimated USD 2.76 billion (33.6% of GDP) in June 2016. External debt accounts for 74.8% of the total public debt and 59.6% of the total public debt is from concessional sources by multilateral donors. The March 2016 Debt Sustainability Analysis indicated that Rwanda’s risk of external debt distress is low. The proportion of debt to exports increased from 101.7% in December 2014 to 112.7% in December 2015 due to an increase in the level of non-concessional borrowing to fund strategic investments in transport and tourism sectors but remains below the 200% threshold. The Government is implementing export promotion and DMRS to improve export revenues and reduce imports respectively. These measures are expected to reduce the trade deficit. In addition, a robust debt management strategy is in place to ensure prudent borrowing repayments.

VI OPERATION IMPLEMENTATION

6.1 Beneficiaries of the programme: The programme will target SMEs and Cooperatives in order to enhance their capacities. With the value chain approach promoted under MIR, many people will participate in, and benefit from, the entire value chain. Members of cooperatives and SMEs owners will also benefit from the SBDP through improved skills and capacities in the governance, financial management, marketing, quality and standards. Cooperatives membership is estimated at 3,448,776 (July 2017) and employs about 18,700 people while SMEs employed about 100,000 people in 2014 (ES 2014). The population will benefit from consumer awareness campaigns on quality and standards. Given the expected positive impact of reforms in improving the efficiency of cooperatives and enhancing the growth of SMEs, the entire population of Rwanda will indirectly benefit from the programme.

6.2 Impact on Women and youth. While women and youth constitute approximately 52% and 27% respectively of the population, there is need to enhance their empowerment to ensure their productive participation in the labour market. Increased investment in skills and enterprise development will benefit the youth and women as they are mostly employed in cooperatives and SMEs. For instance, women constitute about 43% of cooperatives’ membership and about 40% in production and transformation cooperatives that include agriculture, handicrafts, fishing, dairy etc. Support to SACCOs will benefit women and youth led SMEs who access loans mainly through the SACCOs. Through the graduate placement programme, youth graduates (35% female) in food sciences will be equipped to coach and mentor SMEs (30 Female owned) in food safety system management (HACCP). Building of more skills in business advisory and high-skills in the financial sector will also benefit youth and women owned enterprises which are largely start-ups.

6.3 Impact on Environment and Climate Change: The Programme has been classified as category 3 in the Bank’s environmental classification. It is, therefore, not expected to generate any negative impacts on the environment and climate change. Rwanda has environmentally friendly policies; e.g. banning the use of polythene bags and adopted environmentally-friendly packaging. The SBDP will promote quality and standards including environmentally friendly packaging. SBDP will also support skills development in food safety and standards and promote inspection and audit of sub-standard products that could be hazardous to the environment.

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6 However, women ownership of SMEs is low- estimated at 28% only (EICV4).
6.4. Implementation, Monitoring and Evaluation

6.4.1 The Ministry of Finance and Economic Planning (MINECOFIN) is the executing agency and responsible for overall supervision of the programme and reporting to the Bank. MINICOM, policy holder for MIR will be responsible for coordination, monitoring and reporting to MINECOFIN. The MINECOFIN-Financial sector, MINICOM, RPPA, RCA, RSB, CESB, WDA, NIRDA and RDB will implement various outputs under the programme. An Inter-ministries Steering Committee comprised of MIR implementing institutions will be established and chaired by MINICOM. The committee will be responsible for policy direction. Membership of the Steering Committee will include: MINECOFIN, MINICOM, RPPA, RCA, RSB, RDB, CESB, RAB, RICCA, NIRDA and RDB. Considering the diverse nature of the programme and to ensure effective coordination, a Working Technical Secretariat will be established, located in MINICOM. The technical secretariat will also facilitate any technical assistance provided by DPs.

6.4.2 Monitoring system: The programme will use the policy matrix (Annex 11) which provides measurable annualised targets and bi-annual Joint Sector Reviews (JSR) which brings together SWG stakeholders to engage in policy dialogue, analyse sector indicators and policy actions progress to monitor SBDP. The Bank’s supervision of SDBP will be done bi-annually. MINECOFIN will report the programme performance to the Bank bi-annually. The Bank will actively participate in and contribute to these reviews, including sector reviews and country dialogue. In addition, a joint Bank-GoR PCR will be prepared at the end of the programme.

6.4.3 Financial Management Arrangements: In line with the Bank’s guidelines for PBOs, the programme will follow the existing government financial management systems. The FRA conducted for the SBDP concluded that the country’s PFM system is adequate to support the proposed programme providing reasonable assurance on the appropriate use of the Bank’s financing, implementing, accounting and reporting for the SBDP resources. The beneficiary sector, Industry and Commerce, is part of the Integrated Financial Management Information System (IFMIS) system and follows the same principles and uses the same tools as the central PFM structure at MINECOFIN. Further joint sector reviews allow all stakeholders to ascertain funding requirements for a given sector, in line with the approved budget law within the MTEF.

6.4.4 Country Fiduciary Risk Assessment (CFRA): The overall assessment of Rwanda’s Public Financial Management (PFM) system, including that at the beneficiary sector of Trade and Industry (MINICOM), is adequate to implement the programme as enforced by the 2013 Organic Law on State Finances and Property (N° 12/2013/OL of 12/09/2013). The overall fiduciary risk is deemed moderate for the SBDP. As part of the updated CFRA, there have been achievements in the following reform areas since April 2016, (i) deployment of the upgraded IFMIS at national and districts levels; (ii) scaling up on use of Electronic Billing Machines (EBMs) with over 17,500 deployed; (iii) roll-out of the new local government taxation software to districts and sub-districts; (iv) the update of the GoR chart of accounts; (v) an increase in Performance and Information Technology (IT) audits totalling 14 in 2016, and external reviews of sub-districts and SOEs (semi-autonomous government agencies, schools, utilities, hospitals etc.) to now reach a coverage of 85% of reported GoR expenditures as of June 30, 2016 up from 82% in 2015; (vi) improved quality of financial statements at 60% of unqualified opinions of audited entities in 2016 - 88 / 147 reports of which 58 for projects as compared to 50% in 2015.

6.4.5 The GoR's continued leadership and ownership of its PFM reform agenda provides a strong foundation for sustainability as it recognizes the importance of the reforms as a key catalyst for improved service delivery to its citizens. The PFM reform is underpinned by one of the four strategic thematic areas under the EDPRS II ‘Accountable Governance’. The current five (5) year PFM Strategy (2013-2018) has identified four (4) top priority areas:
(i) increasing domestic resource mobilization, (ii) scaling up of the implementation of IFMIS, (iii) strengthening PFM systems at the sub-national level, and (iv) enhancing training, professionalization and capacity building across all PFM disciplines. The 3-year medium term macro-fiscal framework provides a sound basis for budget implementation and fiscal management.

6.4.6 Disbursement and Funds Flow: On fulfilment of the disbursement conditions, the proposed loan of UA 60 million will be disbursed in three separate tranches of UA 30 million, UA 15 million and UA15 million to fund FY 2017/2018, 2018/19, and 2019/20 budget respectively. Aligned with the provisions for SBDP, the Fund will disburse the funds into a foreign currency account opened by the GoR at the National Bank of Rwanda (BNR) to receive the proceeds from SBDP resources. The local currency equivalent of the funds deposited at BNR will be transferred to the Consolidated Fund (Treasury Single Account) of GoR. From the Consolidated Fund, the funds will be transferred to the implementing sectors in line with the country’s systems, budgetary priorities and voted budgetary law for each of the corresponding fiscal years. The budgeted expenditures will be accounted for exclusively within the financial management system of the country (SmartFMS). GoR will make payments to various beneficiaries from the Single Treasury Account, which is part of the IFMIS. MINECOFIN, within a reasonable time not to exceed thirty (30) days of the receipt of the funds, will transmit a letter to the Fund confirming that the amount deposited in the foreign currency account had been credited to the Treasury Account of Government. The letter should clearly indicate the exchange rate used for the transaction. The GoR Chief Internal Audit will as part of his statutory obligations continue to undertake the review of internal controls pertaining to the utilization of the program funds both at MINECOFIN and MINICOM.

6.4.7 Audit: In line with the Bank Policy on PBOs, the Program will follow the country’s systems, including external audit arrangements. SBDP proceeds will thus be audited under the mandate of Rwanda’s OAG. For FYs 2014/2015 and 2015/2016, the Office of the Auditor General (OAG) issued unqualified audit opinions for the Ministry of Trade and Industry (MINICOM). For the Consolidated Financial Statements, for the 2015/2016 fiscal year, the OAG expressed a qualified opinion. There is however, an improvement in the overall quality of financial reporting as evidenced by the increase in unqualified audit opinions between June 2015 and June 2016. The audit findings and the follow-up actions are availed to the public by the OAG through the published reports sent to Parliament and interested stakeholders, including development partners. Specifically for SBDP, MINECOFIN will transmit to the Bank one (1) audit report for MINICOM for each of the years of the programme.

6.4.8 Procurement: Procurement for the SBDP will be in accordance with the Rwanda Public Procurement Law No. 12/2007 enacted in 2007 as revised by Law N°05/2013 of 13/02/2013. The assessment of the Rwanda Public Procurement System conducted by the Bank concluded that the Rwanda Procurement System can be considered to be globally sound and adequate for its use in Bank-funded operations. Rwanda has a procurement legislative framework that sustains the procurement principles of efficiency, accountability, value for money and transparency in the use of public resources. Overall risk rating of the Rwanda Public Procurement System, based on the Country Fiduciary Risk Assessment in Annex 2 is “low”.
VII LEGAL DOCUMENTATION AND AUTHORITY

7.1 Legal Documentation

7.1.1 Legal Instrument. The legal instrument to be used for this operation will be an ADF Loan Agreement between the ADF and the Republic of Rwanda on the standard applicable terms.

7.1.2 Entry into force of the Loan Agreement. The entry into force of the Loan Agreement shall be subject to fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund.

7.1.3 Before this loan proposal is presented to the Board for consideration, the Borrower shall have provided evidence to the Fund, in form and substance acceptable to the Fund, of the fulfilment of the prior actions outlined in Table 4.


7.2.1 Conditions precedent to the disbursement of the first tranche in FY 2017/18. The disbursement of the first tranche of the loan which is equivalent to 50% of total loan amount will be subject fulfillment of the specific conditions the government will be required to fulfill in Table 6 below. Other conditions: (i) Transmission to the Fund of the bank details for a Treasury account with the National Bank of Rwanda for purposes of receiving the resources of SBDP.

<table>
<thead>
<tr>
<th>Condition</th>
<th>Required Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Enhancing Enterprise Growth</td>
<td></td>
</tr>
<tr>
<td>Made in Rwanda Policy approved by Cabinet.</td>
<td>A letter from MINECOFIN transmitting a copy of cabinet minutes on the approving Made in Rwanda policy; and a copy of approved policy.</td>
</tr>
<tr>
<td>Component 2: Strengthening value chains and product quality management</td>
<td></td>
</tr>
<tr>
<td>Revised Special Economic Zone (SEZ) policy approved by Cabinet.</td>
<td>A letter from MINECOFIN transmitting a copy of cabinet minutes on the approving Revised Special Economic Zone Policy; and a copy of approved policy.</td>
</tr>
</tbody>
</table>

7.2.2 Conditions precedent to the disbursement of the second and third tranche in FY 2018/19 and FY 2019/20 respectively. The obligation on the Fund to release the second (equivalent to 25% of total loan amount) and third (equivalent to 25% of total loan amount) tranches of the loan is subject to fulfilment of the following conditions:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Required Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operationalize Investment Clinics for SMEs to list on Capital markets</td>
<td>Letter from MINECOFIN to the Bank confirming that Investment Clinics are assessing and training SMEs and provide a list of 5 SMEs being trained and assessed.</td>
</tr>
<tr>
<td>Skills audit for food safety and quality conducted and validated by CESB Management</td>
<td>Letter from MINECOFIN to the Bank transmitting a copy of the report on skills audit for food safety and quality.</td>
</tr>
<tr>
<td>Rwanda Quality Policy Approved by Cabinet</td>
<td>A letter from MINECOFIN to the Bank transmitting a copy of cabinet minutes on the approving Rwanda</td>
</tr>
<tr>
<td>National Consolidated Business Upgrading Programme established and operational</td>
<td>Letter from MINECOFIN to the Bank transmitting a copy of cabinet minutes on the approving National Consolidated Business Upgrading Programme and a copy of approved policy.</td>
</tr>
</tbody>
</table>

Table 6: Disbursement Triggers for First Tranche

<table>
<thead>
<tr>
<th>Condition</th>
<th>Required Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Enhancing Enterprise Growth</td>
<td></td>
</tr>
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</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>Revised Special Economic Zone (SEZ) policy approved by Cabinet.</td>
<td>A letter from MINECOFIN transmitting a copy of cabinet minutes on the approving Revised Special Economic Zone Policy; and a copy of approved policy.</td>
</tr>
</tbody>
</table>

Table 7: Disbursement Triggers for Second and Third Tranches
A Working Technical Secretariat for Made in Rwanda (MIR) is established and functional. A letter from MINECOFIN to the Bank confirming the establishment of the MIR technical secretariat and submission of letters of appointment for 4 technical secretariat staff. 

Ministerial Order issued on: (i) specific contract value/thresholds for local SMEs participating in public procurement; (ii) implementation modalities of the local preferences, including the facilitation of prompt payments to SMEs, transfer of skills and technology; and (iii) preference to the local SMEs as per the existing Guidelines to support MIR.

Letter from MINECOFIN to the Bank transmitting a copy of the Ministerial order issued (i) specific contract value/thresholds for local SMEs participating in public procurement; (ii) implementation modalities of the local preferences, including the facilitation of prompt payments to SMEs, transfer of skills and technology; and (iii) preference to the local SMEs as per the existing Guidelines to support MIR.


VIII RISK MANAGEMENT

8.1.1 The key potential risks to programme implementation and achievement of its objectives and measures for their mitigation are outlined in Table 8 below.

Table 8: Potential Risks and Mitigation Measures

<table>
<thead>
<tr>
<th>Risks</th>
<th>Probability</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional political instability: Protracted instability in the region would be a risk to Rwanda’s social and economic stability diverting resources from critical investments for job-creation.</td>
<td>Moderate</td>
<td>Stakeholders (through the EAC) continued demonstration of strong commitment stakeholders to resolve political crises in region.</td>
</tr>
<tr>
<td>Macroeconomic instability: Rwanda remains vulnerable to external shocks, which could include an unforeseen rise in import commodity prices, global commodity market downturn (minerals). These could affect GoR’s resource mobilization and commitment to reforms and investments.</td>
<td>Moderate</td>
<td>Continued implementation of the IMF PSI programme, and GoR’s commitment to sound fiscal and monetary policies, ongoing efforts to diversify the economy and exports base, and ongoing efforts to implement the MIR Programme to expand the exports base, and increase DRM.</td>
</tr>
<tr>
<td>Limited private sector development: Bottlenecks such as infrastructure deficits and related high costs of business transactions, especially in transport and energy, restrict private sector development.</td>
<td>Moderate</td>
<td>Dialogue between Government and Private sector to address infrastructure, policy and institutional bottlenecks affecting private sector growth and competitiveness.</td>
</tr>
</tbody>
</table>

IX RECOMMENDATION

9.1 Management recommends that the Board of Directors approve the proposed loan of UA60 million from the resources of ADF14 for the Republic of Rwanda for the purposes and subject to the conditions set out in this report.
APPENDIX 1: Letter of Sector Development Policy

REPUBLIC OF RWANDA

MINISTRY OF FINANCE AND
ECONOMIC PLANNING
B.P. 158 Kigali
Tel: +250-253 575 786 Fax: +250-577 581
Email: mfin@mc.rofrwanda.gov.rw

Kigali, ..........................
N° 2830/A0/1/ICE

11 OCT 2017

Resident Representative
African Development Bank
Rwanda Office
Kigali

Dear Resident Representative,

RE: Letter of Sector development Policy for Skills and Business Development Programme (SBDP)

1. I am writing to request, on behalf of the Government of Rwanda, a budget support loan from the African Development Fund (ADF), in the sum of UA 60 million to finance the Skills and Business Development programme (SBDP) that would focus on policy reforms for boosting domestic production through skills development and enterprises growth for job creation and economic transformation.

2. SBDP is anchored on the government’s Economic Development and Poverty Reduction Strategy (EDPRS II), the Domestic Market Recaputuring Strategy (DMRS), Made in Rwanda (MIR) policy, the Private Sector Development Strategy (PSDS), the Financial Sector Strategy and the Education Sector Strategy and Plan (ESSP II).

3. This Letter of Sector Development Policy provides a summary of the Government’s development program and reinforces the commitment of the Government of Rwanda to boosting domestic production as means to accelerate poverty reduction and economic transformation.

The implementation of Rwanda’s development Programmes

4. Rwanda’s overarching goal is to transform the country from a subsistence agricultural economy into a knowledge-based middle income economy. Its EDPRS II (2013-2018) provides the medium-term framework for achieving the country’s Vision 2020 goals. The EDPRS II aims to accelerate poverty reduction and facilitate economic transformation towards inclusive and sustainable green growth. It seeks to do so by unlocking private sector

Website: http://www.mfin@mc.rofrwanda.gov.rw
competitiveness through investments in infrastructure, energy, water and transport sector as well as improving skills to reduce the cost of doing business and increase economic productivity. Rwanda's development framework has the potential to guide the economy towards private sector-led inclusive and sustainable economic growth.

5. Building on its successful 'Vision 2020' development strategy, the government is drafting a new 'Vision 2050' development strategy aimed at reaching upper middle-income status by 2035. Reforms should build on progress achieved, including: continuing to reorient the economy toward higher value-added economic activity; further bolstering gender equality through greater economic inclusion; increasing access to affordable financial services; and fostering the development of domestic securities markets.

Recent Economic Developments

6. Poverty and income inequality have declined significantly due to rapid economic growth and investments in human development. Rwanda ranked 159 out of 188 countries on the Human Development Index (2016) demonstrating, an improvement from 163 out of 188 countries (2015). Progress in human development has been broad-based, with strong improvements in health and education. The improvements can largely be attributed to dedicated investments in social and economic sectors. GDP per capita has recently risen from US$688 in 2012 to US$729 in 2016. The increase in per capita income has contributed to a significant reduction in poverty from 56.7% in 2005/06 to 39.1% in 2013/14. Extreme poverty also declined from 24.1% to 16.3% over the same period. However, poverty remains high among women (43.9%) as compared to men (36.9%). Income inequality, as measured by the Gini coefficient, also decreased from 0.52 to 0.45 during the same period. The government is strengthening its efforts to create jobs and further reduce poverty through education, skills and enterprise development. On gender equality, Rwanda has developed a robust policy on gender equity and mainstreaming across all the sectors. Indicators of gender equality have improved significantly over the years and the World Economic Forum's 2016 Gender Gap Index ranks Rwanda number 1 among all low- and-middle-income countries in closing the gender gap, and number 5 worldwide.

7. Rwanda continues to improve its business regulatory environment. According to the 2017 World Bank’s Doing Business survey, Rwanda ranks 56th out of 190 as compared to 62nd out of 189 economies in 2016. It is still the second most competitive country in Sub-Saharan Africa behind Mauritius and the second most overall consistent reformer globally, behind Georgia, over the last decade or so. On competitiveness and productivity, the 2016/2017 Global

Website: http://www.risecellia.gov.rw
Competitiveness Index (GCI) ranks Rwanda at 52 out of 138 countries as compared to 58 out 140 countries in 2015. The key impediments to further improvements in the GCI include high transport, electricity and water costs, infrastructure bottlenecks, inadequate access to financial capital and raw materials, and limited skilled labour force. Although Rwanda has improved the Doing Business environment, there remain important constraints to enterprise growth such as capacity weaknesses among SMEs especially in relation to preparation of financial statements to facilitate access to alternative sources of financial capital. Furthermore, access to credit for SMEs is also constrained by limited financial products. There is need for measures to address these bottlenecks. The proposed SBDP has elements to support government tackle this challenge.

8. The Government remains committed to accelerate poverty reduction and promote economic growth through national initiatives such as Made in Rwanda (MIR). The MIR aims to boost domestic production of and stimulating sustainable demand for competitive Rwanda value added products by addressing factors constraining their quality and cost competitiveness. The MIR is anchored to the Domestic Market Recapuring Strategy (DMRS) which seeks to recapture the domestic market by lowering imports through fair competition. SBDP is anchored to the MIR under DRMS and Private Sector Development Strategy (PSDS) which aims to develop an entrepreneurial, innovative and competitive sector that delivers broad-based and inclusive economic growth resulting in better-paid jobs for Rwandans. The PSDS focuses on improving the regulatory framework, boosting infrastructure development, credit access and skills development with the aim of creating an enabling environment for enterprise growth.

The Skills and Business Development Programme

9. The overall goal of the programme is to support Rwanda's efforts to attain rapid economic transformation for inclusive growth, employment creation, and poverty reduction. The purpose of the programme is boosting domestic production through skills development and enterprise growth for job creation. The SBDP builds on the successes of Skills Employability and Entrepreneurship programme (SLEEP) in promoting business start-ups which play a critical role in business development and job creation. SBDP seeks to strengthen entrepreneurship skills such as financial management, marketing, cooperative governance through customised coaching and mentoring critical for enterprise growth and survive.

Website: [http://www.minecofn.gov.rw](http://www.minecofn.gov.rw)
10. The private sector is envisaged as the engine of economic growth and job creation but not expanding fast enough to absorb the increasing labour force. The sector remains dominated by micro-enterprises with low survival rate and not creating sufficient jobs. The private sector is a major source of current employment, accounting for 92% of jobs created. About 97% of total establishments of 148,000 are MSMEs with limited access to affordable long-term finance, raw materials and skilled labour force. The enterprise survival rate has been low thus affecting Rwanda’s local production for the domestic market and, therefore, its ability to reduce its trade deficit. Only 35% of firms survive after 3-years and 70% of these never grow beyond self-employment meaning that as little as 10% of firms managed to add jobs beyond the owner.

The high concentration of businesses at the micro level could be a challenge for the government to successfully achieve its agenda of boosting local production and creating more job opportunities. Evidence has also shown that 68% of job created since 2011 came from an increase in the number of firms rather than the growth. Therefore, enterprise growth would be critical for both local production and job creation. The key challenges to enterprise growth include: (i) shortage of high-end (technical and managerial) skills and low educational attainment; (ii) lack of affordable long-term finance and high cost of finance; (iii) limited participation of SMEs in public procurement; (iv) limited access to markets (both raw materials and customers) which is amplified by difficulties in acquiring standards for high-end domestic markets; (v) high cost and limited availability of packaging materials.

Rwanda seeks to attain a middle income status by the year 2020 through rapid economic transformation, and job creation at 200,000 off-farm jobs annually. Although the private sector was expected to create most of the off-farm jobs, a low survival rate among newly-established enterprises has constrained economic transformation and job creation. Similarly, Rwanda experiences a chronic trade deficit owing to its low industrialization and inadequate exports relative to its imports. SBDP will thus focus on reforms to address these challenges through implementation of the Made in Rwanda policy. The programme will have three components: (i) Enhancing enterprise growth, (ii) Strengthening value chains and product quality management, and (iii) Enhanced coordination.

Conclusion

11. In closing, the Government of Rwanda expresses its gratitude to the Bank for its continued cooperation to Rwanda’s development agenda and reiterates its strong commitment to reduce poverty and foster sustainable growth.

Website: http://www.minaenfin.gov.ru
This letter serves to request the AfDB a financing from ADF worth UA 60 million to support the implementation of the SBDP.

Yours Sincerely,

Claver GATETE
Minister

Cc:
- Honorable Minister of Trade and Industry
- Minister of State in charge of Economic Planning
APPENDIX 2: Press Release by IMF

IMF Executive Board Completes Seventh PSI Review, Second Review Under the Standby Credit Facility, and Concludes 2017 Article IV Consultation with Rwanda

July 12, 2017

- Program implementation has been strong, with almost all targets met. Rwanda’s adjustment policies are making notable progress in reversing external imbalances.
- Growth slowed in 2016, with recovery expected in 2017-18 due to strong harvests and domestic production.
- To achieve the country’s goal of upper middle income status, it will be important to boost the role for the private sector to serve increasingly as the main engine for growth and investment.

The Executive Board of the International Monetary Fund (IMF) today completed the seventh review of Rwanda’s performance under the Policy Support Instrument (PSI) [1] and the second review of the arrangement under the Standby Credit Facility (SCF) [2]. Completion of the second SCF review enables the disbursement of US$25.06 million (SDR 18.0225 million), bringing total disbursements under the arrangement to SDR 126.16 million, with the remainder being tied to the next and final review.

Requests for an 18-month SCF arrangement with access of about US$200.49 million (SDR 144.18 million) or 90 percent of Rwanda’s quota and to extend Rwanda’s PSI-supported program through end-2017 (see Press Release No. 16/270), were approved by the Board on June 8, 2016. Rwanda’s PSI-supported program was originally approved on December 2, 2013 (see Press Release No.13/483).

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

“Rwanda has made notable progress in the past two decades, anchored by its carefully-considered development strategy. This includes steady progress on structural transformation, high and inclusive growth, reduced poverty and gender inequality and attractive business environment. This has been reinforced by strong macroeconomic policy management, characterized by strategic public investment in growth-enhancing infrastructure, maintenance of low inflation, and measures to bolster domestic revenue mobilization.

“Responding to adverse global conditions, the authorities took decisive steps to address external imbalances, thereby safeguarding macroeconomic stability and growth over the longer term. Exchange rate flexibility has been the central tool of policy adjustment, with structural reforms to bolster domestic production. These policies have already made progress in reducing the deficit in goods and services trade, and should place external balances on a more sustainable path over the medium term. Performance under the SCF arrangement and PSI-supported program has been strong, with almost all program targets and structural measures set through end-March achieved.

“Growth slowed in 2016, due to an extended drought, completion of large investment projects, and adjustment policies. It is expected to recover over 2017-18, with balanced risks to the outlook. Inflation spiked in early 2017 due to a food supply shock, but is now abating. Despite the notable achievements, the Rwandan economy remains vulnerable to external shocks. It will be important to rebuild foreign exchange reserve buffers to enhance the country’s resilience. Similarly, to support continued growth-enhancing public investment, the government should ensure that recently-introduced tax incentives to boost domestic production are well-targeted and do not unduly weaken the tax base. To reach the goal of upper middle income status, it will be important to boost the role for the private sector to serve increasingly as the main engine for growth and investment in Rwanda.”

The Executive Board also completed the 2017 Article IV Consultation [3] with Rwanda. Rwanda has demonstrated strong macroeconomic policy management and implemented an ambitious development strategy that has resulted in high and inclusive growth, lower poverty and more gender equality, and improved living standards. Growth in 2016 was 5.9 percent, down from 2015, but comparing favorably to growth in the subcontinent. A recovery of growth is expected in 2017-18, owing to good rains and expanding domestic production.

A spike in consumer price inflation in early 2017 was driven by food prices: inflation has decelerated as food supply constraints have receded. Rwanda’s external trade deficit was lower than anticipated in 2016, following a strong pick up in goods and services exports, combined with reduced demand for imports.

Building on its successful ‘Vision 2020’ development strategy, the government is drafting a new ‘Vision 2050’
development strategy aimed at reaching upper middle-income status by 2035. Reforms should build on progress achieved, including: continuing to reorient the economy toward higher value-added economic activity; further bolstering gender equality through greater economic inclusion; increasing access to affordable financial services; and fostering the development of domestic securities markets. Main risks to economic growth continue to be weather shocks affecting agriculture, regional security issues, and unexpected shifts in external development assistance.

Executive Board Assessment [4]

Executive Directors commended Rwanda for its achievements over the past decades, anchored by an ambitious development strategy. They welcomed the steady progress on structural transformation, high and inclusive growth, reduced poverty and gender inequality, and attractive business environment.

Directors welcomed the decisive steps to address external imbalances. They highlighted that exchange rate flexibility should continue to be the main adjustment tool, and welcomed the reforms to bolster domestic production, which should place external balances on a more sustainable path over the medium term. Directors emphasized that rebuilding reserve buffers will be important to enhance Rwanda’s resilience to external shocks.

Directors welcomed improved domestic revenue mobilization in recent years which will help secure future growth-enhancing public investment and reduce donor dependency. However, they encouraged the authorities to balance carefully the benefits to domestic production from recently-introduced tax incentives with potentially adverse effects on domestic revenue mobilization. Against this backdrop, they supported planned tax expenditure analysis to ensure that tax incentives are well-targeted and do not unduly weaken the tax base.

Directors supported the authorities’ plan to move to an interest-rate based monetary policy framework. They encouraged the authorities to put in place the preconditions to allow indirect policy instruments to operate, including deepening interbank and domestic debt markets. Directors encouraged measures to provide clear signals about the priorities and directions of monetary policy under the current policy regime to help anchor inflation expectations.

Directors welcomed the steps being taken to advance Rwanda’s development strategy. They underscored the importance of boosting the role of the private sector to serve increasingly as the main engine for growth and investment. Directors commended the progress made in improving the business environment and encouraged continued efforts in this regard. They also emphasized the importance of investment in education and vocational training targeted at building skills to meet rapidly evolving labor needs. For more details see http://www.imf.org/en/News/Articles/2017/07/12/pr17274-imf-executive-board-completes-seventh-psi-review-on-
## APPENDIX 3: Bank Group’s On-going Project Portfolio as of October 2017

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>Window</th>
<th>Total Approved (UA)</th>
<th>Date Approved</th>
<th>Closing Date</th>
<th>Amount Disbursed (UA)</th>
<th>Disc rate</th>
<th>Undisbursed amount (UA)</th>
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<tr>
<td>1</td>
<td>RPP Rwanda Investment Preparation Plan</td>
<td>Climate Fund - Grant</td>
<td>179,642,87</td>
<td>28-Jun-16</td>
<td>110,625</td>
<td>61.6%</td>
<td>69,018.00</td>
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<td><strong>TRANSPORT</strong></td>
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<td>2</td>
<td>Kigali Nyagata</td>
<td>ADB Loan</td>
<td>49,093,000</td>
<td>19-Nov-14</td>
<td>10,154,113</td>
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<tr>
<td>3</td>
<td>Water &amp; Sanitation Master Plan</td>
<td>AWF Grant</td>
<td>1,551,690.57</td>
<td>21-Nov-16</td>
<td>107,085</td>
<td>5.5%</td>
<td>1,443,902</td>
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<td><strong>ENERGY</strong></td>
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<tr>
<td>4</td>
<td>Scaling Up Energy Access Project</td>
<td>ADF Grant</td>
<td>11,871,000</td>
<td>26-Jun-13</td>
<td>5,772,434</td>
<td>48%</td>
<td>6,217,367</td>
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<tr>
<td>5</td>
<td>Increasing Climate Change Adaptive Capacity of Rwanda Communities</td>
<td>GEF/LDCF - Grant</td>
<td>6,460,000</td>
<td>31-Oct-16</td>
<td>67,70</td>
<td>1%</td>
<td>6,393,635</td>
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<tr>
<td>6</td>
<td>Support to Skills Dev in Science &amp; Technology</td>
<td>ADF Loan</td>
<td>6,000,000</td>
<td>11-Nov-18</td>
<td>4,753,801</td>
<td>79.2%</td>
<td>1,246,199</td>
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<tr>
<td>7</td>
<td>Regional ICT Centre of Excellence</td>
<td>ADF Loan</td>
<td>8,600,000</td>
<td>14-Dec-10</td>
<td>5,263,261</td>
<td>61.2%</td>
<td>336,739</td>
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<td>EAC - CoE in Biomedical Sciences</td>
<td>ADF Loan</td>
<td>12,500,000</td>
<td>26-Sep-14</td>
<td>351,763</td>
<td>28%</td>
<td>12,148,237</td>
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<td>111,689,823</td>
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<td>36,689,578</td>
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<td>ADB Loan</td>
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<td>ADB Loan</td>
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<td>198,617,441</td>
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<td>Nyamitanga – Ruhwa - Nkendo</td>
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<td>NELSAP Interconnection</td>
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<td>Kigoma – Gisiza road Project</td>
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<td>23,411,678</td>
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<td>16</td>
<td>Lake Victoria Water &amp; Sanitation Program</td>
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<td>17</td>
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<td>Payment &amp; Settlement Systems Integration Project</td>
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<td>Sub-Total Multinational</td>
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<td><strong>Grand Total (UA)</strong></td>
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<td></td>
<td>270,284,273</td>
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<td>124,026,903</td>
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