Evaluation Summary

Credit facility and ARIZ portfolio Guarantee Facility to Bank of Kigali to support medium to long term loan to private businesses

Country: **RWANDA**	Sector: **Finance**

Evaluator: Genesis Analytics
Date of the evaluation: **September 2022 – April 2023**

Key data on AFD's support

Project numbers: CRW 1023

Amount: USD 14 million (credit facility), EUR 6 million (ARIZ portfolio guarantee facility)

Disbursement rate: 100%

Signature of financing agreement: May 5, 2011

Completion date: May 2021

Total duration: 10 years

Context

At the inception of this project, Rwanda had made significant progress in terms of political and economic stabilization since 1994. Ongoing economic reforms focused on a proactive policy of liberalization, privatization, support of the services industry and diversification from agriculture. However, access to finance was a challenge faced by many private businesses, more so micro, small and medium enterprises (MSMEs), and therefore undermined the economic reforms.

Rwanda's banking sector was small, with total deposits equivalent to 17% of GDP at the time, while loans and advances were 13% of Rwanda's GDP. Owing to the large levels of informality in the Rwandan economy and commercial banks' low tolerance for risk, the banking sector served a very small proportion of adult individuals and businesses. Though Bank of Kigali (BK) was the largest bank in Rwanda, it was dominated by corporate clients who accounted for 83% of its loan portfolio. The portfolio was heavily concentrated, with the 20 top debtors accounting for nearly 40% of total corporate loans. In its 2010-12 strategy, the bank sought to, among other things, increase its customer base from 40.000 to 500.000 and support financial inclusion more.

Actors and operating method

AFD provided long term funding to Bank of Kigali to support the bank's asset and liability management and its loan book's growth.

Objectives

The overall objectives of the project were :

- Provide long-term funding to mitigate asset and liability maturity mismatches at Bank of Kigali ;
- Finance growth in the bank's corporate loan portfolio, including business clients such as MSMEs, independent of growth in deposits ;
- Support the expansion of the bank's distribution network.

Expected outputs

The expected results of the project were:

- Extension of medium and long-term credit to private companies, including MSMEs ;
- On-lending of 30% of the credit facilities to enterprises in the agricultural and manufacturing sectors ;
- Growth in the number of BK's business clients ;
- Growth in BK's commercial loan portfolio.

The project also targeted improvements in terms of Environmental and Social risks management, namely in the bank's operations. These outputs were included in the project through conditions precedent to the successive drawdowns.

Performance assessment

Relevance and coherence

The project was coherent with the ongoing Rwandan economic reforms and BK's low credit portfolio dedicated to MSMEs.

- BK had no medium to long-term resources before 2011, therefore it had large liquidity gaps worth RWF 72 billion (USD 120 million). AFD's credit facility was therefore relevant in reducing this liquidity gap.
- BK sought to significantly grow its loan book but acknowledged that it could not match this growth with its customer deposits, and therefore needed additional long-term liabilities.
- BK sought to grow its customer base. This could be achieved by diversifying away from large corporate clients to mid-sized and small businesses.
- The project was relevant to the end-beneficiaries as accessing credit was a general challenge among businesses. Approximately 1 out of 5 beneficiaries had not accessed credit before.

However the requirement to on-lend 30% of the credit facility to the agricultural and manufacturing sectors was challenging since only 4% of operating businesses in Rwanda were in these 2 sectors.
Eventually, E&S requirements were compliant with the bank's CSR policy and strategy as well as coherent with the challenges faced by the Rwandan economy and population.

Effectiveness

The project's objectives in terms of credit development were mostly met with the exception of E&S requirements. BK effectively drew down and lent the entire credit facility to 194 private enterprises (exceeding the targeted 20). This was accompanied by significant growth in BK's SME portfolio and total long-term lending. 27% of the credit facility were allocated to the agricultural and manufacturing sectors rather than the intended 30%. 85% of the ARIZ Portfolio Guarantee Facility was utilized (EUR 5.1 million). The average guaranteed facility de-risked micro and small enterprises loans, across different sectors. It should also be noted that the growth in BK's medium to long-term lending was much larger than the credit facility received from AFD.

BK was able to establish Environmental and Social Management System's (ESMS) policies and procedures but did not meet a number of E&S requirements including providing a copy of its E&S policy and its implementation schedule.

Efficiency

As several E&S conditions precedent were not met, three amendments to the agreement had to be signed, which in turn caused delays in the disbursement of the loan tranches.

Impact

The end-beneficiaries collectively invested USD 84 million and created 2.889 jobs, of which 1.606 benefited women as a result of the credit they through AFD's support to BK.

Sustainability

Between 2015 and 2017, the bank's MSME portfolio declined, bringing to question whether growth effects of the AFD credit facility could be sustained by the bank. According to BK stakeholders, in the absence of an enhanced capacity to serve SMEs, BK struggled to maintain the growth of its SME portfolio. This was actually taken into account in the following projects (CRW1045 and CRW1046), so that capacities of the bank could be strengthened.

Conclusions and lessons learnt

The project was relevant to the needs of the bank and end-beneficiaries. With the exception of the E&S requirements and sectoral allocations, the project was effectively implemented. It contributed to the growth of BK's MSME loan portfolio and medium to long-term lending. Ultimately, the project led to the generation of investments worth USD 84 million and the creation of 2,889 jobs.

The following lessons can be learned from this project:

- To enable greater ease of meeting the sectoral eligibility criteria for loans, AFD and BK should have tried to align such criteria the bank's existing capabilities for building loan pipelines in the target sectors.
- To ensure the implementation of E&S criteria, AFD and BK should have held more regular engagements to monitor the progress of implementation and provide any necessary support.
- In the future, more detailed discussions can be held on the E&S requirements to ensure that they can be implemented and to ascertain that they are a priority to BK.
- To promote the persistence of the positive effects of the project, the project should have supported the enhancement of BK's capacity to serve and finance SMEs.

Evaluation Summary

Credit facility to Bank of Kigali to support the bank's loan portfolio dedicated to Micro, small and medium enterprises

Country: **RWANDA** | Sector: **Finance**

Evaluator: Genesis Analytics
Date of the evaluation: **September 2022 – April 2023**

Key data on AFD's support

Project numbers: CRW 1045

Amount: USD 20 million (credit facility)

Disbursement rate: 100%

Signature of financing agreement: June 20, 2019

Completion date: 2027 (planned)

Total duration: 8 years (planned)

Context

After the successful completion of the first credit facility, AFD and BK began discussions for a second credit facility focused specifically on the MSME sector. At the time, the Government of Rwanda was working to develop the country's private sector, which was largely composed of MSMEs that accounted for 41% of private sector employment.

Despite the growth in the banking sector, MSMEs faced significant challenges in accessing financing. In 2017, only 15% of financing demand by MSMEs was being met, according to the IFC, and 42% of SMEs and 64% of micro-enterprises were either fully or partly constrained. While BK remained the largest bank in Rwanda, its MSME portfolio had declined as a proportion of its total loan portfolio. To address this, the bank sought to improve its MSME banking operations by enhancing its value proposition and reaching out this segment.

Actors and operating method

AFD provided long term funding to Bank of Kigali to support the bank's loan portfolio dedicated to micro, small and medium enterprises.

Objectives

The overall objectives of the project were:

- Enable BK to better respond to the financing needs of MSMEs in Rwanda;
- Improve BK's ability to provide medium to long-term financing to MSMEs by reducing BK's asset and liability mismatch.

Expected outputs

The expected results of the project were:

- Extension of medium to long-term credit to at least 200 customers ;
- On-lending of 30% of the credit line MSMEs in the agricultural sector and 5% to MSMEs in the renewable energy sector ;
- Growth in the number of BK's MSME clients ;
- Growth in BK's commercial loan portfolio.

Performance assessment

Relevance and coherence

The project was relevant in helping BK mitigate its liquidity gap, which was deeper in 2018 than at the inception of the first project (CRW1023) despite the mobilization of additional medium to long-term resources, thereby enabling it to increase medium to long-term financing to MSMEs.

The project was also relevant to the end-beneficiaries as accessing credit was a general challenge among businesses, and especially MSMEs: approximately 1 in 5 beneficiaries had not accessed credit before.

However the project's sectoral eligibility criteria were not adapted to BK's capabilities, the MSME landscape which accounted for few businesses in the agriculture and renewable energy sectors, as well as the targeted enterprises' financial needs.

Effectiveness

BK has fully drawn down the credit facility but at the time of the evaluation, only the results of the first disbursement, worth 75% of the credit facility, could be evaluated.

The first disbursement was used to finance 83 loans to different SME beneficiaries. Nonetheless, BK did not meet the sectoral eligibility criteria of the project, leading to two amendments to change them. The effects of theses amendments were to scrap the eligibility criteria for the renewable sector and reduce the allocation to the agricultural sector from 30% to 5%.

BK did not see an equal increase in its SME portfolio as the value of the capital injected through the first tranche of the credit facility. The SME loan portfolio grew by 2% year on year between 2019 and 2021, while the first tranche was worth 13% of the bank's SME loan portfolio.

Efficiency

The disbursement of the second tranche was delayed due to BK's inability to meet the sectoral eligibility criteria. An amendment postponing the deadline for drawing down the facility had to be passed.

Impact

The first disbursement yielded 554 new jobs, of which 304 benefited to women.

Sustainability

The effects and impact of the credit facility are likely sustainable due to the technical assistance program (CRW1046) that was implemented alongside this credit facility.

Conclusions and lessons learnt

The project was relevant to the bank as its medium to long-term lending to SMEs had been limited by its liquidity gap as well as by the bank's technical and organizational capacities (enhanced through the complementary project CRW1046). The project was also relevant to end-beneficiaries who benefited from an improved value proposition. Though the credit facility has been fully drawn down, this process however suffered many delays. Though it is still early to assess the impact of this project, the project may not achieve the targeted number of beneficiaries as only 83 loans have been refinanced thanks to the first tranche out of a targeted 200.

The following lessons can be learned from this project:

- To enable greater ease of meeting the sectoral eligibility criteria for loans, AFD and BK should have tried to align such criteria to MSME landscape, while considering BK's capabilities to meet the sectoral eligibility criteria, through extensive deliberations at the inception of the project.

- BK should also have been capacitated to lend to smaller businesses in order to achieve the targeted number of beneficiaries. The average value of refinanced loans was quite high, thereby possibly exhausting the credit facility before the target is achieved.

Evaluation Summary

Technical assistance to Bank of Kigali to help the bank develop an MSMEs strategy, implement its digitization transformation and its environmental and social action plan

Country: **RWANDA** | Sector: **Finance**

Evaluator: Genesis Analytics
Date of the evaluation: **September 2022 – April 2023**

Key data on AFD's support

Project numbers: CRW 1046

Amount: EUR 300,000 (grant)

Disbursement rate: 17%

Signature of financing agreement: June 20, 2019

Completion date: 2025

Total duration: 5 years

Context

After the successful disbursement and repayment of the first credit facility, AFD and BK began discussions for another engagement that would potentially involve a credit facility, a technical assistance grant and a risk-sharing mechanism. The focus of this engagement would be on MSMEs, which make up the majority of businesses in the private sector in Rwanda and account for 41% of all private sector employment.

Despite being the largest bank in Rwanda, BK's MSME portfolio had declined as a proportion of the bank's total loan portfolio. In order to grow its MSME banking business, BK aimed to enhance its value proposition and reach to his segment through digital means. However, the bank did not have a standalone MSME banking department, dedicated MSME staff, financial products, services and channels tailored for MSMEs, or an MSME strategy. Additionally, BK had not yet implemented the majority of the E&S requirements from its first project with AFD.

Actors and operating method

AFD provided funding to Bank of Kigali so that the bank can design and finance relevant technical assistance.

Objectives

The overall objectives of the project were:

- The establishment of a more efficient information system within the banks ;
- The establishment of a credit scoring tool for MSMEs as part of the bank's digitization strategy ;
- The development of a financial offer more adapted to the needs of MSMEs ;
- The development of a training offer on the specificities of the financing of MSMEs for BK staff ;
- A better understanding of the financing needs of MSMEs in the renewable energy sector; and
- A better consideration of environmental and social issues in BK's credit policy.

Expected outputs

The expected results of the project were:

- An MSME strategy ;
- A digital MSME credit scoring tool integrated into a digital MSME customer journey ;
- Implementation of the Environmental & Social Action Plan (ESAP).

Performance assessment

Relevance and coherence

The project was relevant to BK's need for an SME strategy to develop its MSME banking operations, to enhances its MSME customer value proposition and better reach and serve MSMEs.

The project was also aligned to the bank's Digital Transformation Strategy (2018-2023) as well as its overall strategy that involved the enhancement of the bank's MSME value proposition. Since the bank had not developed digital processes and channels before, it did not have the internal capacity to undertake the digitisation process on its own.

The Environmental and Social Management System (ESMS) component was also relevant as the bank had not updated its E&S policy and ESMS since 2012, and had also not met the E&S requirements of the previous project with AFD (CRW1023 and CRW1045).

Effectiveness

At the time of the evaluation, the acquisition of services under the TA's procurement plan had not been completed and only 16% of the grant had been utilised. The SME strategy was fully developed and its implementation was ongoing. The second and third components of the project – digitisation of the SME customer journey and implementation of the ESAP – were just getting started.

Efficiency

The project experienced delays in the implementation of its second and third components due to inefficiencies in the procurement processes. These were actually misalignments between AFD's procurement process requirements and BK's procurement processes. As a result, the project was not implemented in line with the project timelines since completion was targeted at end of 2022.

Impact

The development and implementation of the SME strategy have enhanced the BK's organizational and technical capacities, as well as its customer value proposition. By implementing the strategy, the bank has established a dedicated SME banking department, headed by a dedicated SME banking manager and supported by a team of specialized staff. In addition, the bank had tailored its credit products to better suit the needs of MSMEs, and has implemented a training program for its SME banking staff and management.

Sustainability

The impacts of the enhanced capacities, value proposition towards MSMEs and ESMS, once implemented, will likely persist in the medium-term given the organization change they bring about.

Added value of AFD's contribution

The project provided for a roadmap for the development of BK's MSME banking operations. The requirements in terms of E&S management system should enable the bank to match de best international standards which would be an asset to identify new partners and lenders.

Conclusions and lessons learnt

BK's capacity to effectively lend to more MSMEs and grow its MSME banking operations had been curtailed by the lack of organizational and technical capacity as well as an undeveloped customer value proposition. The technical assistance grant was therefore relevant in addressing the above inhibitors to BK's further extension of MSME finance. The bank was not able to update its ESMS within the original timeline, therefore was unable to meet E&S requirements. Technical assistance to implement these E&S management issues was therefore necessary.

The following lessons can be learned from this project:

- The bank did not put the appropriate resources to be able to implement the E&S action plan as agreed. This should have been further discussed at the inception of the partnership between AFD and the bank.

- To have minimised delays in the procurement of consultants to implement the second and third components of the project, AFD should have sought to better explain its procurement requirements to BK's procurement team by holding information sessions and sharing any relevant procurement document templates.

- AFD and BK should also have held more regular engagements to monitor the progress of implementation of the various technical assistance components and take any necessary actions.