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IDA/R2018-0362/1

November 8, 2018

Closing Date: Thursday, November 29, 2018 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Rwanda - Rwanda Housing Finance Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Rwanda for a Rwanda Housing Finance Project (IDA/R2018-0362), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC, and MIGA

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Report No: PAD2865

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED SCALE-UP FACILITY CREDIT

IN THE AMOUNT OF EUR 129.6 MILLION
(US$150 MILLION EQUIVALENT)

TO THE

REPUBLIC OF RWANDA

FOR THE

RWANDA HOUSING FINANCE PROJECT

November 6, 2018

Finance, Competitiveness, and Innovation Global Practice

Africa Region

Regional Vice President:	Hafez Ghanem
Country Director:	Carlos Felipe Jaramillo
Senior Global Practice Director:	Sebastian Molineus
Practice Manager:	Niraj Verma
Task Team Leader(s):	Teymour Abdel Aziz, Brice Gakombe

CURRENCY EQUIVALENTS
(Exchange Rate Effective September 30, 2018)

Currency Unit =	Rwandan Francs (RWF)
RWF 1,011.37 =	EUR 1
EUR 1.20482708 =	SDR 1
EUR 0.86352057 =	US$1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
AHF	Affordable Housing Fund
ALM	Asset-liability Mismatch
BNR	National Bank of Rwanda (*Banque Nationale du Rwanda*)
BRD	Rwanda Development Bank (*Banque Rwandaise de Développement*)
EAC	East African Community
CoK	City of Kigali
DA	Designated Account
DFID	U.K. Department for International Development
EDPRS	Economic Development and Poverty Reduction Strategy
EICV	Integrated Household Living Conditions Survey (*Enquête Intégrale sur les Conditions de Vie des ménages*)
ERP	Enterprise Resource Planning
ERR	Economic Rate of Return
FI	Financial Institution
FM	Financial Management
GDP	Gross Domestic Product
GoR	Government of Rwanda
GRS	Grievance Redress Service
IC	Individual Consultant
IDA	International Development Association
IEG	Internal Evaluation Group
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
KfW	KfW Development Bank *(Kreditanstalt Fuer Wiederaufbau)*
LoC	Line of Credit

MFI	Microfinance Institution
MIFOTRA	Ministry of Public Service and Labor
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MININFRA	Ministry of Infrastructure
NBFI	Non-bank Financial Institution
NCB	National Competitive Bidding
NLUMP	National Land Use and Development Master Plan
NPL	Non-performing Loan
NST	National Strategy for Transformation
NUP	National Urbanization Policy
PDO	Project Development Objective
PFM	Public Financial Management
PforR	Program-for-Results
PIM	Project Implementation Manual
PPP	Public-private Partnership
PPSD	Project Procurement Strategy for Development
PSF	Private Sector Federation
QCBS	Quality and Cost-Based Selection
RDB	Rwanda Development Board
RFQ	Request for Proposals
RHA	Rwanda Housing Authority
RMRC	Rwanda Mortgage Refinancing Company
RSSB	Rwanda Social Security Board
RWF	Rwandan Francs
SACCO	Savings and Credit Cooperative Organization
SDR	Special Drawing Rights
SPIU	Single Project Implementation Unit
STEP	Systematic Tracking of Exchanges in Procurement
SUF	Scale-up Facility
TA	Technical Assistance
ToR	Terms of Reference
UNDP	United Nations Development Programme

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Rwanda	Rwanda Housing Finance Project	
Project ID	Financing Instrument	Environmental Assessment Category
P165649	Investment Project Financing	F-Financial Intermediary Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
28-Nov-2018	31-Dec-2023
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

To expand access to housing finance to households and to support capital market development in Rwanda.

Components

Component Name	Cost (US$, millions)
Provision of Long-Term Finance to Expand Housing Finance	147.00
Technical Assistance and Implementation Support	3.00

Organizations

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

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Total Amount

Scale-up Facility (SUF)	150.00	0.00	150.00
Total	**150.00**	**0.00**	**150.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024
Annual	6.85	29.42	41.49	36.63	26.12	9.48
Cumulative	6.85	36.28	77.77	114.41	140.52	150.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Social, Urban, Rural and Resilience Global Practice

Climate Change and Disaster Screening

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

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate

3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Substantial
10. Overall	Substantial

COMPLIANCE

Policy

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

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓

Projects on International Waterways OP/BP 7.50	✓
Projects in Disputed Areas OP/BP 7.60	✓

Legal Covenants

Sections and Description
Not later than three (3) months after the Effective Date, the Recipient shall establish, and thereafter maintain, throughout Project implementation, the PSC, with composition and mandate acceptable to the Bank, which shall be headed by high level representatives of MINECOFIN and include, inter alia, high level representatives of MININFRA, RHA, CoK, and other entities, as further detailed in the PIM. The PSC shall be responsible for coordinating, including at the inter-ministerial level, and providing overall strategic guidance for Project implementation. (Schedule 2, Section I. A.3)

Conditions

Type	Description
Effectiveness	The BRD Subsidiary Agreement has been executed on behalf of the Recipient and the BRD and all conditions precedent to its effectiveness, save for the effectiveness of this Agreement, shall have been met (Article V, 5.01.a)
Effectiveness	The adoption by the Recipient and BRD of a Project Implementation Manual in form and substance satisfactory to the Association (Article V, 5.01.b)
Disbursement	No withdrawal shall be made under Category 1 and Category 4 unless and until: (i) the BRD-SPIU has been established and adequately resourced and staffed in accordance with the provisions of the PIM (ii) a participation agreement is executed between the BRD and a PFI, under terms and conditions satisfactory to the Association and in accordance with the provisions in the PIM. (Schedule II, Section III.B.b)
Disbursement	No withdrawal shall be made under Category 2 unless and until: (i) a subsidiary agreement between the Recipient and the RMRC has been executed, under terms and conditions satisfactory to the Association, and in accordance with Section of Schedule 2 to this Agreement; (ii) the conditions in subparagraph (d) below have been satisfied; and (iii) a participation agreement is executed between the RMRC and a PFI, under terms and conditions satisfactory to the Association and in accordance with the provisions in the PIM. (Schedule II, Section III.B.c)

Type	Description
Disbursement	No withdrawal shall be made under Category 3 for Equity unless and until: (i) the RMRC has been duly established and licensed to operate as a financial institution and issue bonds, in a manner acceptable to the Association, and in accordance with the Financial Sector Laws; (ii) the RMRC adopts the PIM, in form and substance satisfactory to the Association; (iii) corporate governance instruments and internal controls of RMRC are adopted by the RMRC in form and substance satisfactory to the Association; (iv) an external auditor is appointed with qualifications, experience and terms of reference satisfactory to the Association; and (v) a shareholder agreement between the Recipient and the RMRC has been executed, under terms and conditions satisfactory to the Association. (Schedule II, Section III.B.d)

Type	Description
Disbursement	No withdrawal shall be made under Category 3 for Subordinated Debt unless and until: (i) the RMRC has been duly established and licensed to operate as a financial institution and issue bonds, in a manner acceptable to the Association, and in accordance with the Financial Sector Laws; (ii) the RMRC adopts the PIM, in form and substance satisfactory to the Association; (iii) corporate governance instruments and internal controls of RMRC are adopted by the RMRC in form and substance satisfactory to the Association; (iv) an external auditor is appointed with qualifications, experience and terms of reference satisfactory to the Association; and (v) a subordinated loan agreement between the Recipient and the RMRC has been executed, under terms and conditions satisfactory to the Association. (Schedule II, Section III.B.e)

Project Team

Name	Role	Title	Unit
Teymour Abdel Aziz	TTL	Senior Financial Sector Specialist	GFCAW
Brice Gakombe	Co-TTL	Financial Sector Specialist	GFCAE
Simon Walley	Team Member	Lead Financial Sector Specialist	GFCLT
Loic Chiquier	Team Member	Senior Adviser	GFCLT
Sofia De Abreu Ferreira	Legal Counsel	Senior Counsel	LEGEN
Thierno Habib Hann	Team Member	Senior Housing Finance Specialist	CFGHF
Ignace Bacyaha	Team Member	Resident Representative for Rwanda, IFC	CAFRW
Mulugeta Dinka	Procurement Specialist	Senior Procurement Specialist	GGOPA
Enagnon Ernest Eric Adda	Financial Management Specialist	Senior Financial Management Specialist	GGOAE
Narae Choi	Team Member	Urban Specialist	GSU13
Sally Beth Murray	Team Member	Consultant	GSUGL
Huguette Mwisenza	Team Member	Program Assistant	GFCAE
Emmanuel Muligirwa	Environmental Safeguards Specialist	Environmental Specialist	GEN01
George Bob Nkulanga	Social Safeguards Specialist	Social Safeguards Specialist	GSU07
Jean Owino	Finance Officer	Finance Officer	WFACS
Mehnaz Safavian	Team Member	Lead Financial Sector Economist	GFCSS
Shiny Jaison	Team Member	Program Assistant	GFCAE

I. STRATEGIC CONTEXT

A. COUNTRY CONTEXT

1. **Rwanda is one of the most densely inhabited countries in Africa and one of its least urbanized, with just over 17 percent of its 12 million people living in urban areas.**[1] The Government of Rwanda (GoR) views the relatively low rate of urbanization as an opportunity to create a more efficient urban system. Accordingly, in its vision to become a middle-income country by 2020,[2] off-farm job creation and urbanization have been identified as a key driver for economic growth, and urbanization and rural (human) settlement has been established as a 'stand-alone' sector by the Economic Development and Poverty Reduction Strategy (EDPRS) II for 2013–2018. Both urbanization and housing continue to be a high priority in Rwanda's development strategies, Vision 2050 and the National Strategy for Transformation I (NST) I for 2017–2024.[3]

B. SECTORAL AND INSTITUTIONAL CONTEXT

2. **The Government's ambition to promote urbanization and access to affordable housing in Rwanda is reflected in numerous strategies and policies that have been adopted in recent years.** The National Urbanization Policy (NUP) (2015) provides an overarching guidance on spatial planning at the national, district, and city levels and discusses housing solutions for different income groups.[4] The National Informal Urban Settlement Upgrading Strategy (2017) broadened the scope of affordable housing policies to include self-construction and home improvement as a solution for low-income residents who are unable to afford even the least-expensive units in new housing developments.[5] The Prime Minister's instruction on support for affordable housing—adopted in 2015 and amended in 2017—was designed as a set of fiscal and financial incentives targeted at developers to encourage them to scale up the supply of affordable housing units.

3. **However, efforts to promote housing development and urbanization have not been able to bridge the large and widening gap between formal housing supply and demand.** It is estimated that at

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[1] NISR (National Institute of Statistics of Rwanda), Projection for 2018.
[2] Rwanda's income target is to attain upper-middle-income country status by 2035 - NST I.
[3] Sustainable urbanization is Priority Area 2 under the Economic Transformation Pillar of the NST I, with key strategic interventions, including the promotion of local construction materials to support the growth of the construction industry and the affordable and low-cost housing program. Housing also appears under the Social Transformation Pillar of the NST I, with plans to operationalize the affordable housing fund (AHF), the establishment of which was announced in July 2017.
[4] The National Housing Policy offers housing solutions for different segments of the market, with key mechanisms for those with low and irregular incomes, including (a) direct Government support in low-cost real estate development for low-income families; (b) incremental self-build housing; and (c) cooperative approaches which can include pooled land or pooled finances.
[5] The World Bank is supporting the urban upgrading pilot in the City of Kigali (CoK), under the Rwanda Urban Development Project (P150844).

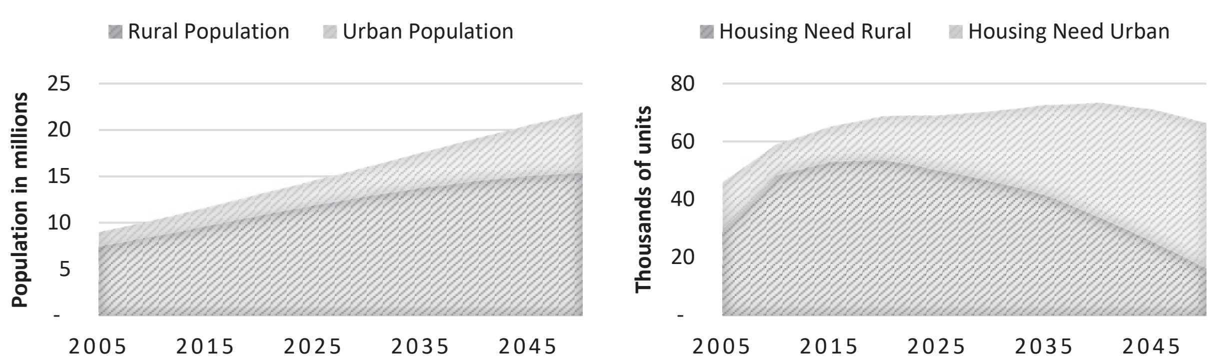
least 60 percent of houses in Kigali are in unplanned settlements,[6] where access to road and transport infrastructure, adequate tap water, electricity, and sanitation is limited, and that almost 147,000 houses need to be replaced[7] (according to current regulatory standards) due to challenges such as build quality, overcrowding, and high-risk/ecologically sensitive locations. This backlog affects all households but is more pronounced for lower-income groups (Table 1). Across the country, most of the housing needs are still in rural areas, although this is changing rapidly. Based on the household formation rate it can be estimated that the annual housing need is currently around 67,000 units. Of these, 53,000 are required in rural areas and 14,000 in urban areas. Figure 1 shows the forecast population growth in both rural and urban areas together with the resulting demand for new housing. It is worth noting that meeting this demand simply maintains the status quo without making any inroads into the qualitative housing deficit.

Table 1. Number of Houses in Kigali and Portion of Backlog (Calculated using EICV 4 data)

	All Kigali	Household Income Quintile				
		Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Number of dwelling units	295,227	59,310	59,051	58,942	58,887	59,038
Of which requiring replacement (number)	146,866	46,371	36,848	30,326	20,340	12,981
Of which requiring replacement (%)	49.7	78.2	62.4	51.5	34.5	22.0

Source: EICV 4 (Integrated Household Living Conditions Survey or Enquête Intégrale sur les Conditions de Vie des ménages, 2013-2014)

Figure 1. Urban and Rural Population and Housing Needs (2005–2050)



Source: United Nations Population Division Database 2018.

[6] A remote sensing exercise on the 2009 and 2015 building supply has revealed that unplanned peripheral neighborhoods are quickly filling with new, rudimentary housing, in response to rapid population growth and the comparatively small scope of grid planning/enforcement and sites and services provision.
[7] All data from a forthcoming Housing Market Study by the International Growth Centre.

4. **The lack of formal housing[8] supply partly helps explain the prevalence of self-construction as the most common path toward home ownership in Rwanda.** The annual supply of formal housing by developers is estimated at just 1,000 new houses in Kigali—equivalent to less than 4 percent of the new demand for housing. The 2016 FinScope survey revealed that 88 percent of Rwandan households are homeowners, while only 7 percent report to be renting (an important exception is Kigali, where about half of residents are renters). Self-construction is the prevalent method of acquiring homeownership: 83 percent of homeowners have built their homes, while 6 percent report to have purchased their homes. Most Rwandans build and finance their homes in phases, often using low-cost construction materials and techniques which are progressively improved over time.[9]

5. **The growth of the housing market has also been constrained by the limited capacity of the financial sector to scale up housing credit.** The lack of long-term funds is the biggest challenge to Rwandan banks as their source of funding predominantly comprises short-term deposits. The resulting mismatch between (long-term) assets and (short-term) liabilities creates increased liquidity and interest rate risks which limits the banks' ability and willingness to scale up long-term (housing loans) funding. As a result, banks allocate their limited funding resources to borrowers with the most favorable risk/return profile (higher income earners, salaried employees) which helps reduce risks, but it also reduces access to financing for large segments of the Rwandan population who, as a result, are unable to afford purchasing new homes.

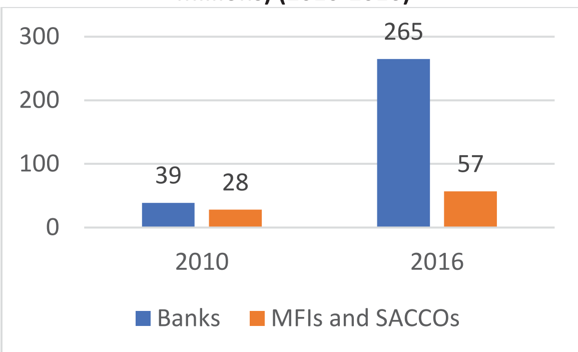
Housing Finance

6. **Most Rwandans rely on personal and family savings to build or purchase their homes, supplemented by a small but growing share of mortgage lending offered by financial institutions** (also see annex 1 for financial sector overview). About 85 percent of homeowners report that their own savings was the main source of financing to acquire/build their homes, while less than 5 percent report bank/microfinance institution (MFI) loans as a primary source of financing. A larger share of credit is used for self-construction and home improvement as the most prevalent home acquisition/construction method in Rwanda. While less than 5 percent of Rwandan homeowners report bank credit as the primary financing source for their home acquisition, 18 percent of Rwandans who improved/expanded their homes report to have used a loan from a financial institution, based on demand-side surveys such as Findex and FinScope (2016) and confirmed through interviews with banks and MFIs (who provide loans mostly for incremental housing). The share of housing loans used to build or repair homes (as opposed to housing loans to purchase an existing or newly built house or apartment) is higher than most other countries in the region. Rwandans in rural areas and with lower household incomes are more likely to get

[8] In Rwanda, informal settlements are largely unplanned in the sense that they have developed not according to accepted planning and engineering norms, while it is understood that most owners and occupiers of the area have some right to be there and thus there are few, if any, informal occupiers or squatters with regard to their access to land.
[9] Particular gaps stand out with regard to access to piped water within the house or yard (present in only 36 percent of houses); flush toilets (8.5 percent) rather than pit latrines; low build quality (37 percent use mud bricks without cement or lower quality wall materials and a further 54 percent use mud bricks with cement); and overcrowding (Source: Housing Market Study by the International Growth Centre, forthcoming).

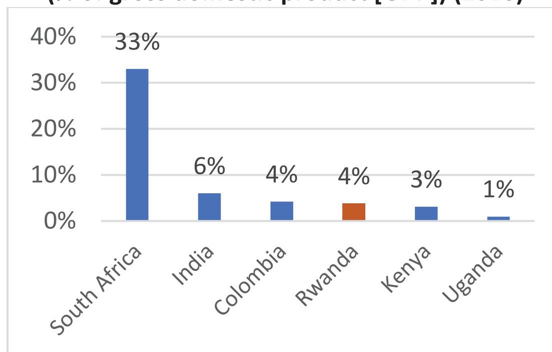
housing loans for self-construction and home improvement than their peers in urban areas and with higher incomes.

Figure 2. Housing Credit: Evolution over Time (US$, millions) (2010-2016)



Source: National Bank of Rwanda (BNR).

Figure 3. Housing Credit: Cross-country Comparison (% of gross domestic product [GDP]) (2016)



Sources: BNR, World Bank, mortgage database.

7. **The mortgage market experienced strong growth over the past decade, led by the banking sector in credit volume and MFIs/savings and Savings and Credit Cooperative Organization (SACCOs) in outreach (number of housing loans).** By the end of 2016, residential mortgage lending accounted for 15 percent of total bank credit[10] and 30 percent of total MFI credit[11]—corresponding to 3.8 percent as a share of gross domestic product (GDP) (compared to 2.4 percent in 2010). Rwanda's financial sector is dominated by commercial banks, which account for approximately two-thirds of the total financial sector assets, followed by the pension fund (17.4 percent), insurance (9.8 percent), and MFIs/SACCOs (6.6 percent) (Table 2). The banking sector is quite concentrated and has a comparatively high degree of foreign ownership. The three largest of Rwanda's 16 commercial banks hold nearly half of the total bank assets; the share of assets held by the majority of foreign-owned banks is equally high.

Table 2. Rwanda: Financial Sector Structure

	June 2010		June 2018		Assets/GDP	
	Number	%	Number	%	June 2010	June 2018
Banking sector	14	71.5	16	65.5	21.6	34.9
Mandatory pension fund	1	13.8	1	17.4	6.4	9.2
Insurance	8	11.1	16	9.8	3.2	5.2
MFIs and SACCOs	524	3.6	473	6.6	2.6	3.5
Private pension	—	—	10	0.7	—	0.0
Total	**547**	**100.0**	**507**	**100.0**	**33.8**	**54.3**

Source: BNR (Monetary Policy and Financial Stability Statement August 2018).

8. **The uptick in housing finance in Rwanda has also partly been a result of one of the most progressive enabling environments in Sub-Saharan Africa, including removing obstacles linked to**

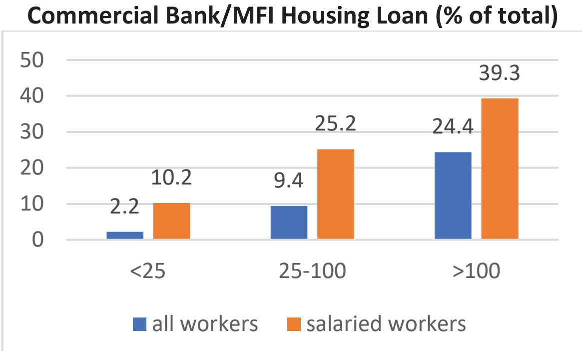
[10] US$265 million in December 2016 compared to US$39 million in 2010.
[11] US$57 million in 2010 compared to US$28 million in 2010.

obtaining clean title on land and being able to use titles as collateral in lending transactions. Rwanda has also taken important steps to limit the powers of customary rights over land and has introduced a uniform tenure regime implemented through a land tenure regularization program. The program established a formal system for regularizing land ownership and created 10.3 million land parcels. Titles were given out to every landholder, creating an opportunity to leverage this asset by obtaining a loan. A series of regulations have been put in place to govern urban planning and building, while the National Land Use and Development Master Plan (NLUMP) provides general directives for sustainable land use development and guiding principles for socioeconomic development and infrastructure, environment, and land administration.[12] The growth in mortgage lending was further enabled after the adoption of an important legal reform in 2011, which raised the maximum loan-to-value ratio from 30 percent to 70 percent—lifting a key bottleneck which had hampered the growth of mortgage lending before the reform.

Challenges

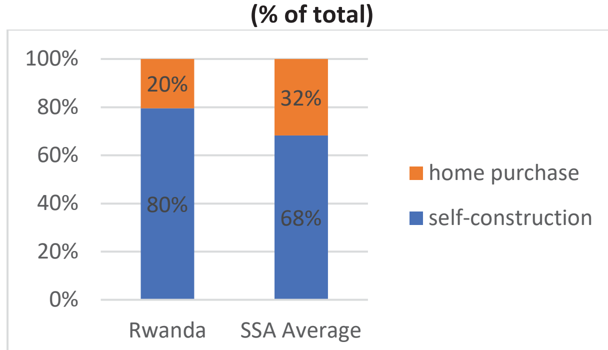
9. **While the growth in housing finance has been substantive, it has not been able to satisfy the strong demand for housing finance for a growing and increasingly urban population.** Mortgage loans are mostly directed to high-income earners and salaried employees who are preferred borrowers for financial institutions. The vast majority of Rwandan households with modest and non-salaried incomes remain largely excluded from access to mortgage credit (Figure 4).

Figure 4. Percentage of Rwandan Workers with a Commercial Bank/MFI Housing Loan (% of total)



Source: Rwanda 2016 Finscope Survey.

Figure 5. Use of Commercial Bank/MFI Housing Loan (% of total)



Source: World Bank Findex database, 2018

10. **Rwandan lenders consider housing finance as a promising business opportunity, as evidenced in their growing mortgage portfolios, but are confronted with major funding constraints which limit their capacity to scale up mortgage lending.** The lack of long-term resources is the biggest challenge for

[12] The National Housing Policy, adopted in March 2015, covers the role of various actors in delivering housing to a range of income groups and encourages the development of affordable housing for urban dwellers with low or irregular incomes. It included the upgrading of informal settlements as a new strategic objective, which envisages the provision of basic infrastructure and incentives for higher-density home construction/upgrading to form dense and well-serviced neighborhoods in six secondary cities (supported by a World Bank project (Rwanda Urban Development Project, P150844)). The NUP, adopted in December 2015, promotes densification as one of its four pillars to achieve resource-efficient and compact growth.

mortgage lenders as the maturity profile of their liabilities (mostly short-term deposits) limits their ability and/or appetite to provide long-term loans (including mortgage loans) due to increased liquidity and interest rate risks. While asset-liability mismatch (ALM) issues are not an uncommon feature in most financial systems, these gaps are particularly pronounced in Rwanda. As of June 2017, demand deposits represented 60 percent of total deposits, while term deposits constituted 40 percent. Even with term deposits, short-term deposits (with maturity of 1 to 12 months) account for 81 percent of the total term deposits, while long-term deposits (with maturity above 12 months) account for 19 percent.[13] The resulting ALM was identified as a constraint, limiting banks' lending capacity in the BNR's latest Annual Financial Stability Report (2016–2017). The financing constraints are more pronounced for MFIs and SACCOs which are not only confronted with more short-term and volatile liabilities but are also subject to additional regulatory requirements mandating that 30 percent of their assets are invested in bank deposits, reducing their limited capacity to provide long-term loans even further.

11. **Mortgage lenders responded to the abovementioned long-term funding gaps with various strategies which helped them reduce risks, but at the expense of access.** Banks have aimed to reduce ALM-related liquidity and credit risks by reducing the maturity of mortgage loans, disbursing in installments against milestones (for self-construction), and focusing mortgage lending to target primarily a small segment of high-income, salaried employees (considered the lowest risk borrowers). Most banks have also included provisions in their mortgage contracts authorizing them to adjust interest rates based on benchmarks (deposit/t-bill interest rates) to hedge themselves against interest rate risks resulting from a rise in funding costs. While these measures and policies have been helpful for mortgage lenders to mitigate ALM-related risks and challenges, they have adversely affected the availability and affordability of mortgages themselves which, as outlined in earlier paragraphs, remain out of reach for the vast majority of Rwandan households. The introduction of Basel III and associated Net Stable Funding Ratio requirements, which Rwandan banks have to comply with since January 2018, has further exacerbated the problem, by requiring enhanced maturity matching on banks' balance sheets.

12. **The lack of long-term funding and banks' response by rationing credit to a small segment of borrowers helps explain the outcome of a mortgage market which remains to be developed to meet a large and growing market demand.** In addition to addressing the ALM, improvements are needed to improve the ability of banks, SACCOs, and MFIs to assess and manage mortgage risk to scale up their mortgage lending beyond the principal target segment of higher-income, salaried employees. If financial institutions want to grow their mortgage lending, they will need to develop the skills and capacity to underwrite mortgages to other segments as the narrow market segment of higher-income, salaried employees is bound to become saturated over time.

13. **The financing capacity of Rwanda's financial system is also limited by institutional constraints, which increasingly limit the banking sector's ability to meet the financing needs of a rapidly growing economy.** The remarkable growth in Rwanda's economic growth and investment observed over the last decade has also increased the demand for financing. The banking sector has been the main source of finance to date, but it will sooner or later reach its limits as the growing investment and financing needs

[13] Source: BNR 2017 Annual Financial Stability Report.

are bound to exceed the banking sector's financing capacity. At present, Rwanda lacks alternative mechanisms and institutions capable of intermediating long-term financing. To meet Rwanda's long-term growth and development ambitions, it is imperative to develop the financial system's institutional framework and build capacity to facilitate financial intermediation beyond the banking sector. The creation of a mortgage refinancing company (MRC) would further this objective as it will leverage long-term finance through the capital market toward the financing needs of Rwandan households.

14. **In addition to financing, there are many constraints on both the supply and demand side of the housing market that contribute to the limited supply of affordable homes.** On the supply side, challenges arise mainly from access to land, infrastructure provision, and cost of construction and development. The availability of land is still limited because of challenging terrains (for example, more than half of the land in Kigali is on steep slope or in wetland and is difficult and costly to develop). Land is also expensive because of small plot sizes and fragmentation and leveraging land as an incentive for affordable housing (such as in land value capture) is challenging because land is mostly in private possession. Policies and urban development norms and standards are currently aimed at developing efficient and high-density cities. Among the issues that need to be addressed is the preference of Rwandan households to inhabit single-story dwellings with a surrounding wall and some open space. Construction costs are also high in Rwanda, because of the high cost of building materials, the lack of developer finance, and outdated building technologies. Rwanda lacks large-scale local housing developers in the market, with the local construction industry lacking skills in architecture, engineering, and development to operate at scale. The combination of these constraints has contributed to the limited supply of new housing units in Rwanda in price ranges which were only affordable to the highest-income percentiles. A more detailed discussion of key supply-side challenges identified by the team is provided in annex 3.

Government Response

15. **The GoR is aware of the remaining challenges to affordable housing and has adopted a series of initiatives aimed at increasing the availablity and affordability of housing.** In addition to the national strategies and policies in support of urbanization and housing, the GoR approved the establishment of a US$250 million Affordable Housing Fund (AHF) in July 2017, which was set up to promote accesss to affordable housing through supply-side and demand-side support. On the supply side, the AHF is expected to tackle the challenges of (a) high cost of land through implementation of a land bank program; (b) high cost of building materials through bulk importation and supply of key building materials geared toward affordable houses with tax exemption on these; (c) improved building and construction technologies through stringent bidding processes targeting experienced developer companies; and (d) cost of financing for developers/investors. For the demand side, the AHF aims to address the high cost of financing for targeted beneficiaries. A National Steering Committee composed of Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Infrastructure (MININFRA), Ministry of Local Government (MINALOC), Ministry of Public Service and Labor (MIFOTRA), Rwanda Housing Authority (RHA), CoK, Private Sector Federation (PSF), and Rwanda Development Bank (*Banque Rwandaise de Developpement*, BRD) was designated to oversee the implementation of the AHF and review existing policies and measures in

support of affordable housing[14] to improve their effectivness and efficiency. The Housing Finance Project mainly focuses on (a) the demand side by supporting greater access to housing finance through the provision of long-term funding and (b) to a lesser extent, the supply side through support to improve regulatory and legal environment for the promotion of affordable housing.

16. **The proposed project, financed under the IDA scale-up facility[15], is centered around the provision of long-term funds to support the development of the mortgage market.** The main project component consists of a line of credit (LoC) to the GoR to support the provision of housing loans by Rwandan financial institutions. A large share of the loan proceeds is expected to be used in form of long-term loans to Rwandan financial institutions to finance housing loans for targeted beneficiaries. The GoR may allocate part of the loan proceeds to support the capital base of a future Rwanda Mortgage Finance Company (RMRC) alongside commitments from other institutional investors if its value proposition, the financial and operational viability, the market conditions, and the regulatory framework and institutional set-up are deemed adequate by the GoR and the World Bank. A successful RMRC would help support and enhance the GoR's ambitions to sustain the provision of long-term financing for housing in the long run and leverage capital market funding sources and instruments which would help build the pipeline and capacity of mortgage lending in the Rwandan market.

17. **The project's primary objective—supporting greater access to housing finance through the provision of long-term funding—is part of a comprehensive and proposed programmatic World Bank Group approach to support greater access to affordable housing in Rwanda through a combination of supply-side and demand-side interventions.** This project seeks to build the foundations of the mortgage market and expand access to housing finance to the currently underserved segments. As the experience builds, at a later stage, progressively lower-income segments can be targeted. In parallel to the project, the Financial Institutions Group of the International Finance Corporation (IFC) is working with the World Bank team on a joint advisory task to support the preparation of a feasibility study and business plan for the RMRC. This study will inform a potential future equity investment under consideration, an anchor investment in a future bond issue, and an advisory program to help local banks strengthen their underwriting and risk management capacity. On the supply side, the IFC is considering a financial investment in two affordable housing developments (ongoing) and is working on a program to test a public-private partnership (PPP) housing model in six secondary cities. The World Bank's Social, Urban, Rural and Resilience Global Practice is supporting the affordable housing agenda through a project which aims to provide access to basic infrastructure and enhance urban management in selected urban centers in a number of districts in Rwanda.

C. RELEVANCE TO HIGHER LEVEL OBJECTIVES

18. **The project is aligned with the GoR's and World Bank Group's strategies to expand access to housing and financing.** The project supports the GoR's efforts to mobilize resources to support its

[14] This includes the review of the Prime Minister's ordinance in support of affordable housing (2015).
[15] The proposed project financing of USD 150mn to the Government of Rwanda under the IDA scale-up facility is not expected to lead to a deterioration of the borrower's risk of debt distress.

ambitious housing agenda. It is aligned with the GoR's financial sector development strategy which aims to create a financial sector that is sound, deep, and capable of effectively mobilizing and allocating resources to address the financing needs of the economy. The project also supports priorities identified in EDPRS II and its successor, the National Strategy for Transformation, through its contribution to urban development and economic growth. The project is also aligned with the World Bank's Country Partnership Strategy 2014–2018 (Report No 88941)[16], both of which identify housing as one of the strategic sectors to leverage the World Bank Group's assistance for promoting private sector-driven and job-creating economic growth. Expansion of access to housing finance will be coupled with interventions in the urban and private sectors.

19. **The project will help boost shared prosperity.** The IDA scale-up facility provides financing for highly ambitious and transformational projects. The transformational impact of this project is detailed in the subsequent paragraphs which focus on three key outcomes: (i) Increase in access to housing finance: by lengthening loan tenors, the project could triple the proportion of urban households having access to a mortgage**;** (ii) Social externalities through income substitution: Increased access to higher quality housing allows households to reallocate household income previously spent to maintain or repair homes built with substandard materials/techniques towards such as health or education; (iii) Economic externalities: investment into affordable housing has a strong multiplier effect across the economy given the number of linked sectors, raw material, construction sector, finished goods or financial services**.**

20. **By expanding access to long-term housing finance for the benefit of segments which have limited/no accesss to mortgages under the current market conditions, the project serves three purposes.** First, at present, mortgage loans are primarily available to the top percentiles of salaried workers. Access to longer-term resources renders mortgages more accessible to many Rwandans, who are unable to afford mortgage loans under current mortgage loan conditions. The project will therefore enable the mortgage market to develop and progressively serve underserved segments. Given that housing typically accounts for more than half of family wealth in Sub-Saharan Africa, the project would allow Rwandan families to build assets and wealth which helps mitigate the risk of falling back into poverty. Second, by enabling the growth of financial and mortgage markets to move to underserved income segments and gain experience in this product, the project is a necessary step toward paving a path of reaching even lower-income segments over time. Third, the project incentivizes lenders to scale up their housing credit activity by providing them with the long-term resources as it helps them reduce the risks arising from the maturity mismatch between their assets and liabilities. Greater access to long-term funding also contributes to greater competition in the mortgage market as financial service providers who lacked long-term funds gain access. This is particularly relevant for MFIs and SACCOs which are less likely to have long-term resources. The project also fosters greater financial intermediation and contributes to the development of capital markets by facilitating the creation of a MRC, which is anticipated to have a positive impact on growth.

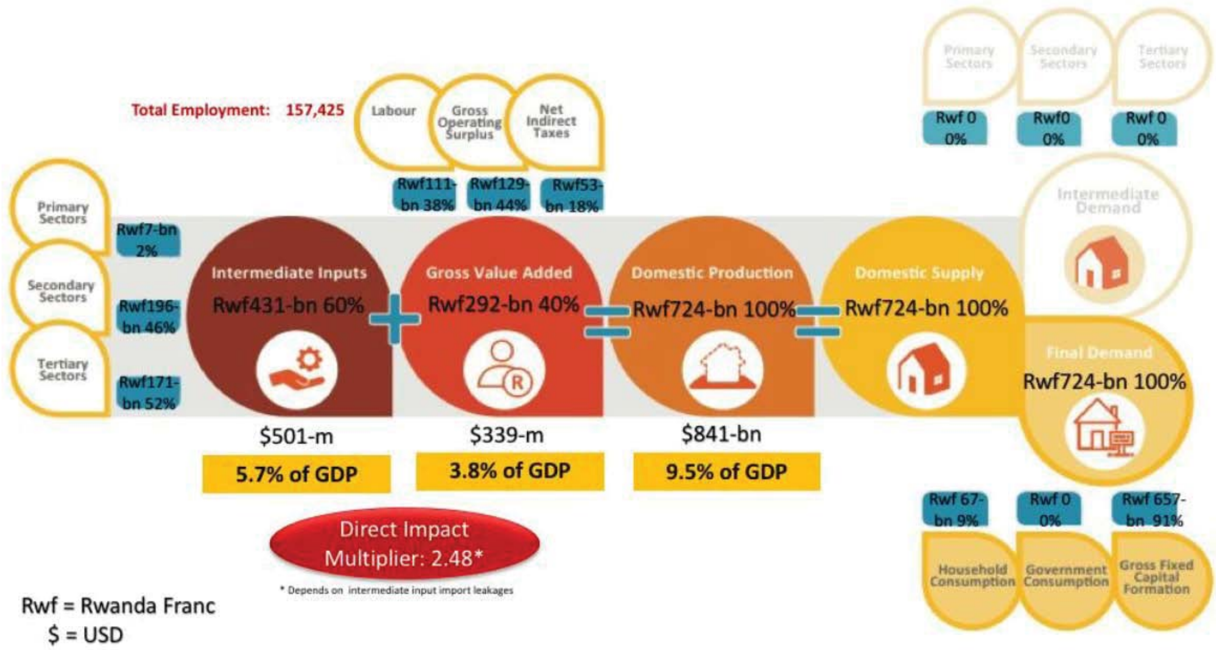
21. **Reducing poverty at a household level is achieved by spending less of monthly budgets on housing, which leads to an income subsitution effect toward improving education and health outcomes**

[16] The CPS was extended to FY20 by a Program and learning Review (PLR), Report No. 106731-RW.

for families. At the micro level, household budget analysis shows that a large proportion of household income in emerging economies is currently devoted to housing, often in the form of rent or set aside for incremental constrution. Typically housing conditions are substandard and a long way from the Sustainable Development Goal 11 of safe adequate and affordable housing for all. Building incrementally, which is the only way most Rwandan households can hope to own a home at present, is both inefficient and ineffective. Households do not have the right skills to build safe durable houses, they cannot benefit from economies of scale, and it is difficult to plan urban neighborhoods with haphazard construction. Financing of incremental construction is often done through short-term, high interest rate loans with lenders operating outside of formal financial system. So for households, one of the key benefits of this project is bringing down overall costs for housing by accessing formal long-term finance, which in turn allows redirection of savings toward other outcomes such as health or education. Alongside this, by creating a more widely accessible housing finance system, government is giving itself better opportunities to plan key infrastructure needed for housing by working with formal developers. Given Rwanda's commitment to city masterplans for Kigali and secondary cities, this forms an essential part of their development map.

22. **Greater access to housing finance will provide developers with a strong incentive to increase the supply of housing to the growing urban population because of increased demand.** The housing industry, especially through housing construction, creates an important economic multiplier through job creation, including in related sectors along the supply chain, from developers to construction material businesses and commercial activities around new housing. The recent 'Country Private Sector Diagnostic' report for Rwanda, a joint World Bank-IFC study completed in 2018, estimated direct contributions of housing construction and housing rental activity to collectively account for 9.5 percent of Rwanda's GDP.This is high when compared with similar studies completed for other African countries. For example, direct housing contributions only comprised 2.1 percent of South Africa's GDP in 2016 and 6.3 percent of Uganda's GDP in the 2016/17 fiscal year. This high contribution to GDP is in line with the hypothesis that the lower the GDP per capita, the greater the relative importance of housing activities in an economy. These findings are consistent with empirical research, which demonstrated high multiplier effects of the housing sector on growth and job creation. In Colombia, it is estimated that every US$10,000 spent on housing creates five additional jobs. In India, each housing unit is estimated to create 1.5 direct and eight indirect jobs and in South Africa, 5.6 additional jobs. Based on the estimated number of mortgages that will be financed under this project, and assuming an average rate of 5 jobs created per housing unit built, the project may help create approximately 30,000 jobs during the first five years.

Figure 6. Estimated Combined Impact of Housing Construction and Rental and Related Activities in 2017



Source: Rwanda Country Private Sector Diagnistic , World Bank Group 2018.

II. PROJECT DESCRIPTION

A. PROJECT DEVELOPMENT OBJECTIVE

PDO Statement

23. To expand access to housing finance to households and to support capital market development in Rwanda.

PDO-Level Indicators

24. Achievement of the PDO will be measured through the following indicators:

- Number of housing loans financed by this project
- Number of housing loans financed by financial institutions
- Number of bonds issued by the RMRC
- Volume of bonds issued by the RMRC

25. Additional intermediate indicators to achieve the PDO targets are described in section VI. The project will also track the share of housing loans extended to female borrowers over the lifetime of the project.

B. PROJECT COMPONENTS

26. **The proposed project entails two components:** (a) Provision of Long-term Finance to Expand Housing Finance and (b) Technical Assistance and Implementation Support.

Component 1: Provision of Long-term Finance to Expand Housing Finance (US$147 million equivalent)

27. **The component includes a LoC to support the provision of housing loans by Rwandan financial institutions.** The LoC will be implemented by the BRD as the main implementing agency which will administer this component on behalf of the Government (and possibly by the proposed RMRC, at a later stage, subject to satisfactory conditions being met as described in paragraph below). A large share of the proceeds of this component is expected to be used primarily in the form of long-term loans to financial institutions to support the issuance of housing loans to targeted beneficiaries. Financing will be provided to financial institutions which meet strict eligibility criteria and provide adequate collateral. Eligibility criteria for financial institutions are expected to include compliance with national prudential requirements, minimum capital adequacy ratio, maximum non-performing loan (NPL) ratio, adequate appraisal standards, capacity to meet project implementation requirements, and ability to provide adequate security/mortgages against housing loans.

28. **The government is keen to ensure the sustained provision of long-term finance to support the development of the mortgage market beyond the lifetime of the project.** The GoR will facilitate the creation of an RMRC[17] as a strategic institutional vehicle which would eventually leverage long-term funds through capital markets. The borrower, alongside other institutional investors, will invest in the RMRC once it is created and its business plan is developed and shareholding structure established. Part of the LoC proceeds under the project may be allocated to finance a potential GoR investment into the RMRC in the form of equity and/or debt (subordinated debt and/or long-term debt for a line of credit for mortgage refinancing implemented by the RMRC) alongside commitments from other institutional investors upon the GoR's request, if the RMRC's value proposition, financial and operational viability, market conditions, regulatory framework, and institutional set-up are deemed adequate by the Borrower and the World Bank. The RMRC will require a strong capital base to mobilize funding in larger volumes and at attractive conditions, as a Borrower in an initial phase, and as a bond issuer in the medium/long run. IFC is concurrently working on a potential equity investment into the RMRC and is engaging with private and

[17] MRCs can play a pivotal role as catalysts of housing finance. Key benefits include (a) provision of long-term funds so that lenders can match their assets and liabilities; (b) better affordability of mortgage loans as financial institutions extend the maturity of their loans; (c) creation of a safety net for the financial system as mortgage lenders know they have a source of liquidity when they need it, which incentivizes them to produce long-term loans; (d) enhanced competition, by removing long-term funding as a barrier to entry in the mortgage market; and (e) development of a deeper private bond market.

institutional investors to ensure that the capitalization is entirely subscribed and disbursed when the RMRC starts.

29. **The primary target under this component are loans for homes priced between RWF 10 and 35 million, a price range deemed affordable for households earning RWF 200,000–700,000 per month (US$250–US$750), defined in the GoR's affordable housing finance strategy.** This segment corresponds to the 50th–80th percentiles in the income distribution for Kigali and remains largely unserved or underserved by the current mortgage market. The target segments may be adjusted over the implementation period as agreed by the GoR and World Bank. Refinancing under the LoC will be targeting first-time home buyers with mortgage loan amounts within a defined threshold to encourage lending to underserved segments, which will be regularly reviewed and updated as agreed by the GoR and World Bank. The potential introduction of targeted financial support instruments will be guided by four key principles: (a) social equity (targeting lower-income/underserved segments); (b) non-distortive (not distorting the functioning of financial markets); (c) fiscally responsible (not inducing medium-/long-term fiscal risks); and (d) efficiency (achieving the desired outcome at lowest costs for borrowers and lenders).

30. **The pricing of the LoC for financial institutions and end borrowers will be set based on the principle of market-based financing to support the long-term financial sustainability of this intervention.** Because there is currently no market for mortgage refinance, the following formula will be used: IDA rate plus risk premium plus administrative cost. The GoR will receive the funds at IDA Scale-up Facility (SUF) cost in Euros and will add a spread and pass these funds in local currency. The GoR will assume the foreign exchange risk. With this formulation, it is expected that the pricing for the main target segment under current rates will emerge slightly higher than the five-year bond benchmark rate.[18]

Component 2. Technical Assistance and Implementation Support (US$3 million equivalent)

31. **The objective of this component is to strengthen the enabling environment for affordable housing and financing through technical assistance (TA) and capacity building.** The component will focus on analytical work and capacity building to support for housing demand-side capacity building and supply-side reform agenda—in close coordination with relevant Government departments and agencies—in view of fostering the enabling environment to support the supply of affordable housing. Key activities envisaged under this component include review of the existing incentive framework (land, infrastructure, tax, and other financial incentives), including a rapid assessment of the affordable housing pilots; rental market study; establishing of a PPP framework for housing development; capacity building for financial institutions and intermediaries to enable them to access long-term finance for housing under the project; and review and update of legal and regulatory frameworks (Condominium Law and BNR: Regulatory and Supervisory Framework for a future RMRC and Review of the Regulatory Framework for Mortgage Lending) and any other study or capacity building that may be required during the course of the project. The component also envisages financing a feasibility study and business plan for a future RMRC for the

[18] The detailed pricing arrangements will be detailed in the Project Implementation Manual (PIM). The project design will include incentives built into the disbursement schedule (diminishing percentage—defined in the PIM) to diversify funding sources, including capital markets.

GoR as potential investor alongside other private and institutional investors. A more detailed description of the proposed activities is provided in annex 4.

C. PROJECT BENEFICIARIES

32. **The primary beneficiaries of this project are Rwandan households which are unable to access long-term housing finance.** The project expects to focus primarily on loans for homes in the 10–35 million price segment,[19] a price range considered affordable to households with monthly incomes ranging between RWF 200,000 and RWF 700,000, the primary target segment which may qualify for mortgage loans under the GoR's strategy on affordable housing finance (2018). This 'middle-income' segment, which corresponds to the 50th–80th percentiles in the income distribution for Kigali, is considered to be the 'missing middle', a growing segment of urban workers whose income would enable them to access mortgages if long-term funding was more available. Households earning less than RWF 200,000 would remain excluded from the mortgage market even if given access to long-term credit and require different solutions (rent-to-own and social housing) and the project will serve as a basis to pilot some of these models. Households with incomes above 700,000 are considered to have sufficient access to mortgage financing under current market conditions. Given the nascent stage of the mortgage market, it is necessary to jumpstart the urban middle-class market and progressively look to go downstream to reach the lower-income segments. The target segments may be adjusted over the implementation period as agreed by the GoR and World Bank.

33. **Other direct beneficiaries of this project will be key stakeholders associated with the affordable housing value chain.** This includes public entities such as the BRD**,** qualified participating financial intermediaries, the RMRC, and other relevant GoR institutions who will benefit from advisory and capacity building on affordable housing under Component 2 of this project.

34. **Indirect beneficiaries of this project will be all other stakeholders in the housing and housing finance value chain, including the workforce.** Greater access to long-term housing finance will have a catalytic impact on the purchasing power of a growing urban population in search of housing, which, alongside rising incomes, is expected to stimulate housing development. The resulting impact of housing construction and housing rental activity is estimated to account for about 10 percent of GDP and generate, on average, five jobs per new housing unit based on international experience. This ratio is likely to be higher in Rwanda as construction is more labor-intensive in a global comparison. As the Rwandan economy continues to grow, upward mobility of households will further generate new housing activity, facilitated by the efficient and relatively inexpensive titling system in Rwanda. It must also be restated that this figure only considers the direct economic impact of housing construction and rental activities and does not consider the more-difficult-to-calculate indirect impact and the induced impact arising from

[19] Subject to market conditions and economic considerations during implementation, if demand for such sized loans is lower than expected, the project also envisages flexibility to allow a small portion of the funding under the World Bank loan (up to 30 percent of the LoC) to finance housing loans above the RWF 35 million target range at market-based pricing for end borrowers. This would enable a blended yield for financial institutions and incentivize them to expand their mortgage lending in the RWF 10–35 million segment, if deemed necessary, to ensure or accelerate project implementation and incentivize the market to cover the main mortgage segment.

housing in the economy. Including these would increase the impact of housing on Rwanda's economy still further.

D. RESULTS CHAIN

Figure 7. Results Chain

Provide long-term funds for affordable housing loans	Financial institutions use long-term funds to finance affordable housing loans	Financial institutions increase number and volume of housing loans	Greater access to housing loans by a larger share of unrepresented/underserved segments
Identify and resolve affordable housing supply challenges through TA	Deliver assessment of affordable housing supply challenges and reform recommendations	Implementation of reform recommendations	Increase in availability of affordable housing stock, leading to greater access to housing

E. RATIONALE FOR WORLD BANK INVOLVEMENT AND ROLE OF PARTNERS

35. **The development of long-term housing finance is an integral part of the World Bank Group's strategy in support of greater access to affordable housing in Africa, which was presented to the Board in December 2015.** This project is also in line with the World Bank Group's long-standing efforts to help countries develop their capital markets to access international investment finance. The World Bank Group supports countries in their capital markets development activities with both investment transactions and advisory support. The World Bank Group's advisory support has encompassed a wide range of activities aimed at developing capital markets, notably, the government and nongovernment bond markets. This includes a long history of supporting the development of African financial and capital markets to improve access to long-term finance. The World Bank Group has also well-recognized expertise with MRC and helped support these institutions in Egypt, Jordan, India, Tanzania, and Nigeria and more recently in West Africa and Pakistan. A project under preparation in Kenya (P165034) follows a similar approach, supporting long-term housing finance through the creation of a new MRC and long-term debt while strengthening the enabling environment. Over the years, the design of these projects has been improved to ensure that MRCs could be sustainable by issuing bonds and could increase their outreach to non-banks.

36. **This project contributes to the Maximizing Finance for Development agenda by crowding-in private sector financing in support of the development goals by providing greater access to affordable housing.** The project will not only help mobilize private sector funding but also unlock broader financing

sources from institutional investors such as pension funds and insurance companies. The program will also contribute to implementing the World Bank Group's new 'cascade' approach, ensuring public interventions lead to new private investment, by helping identify and unlock potential investment transactions by the IFC and others. The project also complements the supply-side initiatives being pursued by IFC and represents an opportunity for an integrated World Bank Group approach to crowd-in private financing and build the mortgage finance markets in Rwanda. This project is also aligned with the IFC 3.0 strategy on creating markets, through developing local capital markets that will enable local currency finance, lengthen maturities, and increase foreign capital flows into emerging market assets (foreign institutional investors are already investing in the Rwandan capital market).

37. **This project is closely coordinated with the existing and planned engagements of key development partners in Rwanda.** Within the World Bank Group, the team is closely coordinating with the IFC which is engaged in providing affordable housing in Rwanda through various engagements. The project team is also coordinating with other donors engaged in affordable housing in Rwanda to maximize synergies and leverage resources for activities under implementation (Swiss State Secretariat for Economic Affairs [SECO]) and under preparation (*Kreditanstalt Fuer Wiederaufbau* [KfW] and U.K. Department for International Development [DFID]).

F. LESSONS LEARNED AND REFLECTED IN THE PROJECT DESIGN

38. **Lessons learned are based on a recent Internal Evaluation Group (IEG) report and similar projects in Tanzania and Nigeria.**[20] MRCs take time to operate up to their potential, but in the early years they can have a sizable impact through allocation of an LoC and addressing reforms and building capacity within the mortgage and housing finance market. Stable macro-conditions are a prerequisite for developing housing finance. The refinancing facility in Tanzania was negatively affected by changes in the macroeconomy shortly after approval, which prevented it from issuing bonds. A functioning, albeit shallow, bond market is a precondition for a refinancing facility. The macroeconomic conditions in Rwanda appear overall favorable, supported by a sound fiscal and monetary policy. Interest rates remain comparatively high because of high government borrowing costs but despite the affordability constraints remain viable for developing a housing finance market.

39. **The World Bank Group has only limited resources and hence requires crowding-in private sector financing.** The project will support the creation of an MRC to emerge as a sustainable source of long-term funding which is set to issue bonds over time to finance its operations, crowding-in private sector financing through the capital market. Furthermore, empirical evidence suggests that mortgage refinancing facilities can support private sector investment through supply-side reforms. In Nigeria, the refinancing facility entered into agreements with states which committed to improve the court system for the creditors' rights and to lower transaction cost and time for titling. In Tanzania, the refinancing facility supported the acceleration of titling through subdivision.

[20] World Bank. 2016. *World Bank Group Support for Housing Finance: An IEG Learning Product*. Washington, DC: World Bank.

40. **TA can enhance sustainability when there is a strong link between investment and advisory services**. The lack of TA negatively affected two IFC projects reviewed by the IEG (Vietnam and the Philippines) while in Jordan, key reforms and World Bank Group assistance contributed to the success of the mortgage refinancing facility. Component 2 is directly linked to the long-term finance component as it will help address key supply-side constraints which affect the availability and cost of housing.

41. **Targeting and monitoring are key to achieve and measure outcomes and impact.** The IEG found that effectiveness could not be measured in various projects (Brazil, West Bank and Gaza) because they lacked definitions of intended targets. This project will use the size of the loan as a proxy for the targeted income groups (as defined in project description). The IEG report notes that when there is no mortgage market, the low-income segment should be introduced gradually. For this reason, the project aims to scale up the existing volume of mortgage lending and widen the mortgage market to the middle-income segments which remain underserved by the current market (4–5 quintiles of income distribution) before going further downstream to reach lower-income groups.

III. IMPLEMENTATION ARRANGEMENTS

A. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

42. **The BRD will be responsible for the implementation of the technical assistance and the BRD line of credit for mortgage refinancing.** The BRD will establish a Single Project Implementation Unit (SPIU) which will be responsible for overall project coordination and oversight, which includes, among other things, (a) ensuring timely implementation of the project in accordance with the Project Implementation Manual (PIM) and the BRD's compliance with the World Bank requirements; (b) implementing project activities under its direct responsibility and overseeing project-related activities to be carried out by other entities; (c) managing project finances and preparing consolidated project financial reports; (d) developing and maintaining a system for monitoring the project performance indicators; and (e) preparing progress reports, including updates to the Results Framework, budgets, and Procurement Plan. These requirements will be reflected into a subsidiary agreement executed between the GoR, through MINECOFIN, and the BRD. The BRD will be expected to prepare a PIM before project effectiveness and set up the SPIU before the project's first disbursement. The BRD's financial intermediation role was assessed against the criteria put forward in a 'Guidance Note to Investment Project Financing for Financial Intermediary Financing'. The assessment is provided in annex 6. The Borrower may designate a future entity such as the proposed RMRC to implement part of Component I (provision of long-term debt to the RMRC for it to implement a line of credit to financial institutions to issue housing loans) upon confirmation by the Borrower and World Bank, subject to meeting the World Bank's eligibility criteria as implementing agency under the project.

43. **A Steering Committee will be established for effective coordination and project oversight no later than three months after effectiveness.** To ensure successful implementation of the proposed project and overall advancement of the housing agenda in Rwanda, the project proposes to establish a Steering Committee chaired by MINECOFIN and comprising representatives from MININFRA (co-chair), MINALOC, Ministry of Trade, MIFOTRA, BRD, RHA, CoK, Rwanda Development Board (RDB), and PSF. The

Steering Committee will consult and determine which line ministries, agencies, and districts to invite to the Steering Committee meetings and working groups on components to ensure that awareness and ownership of reforms that affect other agencies is maintained. The terms of reference of the Steering Committee, including responsibilities and composition, will be defined in the PIM.

B. RESULTS MONITORING AND EVALUATION ARRANGEMENTS

44. **The BRD SPIU will monitor project implementation progress and results indicators, as well as progress toward achievement of the PDO.** The BRD SPIU monitoring and evaluation specialist will collect and analyze data on implementation progress for all components and activities. The monitoring and evaluation exercise will be conducted on a continuous basis, and the focal points from each of the component-implementing entities (BRD) will be the primary source of information. The reports will be framed based on the project Results Framework agreed upon and will present progress in achieving the key and intermediate indicators to the World Bank quarterly. The Results Framework provides a matrix of indicators that will be assessed and the milestones to be achieved during each stage of the implementation period, including the final outcome and intermediate outcome values planned by project completion for the whole project and for each component. This will be carried out in conjunction with the World Bank implementation and support missions. In addition, there will be a midterm (in-depth) review of the project, proposed at 30 months after effectiveness.

C. SUSTAINABILITY

45. **The creation of the RMRC supported by this project was driven by the objective to sustain the provision of long-term finance for housing beyond the lifetime of the project.** The RMRC is set to emerge as a self-standing private sector-led financial institution, established pursuant to the Recipient’s financial sector legal framework, which will sustain operations after project closure. The proposed support for the creation and initial operations of the RMRC through equity and long-term debt in support of a Government contribution would, alongside a possible IFC equity investment, strengthen the financial soundness and capital base of a new RMRC and help crowd-in private and institutional investors as a result. The project may be used to support the launch of the RMRC to start operations and will create incentives for lenders to issue mortgage loans to targeted beneficiaries. Over time, the RMRC will seek to fund its activities through other funding sources, including bond issuance.

46. **The proposed TA envisaged under the project is a small, but important, activity which is key to ensure the successful project’s implementation and creation of the RMRC.** The proposed support for housing demand-side capacity building and supply-side reform agenda will be key to identify and resolve housing demand and supply bottlenecks to housing ownership and financing.

IV. PROJECT APPRAISAL SUMMARY

A. TECHNICAL, ECONOMIC, AND FINANCIAL ANALYSIS (IF APPLICABLE)

47. **The provision of public financing is justified by the expansion of housing finance to underserved households and the support it will provide to expanding the housing construction sector into a more affordable segment.** The IDA SUF will provide the initial support necessary for building the mortgage market and will help scale up volumes and crowd-in investment into the housing market. The lack of adequate financing options for homebuyers is a major constraint affecting the investment of developers considering the affordable housing sector. By resolving this market constraint, the objective is to see a scaling-up in the production of affordable housing in urban areas.

48. **The expansion of housing finance during the five-year project window will help provide shelter to over 30,000 people at a minimum, potentially a lot more if the project can successfully leverage capital markets** (more details are provided in the economic and financial analysis, annex 5). The crowding-in effect of investors and developers into housing construction, together with a leverage effect of tapping capital markets to facilitate long-term mortgage finance, could yield up to three or four times the 1:1 direct benefits of this project. This impact occurs through a number of channels, including (a) allowing banks to make better use of their shorter-term deposit resources by accessing long-term funds supported by this project for liquidity purposes when needed; (b) raising private capital in the bond markets and channeling this toward housing investment; (b) creating opportunities for developers and builders on the supply side to make investments by supporting 'effective' housing demand; and (d) supporting overall growth in the mortgage market; economies of scale will accrue to mortgage lenders as they invest in developing their servicing, origination, and risk management capacity. With regard to direct impact, the project is expected to help create 30,000 new jobs by the end of 2024. This is based on a conservative job multiplier of five—this is often higher in labor-intensive emerging markets. These jobs would be in a range of sectors covering the housing supply chain, servicing the new housing units, and engaging in the construction of further new units.

B. FIDUCIARY

(i) Financial Management

49. The project will be implemented by the BRD. Once the RMRC is created and deemed viable through development of its business plan and its shareholding structure defined, it will be capitalized to ensure that it leverages other financing for housing in Rwanda. The financial management (FM) assessment of the BRD was conducted in compliance with the World Bank policy and directives on investment financing. The objective of the assessment was to determine whether the BRD has an acceptable FM arrangement, which will ensure (a) that funds are used for the intended purposes in an efficient and economical way; (b) the preparation of accurate, reliable, and timely periodic financial reports; and (c) safeguarding of the entity's assets. The existing FM arrangements provide reasonable assurance that the financing proceeds will be used for intended purpose in a transparent, effective, and efficient manner. The BRD SPIU is experienced in development partner-financed projects (Renewable

Energy Funds) and is staffed with one FM specialist and one accountant. An additional FM staff financed by the project may be needed and agreed with the World Bank.

50. The overall FM risk of the project is Moderate and the proposed mitigation measures are (a) upgrading the BRD's enterprise resource planning (ERP) system to prepare the project's financial reports and annual statement for projects managed by multiple implementing entities and classifying and retrieving information by project component and disbursement categories; (b) conducting the induction training of the BRD SPIU FM staff on World Bank disbursement guidelines and procedures; and (c) training of internal audit on World Bank-financed project risks.

(ii) Procurement

51. The project procurement profile comprises procurement of the following:

- Review of affordable housing pilots/experiments in Rwanda
- Review of the incentive framework for affordable housing in Rwanda in key areas
- Establishing of a PPP framework for housing development
- Review of the Condominium Law
- Feasibility study and business plan for a future RMRC for the GoR
- Review/update of Housing Market study, including market needs in CoK and Housing market study in other districts' cities
- A study on low-cost and efficient housing technologies
- Any other emerging study or technical assistance that may be required within the scope of the project

52. After careful evaluation of various options for the procurement approach and contracting strategy, international market approach using Quality and Cost-Based Selection (QCBS) and Individual Consultant (IC) would be the optimum selection arrangement for procurement of the identified consultancy services under Component 2 of the project. In case works and goods procurements are identified in due course, a National Market approach will be used based on the availability in the national market and volume using National Competitive Bidding (NCB) and Request for Proposals (RFQ), which are deemed optimal for this project given the low value of contracts.

53. Procurement for the proposed project will be carried out in accordance with the 'World Bank Procurement Regulations for Borrowers under Investment Project Financing', dated July 1, 2016, as updated in August 2018, hereafter referred to as 'Procurement Regulations'. Procurement Regulations will not apply to procurement under Component 1 which will be financed through loans made by eligible

financial intermediaries to private borrowers. The project will be subject to the World Bank's Anticorruption Guidelines, dated July 1, 2016.

54. To accelerate implementation pace, a Project Procurement Strategy for Development (PPSD) was developed which sets out the selection methods to be followed by the Borrower during project implementation in the procurement of goods, works, and non-consulting and consulting services financed by the World Bank. The underlying Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

55. The proposed project will use Systematic Tracking of Exchanges in Procurement (STEP), a planning and tracking system that will provide data on procurement activities, establish benchmarks, monitor delays, and measure procurement performance.

56. A procurement capacity and risk assessment was carried out by the World Bank for the BRD to review the organizational structure for implementing the project. The overall procurement risk rating is deemed 'Substantial' based on a number of issues encountered in the use of STEP and capacity limitations in implementing procurement following the procurement regulations applicable to the ongoing World Bank-financed project.

C. SAFEGUARDS

(i) Environmental Safeguards

57. **This is an Financial Institution (FI) category project, with all the envisaged activities and sub-projects classified as category C.** None of the project activities are expected to have adverse environmental impacts. Beyond screening, no further environmental assessment action is required for the project. The project is expected to generate climate co-benefits. Climate change may exacerbate extreme weather events in Rwanda, increasing the vulnerability of people, assets, and infrastructure to climate-induced disasters, especially in urban centers because of unplanned urbanization and vulnerable house construction. As mortgage refinancing available under the project is limited to existing formal housing which is fully compliant with national building codes and urban development regulations, the project helps expand access to formal housing for households which have been living in unplanned settlements and, as a result, been exposed to higher risks because of limited access to basic infrastructure and substandard housing construction.

(ii) Social Safeguards

58. **None of the activities and sub-projects identified under this project** (Component 1: Provision of Long-term Finance to Expand Housing Finance; Component 2: Technical Assistance and Implementation Support) are expected to have adverse impacts pertaining to social safeguards.

(iii) Citizen Engagement

59. **The identification and prioritization of project activities has been conducted through a robust citizen engagement process involving a broad range of relevant public and private stakeholders.** Consultation on project design and implementation arrangements were conducted through a series of roundtable discussions involving key stakeholders within the GoR, developers, financial sector representatives, and nongovernmental organizations engaged in housing development and finance. The consultation workshops with key stakeholders were very helpful and informed the scope and design of the project. The creation of a Steering Committee comprising key public and private sector stakeholders—mandated to provide strategic orientation and ensure effective coordination on housing policy and finance in Rwanda—is one example of a recommendation which emerged from the consultations and integrated in project design.

(iv) Grievance Redress Mechanisms

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

V. KEY RISKS

61. **The overall risk rating is Substantial.** While the project benefits from a favorable context, there are substantial institutional, strategies and policies, and technical design risks. The favorable context is underpinned by (a) stable macroeconomic conditions that allow the development of long-term housing finance; (b) strong political support for and high political priority of affordable housing; (c) the terms of IDA SUF financing which will enable the extension of mortgage maturities, significantly improving affordability; and (d) the GoR making significant progress not only in its commitment to build a sustainable source of long-term funding but also in supply-side measures through incentives for developers, strengthening of the legal and regulatory framework, and related measures.

62. **Sector Strategies and Policies (Substantial).** Currently, a number of ministries, government departments at different levels, and specialist institutions operate in the housing sector with different policies and strategies. A key success factor will be to review and improve the legal and regulatory

framework. Strong coordination of the existing policies and strategies with clear roles and responsibilities will be important for the long-term growth and development of the affordable housing market.

63. **Insufficient stock of 'mortgage-able' housing (Substantial).** The supply of housing is limited and virtually nonexistent in the 'affordable' range. Most housing is self-built on an incremental basis. However, there is a growing number of housing projects that are in the pipeline, including through support of IFC, which offers immense potential for initial growth of the mortgage market. The project also seeks to remove some of the supply barriers making housing development uneconomic currently.

64. **Institutional Capacity for Implementation and Sustainability (Substantial).** There is very limited experience in mortgage lending. Component 2 and the joint World Bank-IFC housing finance advisory task will provide the necessary advisory support to support the creation and operationalization of a future RMRC. The component will also build the capacity of nonbank financial institutions to access long-term funds to issue housing loans. The project envisages strict eligibility criteria for institutions and loans and will start refinancing the institutions which already have experience with housing finance.

65. An overall key risk mitigation measure will be the strong implementation support and supervision that will be carried out in the first 12–18 months of the project to enable fast implementation and resolve any emerging issues early on. The project will include targeted training and capacity building for the stakeholders, particularly focusing on making them fully conversant with the World Bank's policies, procedures, and guidelines.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Rwanda
Rwanda Housing Finance Project

Project Development Objectives(s)

To expand access to housing finance to households and to support capital market development in Rwanda.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	End Target
Number of housing loans financed by this project			
Number of housing loans financed by this project (Number)		0.00	6,000.00
Number of housing loans financed by financial institutions			
Number of housing loans financed by financial institutions (Percentage)		0.00	30.00
Number of bonds issued by RMRC			
Number of bonds issued by RMRC (Number)		0.00	2.00
Volume of bonds issued by RMRC			
Volume of bonds issued by RMRC (Amount(USD))		0.00	35,000,000.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Provision of Long-Term Finance to Expand Housing Finance			
Number of Participating Financial Institutions (LoC) (Number)		0.00	5.00
Number of Participating Financial Institutions (Shareholders of RMRC) (Number)		0.00	3.00
Average maturity of housing loans financed by the project (Number)		0.00	10.00
Project beneficiaries satisfied with access to housing finance (Percentage)		0.00	80.00
Technical Assistance and Implementation Support			
Number of entities receiving technical assistance (Number)		0.00	8.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of housing loans financed by this project	This indicator measures the number of housing loans financed by this project.	Annual	BRD	Reporting	BRD

Number of housing loans financed by financial institutions	This indicator measures the percentage increase of housing loans financed by Rwandan financial institutions (increase in the total number of housing loans issued by Rwandan financial institutions compared to baseline (number of housing loans issued in 2018)	Annual	Rwanda Development Board	Mortgage Registry Database	BRD
Number of bonds issued by RMRC	This indicator measures the number of bonds issued by the RMRC on the capital market.	annual	RMRC	Reporting	BRD
Volume of bonds issued by RMRC	This indicator measures the volume of bonds (USD) issued by the RMRC on the capital market.	annual	RMRC	Reporting	BRD

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of Participating Financial Institutions (LoC)	This indicator measures the number of financial institutions which access the line of credit for mortgage	annual	BRD	Reporting	BRD

	financing under this project.				
Number of Participating Financial Institutions (Shareholders of RMRC)	This indicator measures the number of financial institutions which become shareholders of the RMRC.	annual	RMRC	Reporting	BRD
Average maturity of housing loans financed by the project	This indicator measures the average maturity of housing loans financed by the project.	Annual	BRD	Reporting	BRD
Project beneficiaries satisfied with access to housing finance	This indicator measures the satisfaction of project beneficiaries with access to housing finance. The definition of project beneficiaries for this indicator extends beyond direct project beneficiaries to cover a wider range of relevant public and private stakeholders. This indicator will build on the successful and tested format of thematic roundtable discussions which were held with key stakeholders within the GoR, developers, financial sector representatives, and nongovernmental	Annual	BRD	survey to project beneficiaries	BRD

	organizations engaged in housing development and finance to seek their feedback on project design and implementation arrangements. The team will maintain these consultations throughout the lifetime of the project through annual roundtable discussions and report on their outcomes in supervision reports.				
Number of entities receiving technical assistance	This indicator measures the number of entities receiving technical assistance and capacity building under the project.	annual	BRD	Reporting	BRD

ANNEX 1: RWANDA FINANCIAL SECTOR OVERVIEW

1. **Rwanda's financial sector has made strides toward becoming a modern financial sector.** Banks, MFIs, SACCOs, insurance companies, pension funds, and capital markets firms are providing an expanding range of products and services to address the financial needs of the private sector, even though there is still scope for further improvement. Currently, products offered to the private sector range from payments over savings to credit, insurance, and retirement products, with different levels of sophistication and innovation.[21]

2. **Rwanda's financial sector is composed of a wide and growing array of institutions and is becoming increasingly diversified, which is a positive development.** Commercial banks continue to hold the largest combined share of financial sector assets at slightly over 50 percent (Table 1.1). Yet, the change over time is noteworthy. In 2008, the banks' combined share was over 60 percent, signifying that the financial sector has become more diversified in recent years. This is a positive development as it implies increased competition from new and different types of institutions as well as a wider breadth of financial products available. Both public and private investment contributed to this development. The main contribution to diversification came from other depository institutions, mainly microfinance banks, and also from deposit-taking MFIs and SACCOs. At the same time, an increase in diversification implies that new interconnections between different parts of the financial sector may emerge. These have to be monitored with more sophisticated regulatory and supervisory arrangements on a system-wide basis, because they can potentially function as a contagion channel in times of stress.

3. **Apart from banks and other deposit-taking institutions, several insurance companies, pension funds, and other non-bank financial institutions (NBFIs) are active in Rwanda.** The growth in NBFIs' assets between 2008 and 2016 can mainly be attributed to the growth of the Rwanda Social Security Board (RSSB), the public pension and insurance fund, and the BRD. The RSSB continues to be the single largest financial institution in Rwanda and the most important source of long-term capital in the market. Private insurance companies, instead, have grown more slowly and have, therefore, kept a constant share of financial sector assets over time. There have also been advancements in capital markets with eight equities being traded on the Rwanda Stock Exchange and more bonds being issued.

4. **The BNR is the integrated regulator for commercial banks, MFIs, SACCOs, insurance companies, and pension funds.** The responsibility for the supervision of insurance funds was assigned to the BNR only in 2009 and the supervision of pension funds was assigned to the BNR more recently. The capital market is regulated and supervised by the Capital Markets Authority.

[21] Rwanda's financial sector is composed of a total of 504 supervised financial institutions, of which 16 are banks (11 commercial banks, 3 micro-finance banks, 1 development bank, and 1 cooperative bank); 472 MFIs (17 limited liability companies and 455 cooperatives, of which 416 are Umurenge SACCOs and 39 non-Umurenge SACCOS); 15 insurers (13 private and 2 public); and 1 public pension scheme.

Table 1.1. Size and Structure of Rwanda's Financial System (RWF, billions)

	December 2008			December 2013				December 216			
		In percentage of				In percentage of				In percentage of	
	Total Assets	Financial System Assets	GDP	Number	Total Assets	Financial System Assets	GDP	Number	Total Assets	Financial System Assets	GDP
Banks	**511**	**64.7**	**20.0**	**11**	**1,510**	**65.9**	**46.3**	**17**	**2,378**	**66.9**	**35.9**
Domestic private	—	—	—	—	—	—	—	3	428	12.0	6.5
Domestic public	—	—	—	—	—	—	—	1	856	24.1	12.9
Foreign	—	—	—	—	—	—	—	13	1,094	30.8	16.5
Assets of three largest banks	—	—	—	—	—	—	—	3	1,132	31.8	17.1
Other NBFIs	**279**	**35.3**	**10.9**	—	**780**	**34.1**	**11.8**	**488**	**1,177**	**33.1**	**17.8**
Insurance	80	10.1	3.1	—	233	10.2	3.5	15	345	9.7	5.2
Pension fund	139	17.5	5.4	—	418	18.3	6.3	1	608	17.1	9.2
MFIs	60	7.6	2.4	—	129	5.6	1.9	472	224	6.3	3.4
Total Financial System	**790**	**100.0**	**30.9**		**2,290**	**100.0**	**58.1**	**505**	**3,555**	**100.0**	**53.7**

Source: BNR.

Banking Sector

5. **The banking sector's assets have almost tripled in nominal terms since 2008.** The banking sector's assets, net loans, and deposits have grown over 20 percent per year, with loans showing the strongest average growth at 26 percent. Given that banks rely, to a large extent, on deposits to fund loan growth, a drop in deposits generally means slower loan growth in the following year unless banks can find other sources of funding. The banking assets, as a share of GDP, also increased remarkably, especially considering the high nominal GDP growth over the period. This illustrates the strong relationship between banking sector development and economic development more broadly and the contribution that the financial sector can make to economic growth.

6. **The banking sector's expansion has been in part because of organic growth—existing banks have grown larger—but can also be associated with new entrants.** The rising presence of foreign-owned commercial banks, which accounted for 46 percent of all banking sector assets as of end-2016, reflects the increasing attractiveness of the Rwandan market to foreign investors, particularly from within the East African Community (EAC). The BNR and the Government play an important role in that regard by providing an accommodating legal and regulatory framework and business environment. The entry of foreign banks was a particularly welcome development as some of them focused on underserved market segments (low-income households and small and medium enterprises) using more innovative lending techniques (for

example, cash flow-based lending and agency banking[22]). Mobile payments and mobile banking have also increased in importance in recent years. Between December 2015 and December 2016, the number of registered mobile money accounts increased by 27 percent to 9.7 million and the volume of mobile banking transactions increased by 22 percent to RWF 205 million.[23]

7. **Despite the impressive growth of the banking sector in recent years, it continues to be the second smallest in the EAC region.** The Kenyan banking sector is larger than all other EAC banking sectors combined, which is largely attributable to the different size of the respective economies. In smaller countries such as Rwanda and Burundi, it is more challenging for banks to reach economies of scale and expand beyond a certain size. Nevertheless, even in these smaller countries there is still scope for growth and for expanding the bank's scale by banking the currently underserved. BNR found that, even after applying consecutive credit default shocks, the large majority of banks would remain safely above the regulatory minimum (risk-weighted) capital adequacy requirement of 15 percent. The system also displayed satisfactory resilience to liquidity and exchange rate shocks. As of March 2017, capital was well above regulatory requirements, and balance sheet vulnerabilities from liabilities denominated in foreign currency were low.[24]

8. **The banking sector's liquidity, efficiency, and profitability indicators have weakened over the last two years.** The slowdown in economic activity, rising problems in certain asset classes (real estate/tourism/hotels), and increased banking sector competition through entrants of new players are likely contributing factors. The liquid assets[25] to total deposits ratio stood at 41.7 percent by December 2016, still comfortably above the regulatory minimum ratio of 20 percent but significantly lower compared to December 2014 (50.7 percent). The loan-to-deposit ratio has been on the rise as well, reaching 97 percent in March 2017, which may suggest possible liquidity issues in the future and constraints on credit growth. Indicators of banking sector efficiency (cost-to-income ratio, overhead to income) and profitability (return on assets and return on equity) have been on a stagnating/declining trend over the last two years, which may indicate the limitations of efficiency gains through scale in the context of a small economy, a slowdown in economic growth, and increased competition through new market entrants and a challenging economic environment.

9. **Rwanda's banking sector appears to be sound on a systemwide basis, based on typical stability indicators.** The capital adequacy ratio (total capital to risk-weighted assets) of the banking sector stood at 22 percent in December 2016, above the regulatory minimum of 15 percent (Table 1.2). The quality of the bank's loan portfolios deteriorated in 2016. The ratio of NPLs/gross loans was at 8.1 percent as of March 2017 compared to 6.2 percent in December 2015. However, the NPL ratio has remained below 10 percent of credit, lower than regional peers. Loan loss provisions relative to NPLs stood at 44.5 percent.

[22] Agency banking in this context refers to a bank contracting a retail outlet such as a shop or post office to facilitate client transactions, including payments, deposits, and withdrawals. These agents are not full-fledged banks and therefore offer a smaller range of services but are less costly to establish, helping the bank reach more remote areas. They are common in many countries across the world, including Kenya, Brazil, and India.
[23] Source: BNR Financial Stability Report 2016.
[24] Source: BNR Financial Stability Report 2016.
[25] Liquid assets consist of cash, balances held with the BNR, balances due from financial institutions, and trading and other securities.

About 80.2 percent of total assets were classified as earning assets in 2017, reflecting a strong engagement in in lending activities.

Table 1.2. Banking Sector Stability and Performance Indicators

	2015				2016				2017
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
	Percentage								
Capital adequacy									
Regulatory capital to risk-weighted assets	23.3	21.6	21.3	19.19	22.3	20.7	20.4	19.9	19.6
Capital to assets	25.9	24.3	24.2	22.5	24.9	23.3	22.2	23.1	22.4
Off-balance sheet items/total qualifying capital	282.6	325.5	289.4	302.8	263.8	262.5	260.1	291.9	292.3
Insider loans/core capital	2.1	2.8	3.0	4.0	3.1	3.5	3.6	2.3	4.4
Large exposure/core capital	86.0	107.2	98.6	112.6	99.2	122.7	141.0	154.2	166.8
Asset quality									
NPLs/gross loans	6.3	5.9	6.3	6.2	6.2	7.0	7.4	7.6	8.1
NPLs net/gross loans	4.8	4.9	5.1	5.2	5.2	5.9	6.0	5.6	6.2
Provisions/NPLs	52.3	51.5	48.3	46.2	46.0	42.7	43.4	42.7	44.5
Earning assets/total asset	79.3	81.8	83.1	83.1	82.9	81.9	82.6	81.1	80.2
Large exposures/gross loans	20.1	22.5	20.9	23.4	22.6	26.5	29.9	31.7	33.1
Profitability and earnings									
Return on average assets	2.6	2.4	2.3	2.1	1.9	1.7	1.9	1.7	1.8
Return on average equity	14.1	13.1	12.7	11.2	9.8	9.2	9.4	9.3	9.1
Net interest margin	8.7	8.9	8.7	8.5	9.3	9.2	9.4	9.3	9.1
Cost of deposits	3.1	3.1	3.1	3.2	3.7	3.6	3.7	3.6	3.7
Cost to income	79.4	78.6	80.5	81.1	80.9	82.0	81.1	83.1	80.8
Overhead to income	43.7	46.0	46.2	46.8	49.1	49.9	48.9	49.9	49.0
Liquidity									
Short-term gap	9.9	11.6	2.3	8.1	9.1	10.4	3.6	2.8	5.9
Liquid assets/total deposits	41.8	49.5	46.8	45.4	43.9	42.8	42.3	41.7	42.6
Interbank borrowings/total deposits	13.7	15.9	16.4	18.0	17.0	17.6	20.9	20.4	19.1
BNR borrowings/total deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loans/total deposits	86.6	84.2	87.0	89.0	92.2	90.9	100.5	95.2	97.0
Market sensitivity									
Forex exposure/core capital	–4.0	–7.1	–7.0	–5.7	–6.7	–1.8	–6.3	–3.5	–4.4
Forex loans/forex deposits	27.1	32.6	38.7	37.2	51.0	55.7	46.1	41.3	46.3
Forex assets/forex liabilities	83.2	82.1	86.1	81.7	81.1	82.3	81.6	81.5	82.5

Source: BNR.

Microfinance

10. **The microfinance sector constitutes a rising share in the financial sector and plays an important outreach role in bringing formal financial services to Rwandans.** The sector comprises microfinance banks, MFIs, and a large number of SACCOs, including Umurenge SACCOs, which are present in all districts of Rwanda. The sector has grown in assets, loans, and deposits in the past few years. As of December

2016, MFIs and SACCOs account for 6.3 percent of financial sector assets in Rwanda (excluding Rwanda's three microfinance banks).

11. **The microfinance sector is well capitalized and liquid but has experienced a rise in NPLs because of the poor performance in agriculture.** The capital adequacy ratio for MFIs stood at 35.2 percent in December 2016, above the minimum regulatory requirement of 15 percent. The asset quality of MFIs deteriorated in 2016. The NPL ratio of MFIs increased from 7.9 percent in December 2015 to 9 percent in December 2016, with the weak performance of the agricultural sector being a key contributing factor. The MFI agriculture loans account for 15 percent of total loans of MFIs and 30 percent of Umurenge SACCOs.

Insurance

12. **The insurance sector is growing rapidly, albeit from a low base.** As of end-2016, there were 12 licensed private insurance companies in Rwanda: 8 general insurers and 4 life insurance companies. There were two public insurers operating in the health insurance sector: RSSB Medical Scheme and Military Medical Insurance. The public insurance sector also includes the Special Guarantee Fund and the *Mutuelles de Santé* program. While the insurance sector is still small, the sector has shown notable growth in recent years with regard to the gross written premium and total assets. In 2016, the total assets under management amounted to about US$400 million.

Pensions and Long-term Savings Schemes

13. **The pension sector has witnessed strong growth and remains the second-largest contributor to financial sector assets after commercial banks.** The pension sector's total assets were at RWF 608 billion in 2016, or 9.2 percent of GDP. The pension sector is dominated by the RSSB, the public pension fund. The RSSB provides defined pension benefits (along with health care and other protection) on a mandatory basis to all workers formally employed in the public and private sector. The scheme has around 350,000 contributors and pays pensions to around 30,000 retirees, which constitutes less than 10 percent of the labor force in the country or around 3 percent of the population. The RSSB is also the main source of deposits in commercial banks. As of 2016, 23 percent of all deposits in the banking system came from the RSSB. Social protection is also covered by an old-age grant, paid to around 1 million vulnerable citizens, targeted on a geographical and household poverty basis (not specifically targeted at the elderly). According to the Vision 2020 Umurenge Program, the goal is to reach national coverage by 2018.

14. **In addition to the public pension scheme, around 50 companies offer private occupational pensions to their workers.** Some of these are managed in-house as provident funds (for example, by some financial firms, breweries, for staff of international corporations, organizations and embassies, and so on). Others are managed externally by insurance companies acting as pension fund administrators, operating the funds either on a stand-alone basis or as part of a pooled umbrella fund. Membership of these funds is currently very small (around 6,000 people). In addition, the three main life insurance companies have sold retirement products to around 100,000 individuals. These are either deferred annuities or pension endowments (combining a guaranteed return savings element with a life insurance product).

15. **The pension sector is regulated by the BNR.** Law No. 05/2015 of 30/03/2015 Governing the Organization of Pension Schemes covers the operation of public and private pension schemes in the country. The Regulation on Minimum Operating Standards and Supervision of (voluntary and mandatory) Pension Schemes is also in place.

16. **The vast majority of pension assets in Rwanda are managed (in-house) by the RSSB, with a well-articulated investment strategy.** The fund currently has approximately US$400 million in assets under management (covering all schemes). This constitutes around 8 percent of GDP and makes the fund one of the largest pools of domestic and long-term capital in the country. The scheme has been estimated to be financially secure until the 2040s.[26] The investment strategy is intended to cover a three-year period but is designed to be reviewed annually.[27] It is set by the RSSB Board and follows the 'prudent investor' rule. Actuarial reports are meant to be carried out triennially. The risk management policy is also well designed. The Investment Committee designs the target portfolio. In practice, however, the funds are invested mainly in government bonds, bank deposits, and real estate. The equity portfolio (particularly international holdings) is not well diversified.

17. **A long-term savings scheme is being developed to offer pension and savings for the other 90 percent of the workforce, including in the informal sector, which is not covered by the RSSB.[28]** A long-term savings policy proposal has been developed to expand social security coverage by introducing preretirement benefits. The major benefits expected from the implementation of the long-term savings scheme ought to be (a) raising national savings levels, (b) providing adequate resources for long-term productive investments, (c) providing a pension product for the informal sector (currently not provided for by the RSSB), and (d) ensuring adequate housing and tertiary education for all. The proposed expanded scheme will cater for three population segments: (a) public sector salaried employees, (b) private sector salaried and self-employed business owners, and (c) people involved in the informal sectors (earning irregular and low income). The policy has been approved by the Cabinet.

Capital Markets

18. **Rwanda's capital market has become more developed over the past five years, but it continues to be the second smallest within the EAC in absolute market capitalization.** Established in 2005, the Rwanda Stock Exchange has provided a platform for transactions of domestic and foreign shares, as well as government bonds and a few corporate bonds. Stock market capitalization is estimated at about 26 percent of GDP as of end-2016. Currently, there are eight listed companies. The bond market, introduced in 2008, is shallow. While the size of the Government primary market has increased, corporate sector participation remains depressed, with only two issuances in 2016. The market also lacks intermediaries (primary dealers) and is illiquid, as most investors hold securities to maturity, so there is next to no secondary market. To deepen the bond market, the authorities are implementing a seven-year capital

[26] International Labour Organization Actuarial Valuation carried out in 2013.
[27] The last published strategy (available on the RSSB website) covers 2010–2012.
[28] The RSSB pension scheme currently covers only 10 percent of Rwanda's workforce, focusing largely on public and private sector salaried employees.

markets plan. It includes an improved and more regular sovereign bond issuance program, measures that encourage retail and foreign investors, and professional capacity building.

19. **Rwanda's domestic public debt market has also increased to develop a broader domestic market in recent years but also remains low in absolute terms.** Domestic public debt was 8.6 percent of GDP at end-2016, close to 2 percent higher than in 2013 (Table 1.3). The increase has been driven by both short-term debt and the issuance of medium-term treasury-bonds for capital market development purposes.

Table 1.3. Domestic Public Debt

	2014		2015		2016		
	RWF, billions	Share	RWF, billions	Share	RWF, billions	Share	% of GDP
Medium- and long-term borrowing	178	46	182	36	261	46	3.9
of which T-bonds	64	—	115	—	168	—	—
Short-term borrowing	212	54	323	64	310	54	4.7
Total	390	100	505	100	571	100	8.6

Source: International Monetary Fund Article IV Consultation Report for Rwanda 2017.

ANNEX 2: MORTGAGE REFINANCE COMPANIES IN AFRICA[29]

Tanzania: TMRC (2010)

- Number of mortgage lenders in the market increased from 3 in 2010 to 31 in 2017
- Mortgage tenors extended from 7 to 20 years
- Interest rates decreased from 22-24% in 2010 to 15-19% in 2017
- TMRC refinanced 13 banks for an amount equivalent to 24% of total mortgage debt outstanding
- 3 private bond placements with pension funds. Bond issue of TZS 12 bn (US$5.2m) in June 2018 oversubscribed.

West Africa: CRRH (2012)

- Shareholders: 54 commercial banks (increase from 23 at inception), IFC, Shelter Afrique and West Africa Development Bank
- 7 bonds issues since 2012 (10 and 12-year), last one at 5.95%. Issues priced below WAEMU government bond yields
- 33 banks refinanced in 8 countries
- Mortgage tenors lengthened to 15 years
- US$155 million IDA operation to move down market and extend mortgage refinance to microfinance institutions

Nigeria: NMRC (2013)

- Obtained licence in February 2015
- 22 investors: 20 lenders with 60.3% of capital; Ministry of Finance with 17%; Social Security fund with 22.7%
- Adopted Uniform Underwriting Standards
- US$250 million IDA loan for sub-debt
- First 15-year bond issue in July 2015 of N8 bn (US$40 m)
- May 2018: 2nd 15-year bond issue of N11 bn (US$31M)- 74 bps above government. 70% of investors are pension funds

Note: WAEMU = West African Economic and Monetary Union.

[29] Tanzania Housing Finance Project (P151220), Nigeria Housing Finance Development Program (P131973), and West Africa Affordable Housing Finance Project (P161658).

ANNEX 3: SUPPLY OF HOUSING IN RWANDA: KEY CHALLENGES AND PROPOSED SOLUTIONS

A. Housing Supply Constraints

1. **Supply constraints pose a major risk to the project and activities to address critical supply challenges should be considered in the project.** Housing supply constraints cut across housing types and income groups and constitute a critical risk for the success of the proposed project. There is a broad consensus among key stakeholders that (a) efforts to address supply constraints in the medium to long term should continue in parallel, while the current project primarily aims to address demand-side challenges; and (b) activities to address the immediate supply constraint should be included and supported within the project.

2. **The current incentive framework for investors and developers needs major review and improvement.** The Government's commitment to address supply-side constraints is expressed in the Prime Minister's Instructions (No. 001/03 OF 23/02/2017) Determining the Conditions and Procedures for Obtaining Government Support for Affordable and High-Density Housing Projects. According to the Government's instructions, Government support is offered mainly in infrastructure provision to and within the site. The instructions also set out general implementation parameters such as housing unit size and density, type of infrastructure to be provided, qualified beneficiaries, and eligibility criteria for application, although details are left to be specified by the ministerial instructions every two year.

3. **The World Bank team's assessment is that the current incentive framework can be improved in terms of clarity, predictability, and transparency to attract investment and ensure effective use of public resources.** The RHA has implemented several projects, including those in pipeline or under discussion, as shown in the following list. A quick review of the pilot projects reveals areas for improvement in infrastructure provision, access to land, and application process/outcome.

- **Batsinda:** Around 548 units.
- **Kabuga:**[30] 54 affordable housing units under Phase 2 in partnership with the Abadahigwa ku Ntego, subsidiary of the Kigali Veterans Co-operative Society; Phase 2 now prepared.
- **Busanza:** [31] 1,022 units to be developed in informal settlements by Savannah Creek Development Company (Gold Capital Investments partnered with the Finnish company, Taaleri Africa).
- *Groupe Palmeraie Developpment* from Morocco to develop 1,750 units, all affordable housing (not mixed-income and cross-subsidized); the RHA is supposed to provide serviced land.

[30] https://www.newtimes.co.rw/section/read/211257.
[31] https://www.newtimes.co.rw/rwanda/rwf10-billion-estate-commissioned-replace-city-slum.

4. **For infrastructure, the RHA has been reimbursing developers for on-site infrastructure and/or providing infrastructure to the site, out of its annual budget allocation.** For FY2018–2019, the RHA received RWF 1.2 billion, or US$1 million, for the Batsinda Phase 2 project. Whereas the RHA can request for budget only when there is already a qualified and implementable project negotiated with developers, investors (including IFC and those it engages with) rarely see the Government's provision of infrastructure an incentive and the ex post availability of budget (or the lack of earmarked budget) more as risks, because it is unclear if the Government can deliver or reimburse developers in time, given their limited budget space.

5. **With regard to access to land, the Government provides either public land (RHA or city governments) or facilitates the process of identifying and acquiring land for developers (RDB), although the modality of such facilitation is never spelled out.**[32] Given the very limited stock of public land, the prime approach to access to land is through land banking for affordable housing. For instance, the CoK has acquired 5 ha per year, on average, since 2015, but at this rate, the current stock is insufficient to meet demands, while it is time-consuming and costly. Now, the instruction is that all districts should acquire 2–5 ha of land every year for the coming five years. While the RHA intends to recover the cost of land by asking developers to factor this in the overall project proposal and pay back later, it does not seem to be known to the city (based on the interview with the one-stop center director). In secondary cities, it is unclear where the acquired land is located and whether and how much its development is linked to the ongoing spatial planning process, so that these sites can become livable over time.

B. Proposed Way Forward

6. **Considering the limitations in the current incentive framework for affordable housing, as written and practiced, it is critical to set the rules of the game clearly and improve its implementation.** It is recommended that (a) technical reviews be carried out under the project on how to improve the existing land/infrastructure subsidy structure and introduce other incentives to reduce cost of housing construction; (b) coordination mechanisms be strengthened to harmonize various initiatives by different agencies; and (c) donor financing be mobilized to support medium- to long-term interventions to address housing issues across the income pyramid.

Demand and Supply Coordination

7. **It is reaffirmed that coordination across the housing demand and supply chain is critical for successful implementation of the proposed project and overall advancement of the housing agenda in Rwanda.** Coordination is known to be a challenge in the existing housing projects and does not take place naturally. To facilitate this, an institutional arrangement is proposed for the project to establish a Steering Committee consisting of decision-making representatives (at the ministerial or head of agency level) from MINECOFIN, MININFRA, MINALOC, MIFOTRA, RHA, CoK, PSF, and BRD. In addition, a Technical Committee is proposed to accompany the Steering Committee, consisting of technical focal/technical persons

[32] It is unclear if the developer is bringing the land or the Government is making it available and if land is to be acquired or facilitated (for example, leased, paid back later, and so on). For land banking for affordable housing, cases of expropriation should be reconsidered against those of negotiations between willing buyers and willing sellers.

appointed from the same stakeholders. The Technical Committee can be established in the form of the Technical Working Group of the Urbanization and Rural Settlement Sector Working Group, chaired by MININFRA. The roles and responsibilities of the Steering Committee and Technical Committee will be detailed in the PIM.

Development Partner Coordination

8. **It is important to continue to support the Government to prepare a comprehensive housing strategy across income groups and plan for its implementation in parallel although this is out of the current project's scope.** As DFID is currently preparing a grant financed support program for the urban sector, including affordable housing, the World Bank team met the DFID team and proposed a set of medium- to long-term TA activities for consideration, as follows:

- Review the housing policy and strategy, with a focus on low-income households to propose a strategic road map for implementation including strengthened communication and coordination.
- Support the ongoing masterplan revision process to introduce flexibility in zoning and building regulations for affordable housing and informal settlement upgrading.
- Introduce different tools/mechanisms of accessing land.
- Contribute to strengthening the competence of construction industries and better organizing related professional services.
- Propose residential rental market strategy based on the rental market study, reviewing the existing regulation, and stock and demand.[33]

9. Expand the housing demand/market study to secondary cities (or for the whole country), which is currently missing to consider a range of demand-side subsidies and explore other options of increasing housing stocks.

[33] RHA has tried to procure consultancy services for conducting a rental market study three times but has failed to hire a qualified firm.

ANNEX 4: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

COUNTRY: Rwanda
Rwanda Housing Finance Project

1. The BRD will be responsible for the technical assistance and the BRD line of credit for mortgage refinancing. The Borrower may designate the proposed RMRC to implement part of Component 1 upon confirmation by the Borrower and World Bank upon meeting the World Bank's eligibility criteria as implementing agency under the project. The BRD will establish an SPIU, which will be responsible for overall project coordination and oversight, which includes, among others, (a) ensuring timely implementation of the project in accordance with the PIM and the BRD's and RMRC's compliance with the World Bank requirements; (b) implementing project activities under its direct responsibility and overseeing project-related activities to be carried out by other entities; (c) managing project finances and preparing consolidated project financial reports; (d) developing and maintaining a system for monitoring the project's performance indicators; and (e) preparing progress reports, including updates to the Results Framework, budgets, and Procurement Plan. These requirements will be reflected into a subsidiary agreement executed between the GoR, through MINECOFIN, and the BRD. The BRD will be expected to prepare a PIM before project effectiveness and set up the SPIU before the project's first disbursement. The BRD's financial intermediation role was assessed against the criteria put forward in World Bank Operational Policy 10.00.34 A summary of the BRD's 'Guidance Note to Investment Project Financing for Financial Intermediary Financing' assessment is provided in annex 6.

2. A Steering Committee will be established for effective coordination and project oversight no later than three months after project effectiveness. To ensure successful implementation of the proposed project and overall advancement of the housing agenda in Rwanda, the project proposes to establish a Steering Committee chaired by MINECOFIN and comprising representatives from MININFRA (co-chair), MINALOC, Ministry of Trade, MIFOTRA, BRD, RHA, CoK, RDB, and PSF. The Steering Committee will consult and determine which line ministries, agencies, and districts to invite to the Steering Committee meetings and working groups on components to ensure that awareness and ownership of reforms that affect other agencies is maintained. The terms of reference of the Steering Committee, including responsibilities and composition, will be defined in the PIM.

3. To facilitate project implementation, a detailed PIM will be prepared by the BRD. It will detail the implementation arrangements, including the eligibility criteria for primary mortgage lenders and loans; fiduciary and environmental and social risk management arrangements; project audit requirements, including the terms of reference (ToR) for the project audit; disbursement arrangements; the interim

[34] Guidance note to investment project financing for financial intermediary financing requires an assurance that all financial intermediaries in a World Bank-financed credit line are viable financial institutions determined by (a) adequate profitability, capital, and portfolio quality as confirmed by audited financial statements; (b) acceptable level of loan collections; (c) appropriate capacity, including staffing, for carrying out sub-project appraisal (including environmental assessment) and for supervising sub-project implementation; (d) capacity to mobilize domestic resources; (e) adequate managerial autonomy and commercially oriented governance; and (f) appropriate prudential policies, administrative structure, and business procedures.

financial report formats; and so on. It will provide guidance for each responsible agency on the procedural aspects of the project. It will also include the organizational chart of project implementation.

A. Financial Management

4. The project will be implemented by the BRD. The FM assessment of the BRD was conducted in compliance with the World Bank policy and directives on investment financing. The objective of the assessment was to determine whether the BRD has an acceptable FM arrangement, which will ensure (a) that funds are used for the intended purposes in an efficient and economical way; (b) the preparation of accurate, reliable, and timely periodic financial reports; and (c) safeguarding of the entity's assets. The existing FM arrangements provide reasonable assurance that the financing proceeds will be used for intended purpose in a transparent, effective, and efficient manner. The BRD SPIU is experienced in World Bank-financed projects (the Renewable Energy Funds) and is staffed with one FM specialist and one accountant. An additional FM staff financed by the project may be needed and agreed with the World Bank.

5. The overall FM risk of the project is Moderate and the proposed mitigation measures are (a) the upgrade of the BRD's Enterprise Resource Planning (ERP) system to prepare project consolidated financial reports and annual statement for projects managed by multiple implementing entities and classify and retrieve information by project component and disbursement categories; (b) the induction training of the BRD SPIU FM staff on World Bank disbursement guidelines and procedures; and (c) training of internal audit on World Bank-financed project risks.

FM Conditions and FM Covenants

6. There are no FM conditions or dated covenants

7. **Country public financial management (PFM).** Rwanda's PFM system is anchored in

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

(b) The Organic Law No. 12/2013 of 12/09/2013 on State Finances and Property that establishes principles and modalities for sound management of state finances and property. The organic law applied to all budget entities at the central and decentralized levels and sets up fundamental PFM principles such as comprehensiveness, transparency, accountability, uniformity, consolidation, and gender balance in public state finance management;

(c) The Ministerial Order No. 001/16/10/TC dated January 26, 2016, on financial regulations that regulates the structure and functioning of PFM, the preparation and implementation of the state budget, accounting and reporting of all financial transactions, and the financial control. The order applies to the management of public finances of all public entities, including the Central Government entities, decentralized entities, public institutions, and subsidiary entities;

(d) The Government Accounting Policies Manual; and

(e) The Articles 165 and 166 of the Rwanda revised Constitution and the Law No. 79/2013 of September 11, 2013, which determine the mission, organization, and functioning of the Office of the Auditor General of state finances.

8. Since 2008, the PFM system has undergone a series of reforms guided by the PFM strategy plan 2008–2012 and the Sector Strategic Plan 2013–2018. At the national level, progress has been made in budget planning, expenditures efficiency, enhancement of the internal audit function, expansion of external audit coverage, and financial reporting. The Public Expenditure and Financial Accountability 2016 (2016 methodology) confirmed these attributes. Nevertheless, areas of improvements remain and relate to low to moderate substantive down-up participation in the budget planning, absence of timely availability and access to in-year fiscal information, lack of critical mass of qualified PFM staff, and sizable part of internally generated revenue by non-budget entities not consolidated in the GoR's annual consolidated financial statement. At the district level, these weaknesses are exacerbated and result in adverse or qualified audit opinions in annual audit reports. To address these deficiencies, many policies, reforms, and initiatives led by the Government and supported by development partners (PFM Basket Funds and Public Sector Governance Program-for-Results (PforR)) are ongoing to strengthen the PFM system at the central and decentralized levels. The local government Public Expenditure and Financial Accountability assessments were completed in 2017 at eight pilot district levels, and the conclusions will nurture the ongoing and future reforms at the local government level.

9. The Rwanda Housing Finance Project's financial system will rely on the BRD FM system (and those of the RMRC, once created and deemed acceptable to the Borrower and the World Bank to fulfill this role) with some amendments to consider the World Bank-specific FM requirements on disbursement and financial reporting. The amendment will be included in the PIM.

10. **Staffing.** The BRD SPIU is staffed with one FM specialist and one accountant managing the World Bank-financed project, the Renewable Energy Funds. An induction training will be provided to the FM staff on World Bank Investment Project Financing disbursement guidelines and other FM requirements. An additional FM staff may be needed and agreed with the World Bank. The ToR of any FM additional staff will be subjected to the World Bank's no objection.

11. **Planning and budgeting.** The project will comply with the BRD planning and budgeting processes. The BRD SPIU will prepare the project's medium-term expenditure framework, annual plan, and budget, with the disbursement forecast in line with the expenditure needs of the project and the budget shall be consistent with the Procurement Plan. The planning and budgeting documents, comprising activities managed under all project components alongside the disbursement forecast, shall be communicated to the World Bank for review. The project's expenditures classification according to project components and disbursement categories shall be done in the budget execution report to be sent to the World Bank to meet the need to monitor the project through these line items. A comprehensive analysis of budget performance indicators with detailed corrective actions shall be included in the budget performance report.

12. **Accounting**. The project will comply with the BRD's accounting policies (International Financial Reporting Standards), which are considered acceptable. The project will use the BRD's ERP to record transactions and produce quarterly and annual financial statements.

13. **Financial reporting**. The BRD will prepare the project's quarterly financial reports which shall include

a. Revenues and expenditures statements;

b. Financial position statements;

c. Cash flow statements;

d. Designated Account (DA) activity statements;

e. Budget execution reports; and

f. Notes on accounting policies and annexes.

14. The project's quarterly financial reports of the BRD SPIU will be submitted to the World Bank by the BRD, not later than 45 days after the end of the quarter.

15. **Internal control and internal audit.** The BRD procedures provide a clear segregation of duties between the chief budget manager, accountant, and internal auditor and describes well the procedures applied to budgeting, accounting, and reporting chain. The internal control environment is characterized by a generally low risk of collusion. The World Bank's disbursement guidelines will complement the existing BRD regulations and procedures. The internal control will be further clarified and reinforced in the PIM.

16. The BRD's internal audit is adequately staffed and is using a risk-based internal audit methodology. The internal audit regulatory framework is based on internal and best practices. The alignment of the internal audit's three-year plan and annual plan with identified risk is an area for improvement. The internal audit function is mostly focused on financial audit and shall also emphasize more on performance and value-for-money audit. This move will require enhanced capacity building supported by an appropriate level of financing. The awareness of the risk profile of the World Bank-supported project is low or moderate, resulting in an adequate three-year plan and annual audit plan. An induction training of key risk areas of World Bank-financed projects shall be organized for the attention of the internal audit function.

17. **External audit.** The project's annual financial statement external audit will be performed by a private audit firm acceptable to the World Bank according to ToR agreed with the World Bank. The audits are undertaken in accordance with International Standards on Auditing. The annual audited financial statements of the project shall be prepared and submitted to the World Bank within six months after the end of the fiscal year. The preparation of the annual financial statement is the responsibility of the implementing entity (BRD). The audit report should be inclusive of a Management Letter on internal

control setting out any internal control strengths, deficiencies, or noncompliance with laws, regulations, financial agreements, or performance or value-for-money standards.

18. In line with the Access to Information Policy, dated July 2010, the project's audited financial statement will be made public by the World Bank and the Borrower is requested to publish the project's audited financial report using largely and easily accessible communication channels such as a website.

Table 4.1. FM Actions

Action	Date Due By	Responsibility
Induction training on World Bank disbursement guidelines	Project launch	World Bank

B. Disbursements

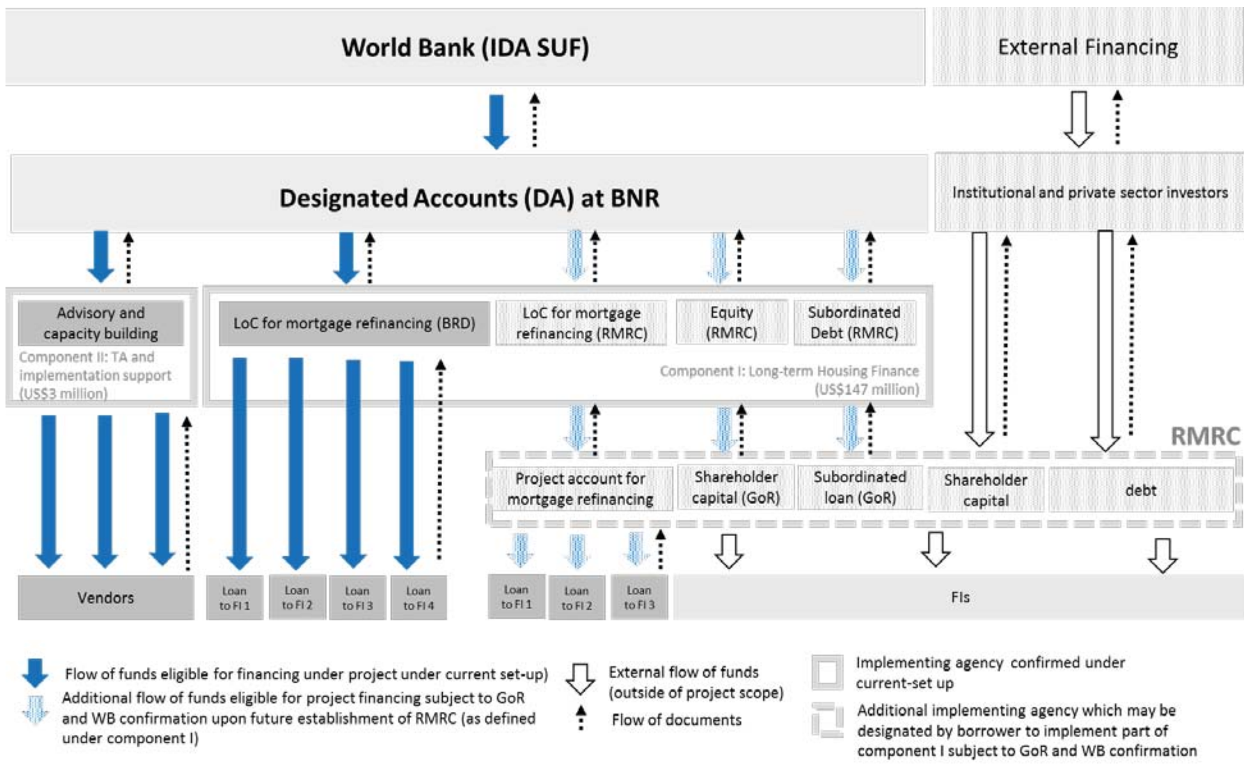
19. The flow of funds arrangement chart is as shown in Figure 4.1. Funds will flow, in Euros, from the World Bank into one DA held at the Central Bank (BNR) using the interim financial report-based method of disbursement. The request of funds shall be made through Client Connection and signed by the signatories appointed by the BRD. The signatories shall be appointed before the Financing Agreement signing ceremony and the signatories' signed letter will be submitted to the World Bank along with the Financing Agreement. The DA ceiling is flexible and is based on six-month cash flow need for Components 1 and 2. The cash flow forecast shall be based on reliable budget and work plan estimates. The four methods of disbursement are advance, reimbursement, direct payment, and special commitment. MINECOFIN will bear the exchange rate risk.

20. During the project's implementation, a project account in Rwandan francs if needed, could be opened upon duly justified request from the BRD and considered relevant by the World Bank. The procedures of the management of the project account will be defined in the PIM.

Table 4.2. Eligible Expenditures

Category	Amount of the Credit Allocated (expressed in EURO)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) BRD Mortgage Refinancing under Part 1.1. of the Project	126,900,000	100% in form of the BRD Mortgage Refinancing until EURO 86.4mn has been disbursed; 75% of amounts so paid until an additional EURO 21.6mn has been disbursed; and 50% of amounts so paid thereafter
(2) RMRC Mortgage Refinancing under Part 1.2.(ii) of the Project	0	100% in form of the RMRC Mortgage Refinancing until EURO 86.4mn has been disbursed; 75% of amounts so paid until an additional EURO 21.6mn has been disbursed; and 50% of amounts so paid thereafter
(3) Equity and Subordinated Debt to the RMRC under Part 1.2.(i) of the Project	0	100% in form of Equity up to a maximum amount of EURO 8.64mn 100% in form of Subordinated Debt up to a maximum amount of EURO 43.2mn
(4) Goods, consulting services, non-consulting services, Incremental Operating Costs and Training under Part 2 of the Project	2,700,000	100%
TOTAL AMOUNT	129,600,000	

Figure 4.1. Rwanda Housing Finance Project: Institutional Arrangements and Flow of Funds



C. Procurement

21. The project primarily deals with loans made by eligible financial intermediaries, for which the final recipient of loan funds is a private borrower. However, the project will also have a component to review affordable housing pilots/experiments in Rwanda, review the incentive framework for affordable housing in Rwanda in key areas; establish a PPP framework for housing development, review the Condominium Law and rental market study and study of the BNR Regulatory and Supervisory Framework for RMRC, and review the Regulatory Framework for Mortgage Lending.

22. Procurement for Component 2 of the project will be carried out in accordance with the 'World Bank Procurement Regulations for IPF Borrowers, dated July 1, 2016, and revised in August 2018, hereafter referred to as 'Procurement Regulations'. The project will be subject to the World Bank's Anticorruption Guidelines, dated July 1, 2016. The Procurement Regulations shall not apply to Component 1 as IFL.

23. To accelerate project implementation, a PPSD was developed and finalized. The Procurement Plan for Component 2 sets out the selection methods to be followed by the Borrower during project implementation in the procurement of goods, works, and non-consulting and consulting services financed by the World Bank. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

24. **STEP.** Component 2 of the project will use STEP*,* a planning and tracking system, which will provide data on procurement activities, establish benchmarks, monitor delays, and measure procurement performance.

25. **Procurement risk assessment.** A procurement capacity and risk assessment were carried out by the World Bank for the implementing agency (BRD) to review the organizational structure for implementing the project and the interaction between the project staff responsible for procurement duties and management of the agency. A procurement risk assessment of the BRD to implement the proposed activities under Component 2 has been carried out. The overall procurement risk rating is deemed 'Substantial' based on a number of issues encountered in use of STEP and capacity limitations in implementing procurement following the regulation with the ongoing World Bank-financed project.

26. **Operating costs.** Incremental recurrent expenditures incurred on account of project implementation, based on periodic budget acceptable to the World Bank, including, among others, travel expenditures and other travel-related allowances such as per diems and reasonable accommodation costs; equipment rental and maintenance; vehicle operation (including fuel); local support to the BRD in the areas of project management, FM, procurement, and social/environmental safeguards; and so on. The operating expenditures may follow the BRD procurement procedures. The operating cost will not include salaries of civil servants.

27. **Post review ratio.** Contracts not subject to World Bank's prior review will be post reviewed by the World Bank's supervision missions and/or during regular post reviews by procurement assistants on

sampling basis (that is, one out of every five contracts). The post review ratio is 20 percent. Procurement supervision mission will be carried out by the World Bank to include (a) review of the Procurement Plan and (b) physical inspection of consultant's reports (outputs). There will be one supervision mission every year to carry out post review of the procurement actions.

28. **Filing and record keeping.** The BRD SPIU will be in charge of filing and record keeping.

29. **Procurement Plan.** A Procurement Plan for Component 2 has been prepared. The Procurement Plan includes the various procurement or consultant selection methods, the estimated costs, prior review requirements, and time frames. The Procurement Plan also discloses the prior review thresholds.

30. The ToR of consulting assignments (individual and firm) and technical specifications of procurement packages are subject to prior review of the World Bank. All cancellation of selection process and/or re-invitation shall be subject to the World Bank's prior review. All the contracts where cost estimate was below the World Bank's prior review threshold are subject to prior review if the financial offer of the selected firm exceeds such threshold at the proposal evaluation stage. Irrespective of the thresholds, the selection of all consultants (firm and individuals) hired for legal work or for procurement activities and the individual hired for long-term technical assistance or advisory services for duration of the project (or most of it) are subject to prior review.

31. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan, its updates or modifications, shall be subject to the World Bank's prior review and 'no-objection' before implementation.

32. In accordance with paragraph 5.9 of the Procurement Regulations, the World Bank's STEP system will be used to prepare, clear, and update the Procurement Plans and conduct all procurement transactions for the project.

33. **The World Bank's standard procurement documents** shall be used for all contracts subject to international competitive procurement and those contracts as specified in the Procurement Plan tables in STEP.

34. **National procurement arrangements.** In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market (as specified in the Procurement Plan tables in STEP), the country's own procurement procedures may be used.

35. All consultancy services shall be procured following the Procurement Regulations and the World Bank's standard procurement documents. When the Borrower uses its own national open competitive procurement arrangements, as set forth in the Public Procurement Law of Rwanda, such arrangements shall be subject to paragraph 5.4 of the Procurement Regulations and the following conditions:

(a) **In accordance with paragraph 5.3 of the Procurement Regulations,** the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anticorruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights.

(b) **Leased assets as specified under paragraph 5.10 of the Procurement Regulations.** Leasing may be used for those contracts identified in the Procurement Plan tables: *Not applicable to this project.*

(c) **Procurement of secondhand goods as specified under paragraph 5.11 of the Procurement Regulations.** This is allowed for those contracts identified in the Procurement Plan tables: *Not applicable to this project.*

(d) **Domestic preference as specified under paragraph 5.51 of the Procurement Regulations (goods and works).** *Not applicable to this project.*

(e) **Hands-on expanded implementation support as specified under paragraphs 3.10 and 3.11 of the Procurement Regulations.** *Not applicable to this project.*

Other Relevant Procurement Information

(a) Prior Procurement Arrangements

36. The procurement arrangements indicated in Table 4.4 and within the thresholds indicated in Table 4.3 will be used. The thresholds for the World Bank's prior review requirements are also provided.

Table 4.3. Thresholds Procurement Methods; and Prior Review of Goods, Works, and Non-consulting Services[35]

Method of Procurement	Thresholds for Method (US$ equivalent)
Open International (Goods)	Equal to or more than 2 million
Open National (Goods) – Open Tender according to Ministerial Order 2014	<2 million and >2,500
RFQ (Goods)	Less than 2,500 or as stipulated in Rwanda Procurement Regulations
Open International (Works)	Equal to or more than 10 million
Open National (Works) - Open Tender according to Ministerial Order 2014	Less than 10 million
RFQ (works)	Less than 2,500 or as stipulated in Rwanda Procurement Regulations
Open International (Non-consulting Services)	Equal to or more than 2 million
Open National (Non-consulting Services) - Open Tender according to Ministerial Order 2014	Less than 2 million
Direct Contracting	No threshold; meet requirements of the World Bank's Procurement Regulations

Note: Special procurement arrangements include Direct Contracting, use of state-owned enterprises, United Nations agencies, third-party monitors, local nongovernmental organizations, force account, servants need, and results-based arrangements. It is not expected that there will be a need for prequalification in the procurement arrangements under the Rwanda Housing Finance Project.

Selection of Consultants

37. **The selection methods of procurement of consultants' services (firms).** The approved selection methods are as reflected in section VII of the Procurement Regulations.

Table 4.4. Selection Methods of Procurement of Consultants' Services

Method of Procurement	Thresholds for Methods
QCBS	According to the requirements of paragraph 7.3 of the Procurement Regulations
Quality-Based Selection	According to the requirements of paragraph 7.8 to 7.10 of the Procurement Regulations
Selection under a Fixed Budget	According to the requirements of paragraph 7.4 and 7.5 of the Procurement Regulations
Least-Cost Selection	According to the requirements of paragraph 7.6 and 7.7 of the Procurement Regulations
Selection based on the Consultants' Qualifications	According to the requirements of paragraph 7.11 and 7.12 of the Procurement Regulations

[35] These thresholds are for the purposes of the initial procurement plan for the first 18 months. The thresholds will be revised periodically based on re-assessment of risks. All contracts not subject to prior review will be post reviewed.

Method of Procurement	Thresholds for Methods
Direct Contracting	Must meet the requirements of paragraph 7.13 to 7.15 of the Procurement Regulations and with prior agreement in the Procurement Plan with the World Bank.

38. The short list may consist of all national consultants in case the estimated cost is less than US$300,000.

39. **Procurement methods for selection of IC.** The approved selection methods are as reflected in section VII of the Procurement Regulations.

Table 4.5. Procurement Methods for Selection of IC

Method of Procurement	Thresholds for Methods
Open Competitive Selection	According to the requirements of paragraph 7.36 and 7.37 of the Procurement Regulations
Limited Competitive Selection	According to the requirements of paragraph 7.38 of the Procurement Regulations
Direct Contracting	Must meet the requirements of paragraph 7.39 of the Procurement Regulations and with prior agreement in the Procurement Plan with the World Bank

Note: Shall meet the requirements as stated in Procurement Regulations.

40. **Prior review thresholds.** The details of the procurement review/oversight are defined in annex II of the Procurement Regulations. The following would be subject to prior review of the World Bank regardless of the method of selection:

- **Consulting firm.** First procurement under the project irrespective of value and all procurements estimated to cost more than US$1 million.
- **IC.** All procurements estimated to cost more than US$0.3 million.

41. The ToR for all consultant contracts shall be furnished to the World Bank for its prior review and no objection.

42. **Pre-qualification.** Not expected for the packages of works/goods.

43. **Proposed procedures for Community Driven Development (CDD) components.** Not applicable.

44. **Reference to (if any) Project Operational/Procurement Manual.** The BRD’s own procurement procedures shall be used.

45. **Any other special procurement arrangements**. Not applicable.

46. The Procurement Packages/Plan with procurement arrangements and time schedule are as shown in Table 4.6.

Table 4.6. Procurement Plan with Procurement Arrangements and Time Schedule

Ref No	Contract Description	Cost Estimate (US$)	Procurement Selection Method	Review by the World Bank (Prior or Post)	Expected Bid/Proposal Submission Deadline	Expected Contract Completion Date[a]	Lead Institution
I	**Selection of Consultants**						
1	Review of affordable housing pilots/experiments in Rwanda	250,000	QCBS	Post	End February 2019	T	RHA MININFRA
2	Review of the incentive framework for affordable housing in Rwanda in key areas, including provision of land and infrastructure, fiscal, and other financial incentives	250,000	QCBS	Post	End February 2019	TBC	MINECOFIN MININFRA
3	Establishing a PPP framework for housing development	250,000	IC	Post	End February 2019	TBC	RDB MININFRA
4	Review of the Condominium Law	250,000	IC	Post	End February 2019	TBC	RHA MININFRA MINECOFIN
5	Review of the Regulatory Framework for Mortgage Lending	250,000	IC	Post	End February 2019	TBC	BNR MINECOFIN
6	Feasibility study and business plan for a future RMRC	250,000	IC	Post	End February 2019	TBC	MINECOFIN MININFRA
7.	Review/update of Housing Market study, including market needs in CoK and Housing Market study in other districts' cities	250,000	IC	Post	End May 2019	TBC	MININFRA RHA CoK

Ref No	Contract Description	Cost Estimate (US$)	Procurement Selection Method	Review by the World Bank (Prior or Post)	Expected Bid/Proposal Submission Deadline	Expected Contract Completion Date[a]	Lead Institution
I	**Selection of Consultants**						
8.	A study on low-cost and efficient housing technologies	250,000	IC	Post	End May 2019	TBC	MININFRA RHA

Note: a. Specific dates to be elaborated in an annual Procurement Plan after signing the agreement.

D. Environmental and Social (including safeguards)

Environmental Safeguards

47. This is an FI category project, with all activities and sub-projects classified as category C. None of the envisaged project activities are expected to have adverse environmental impacts.

Social Safeguards

48. None of the activities and sub-projects identified under this project (Component 1: Provision of Long-term Finance to Expand Housing Finance; Component 2: Technical Assistance and Implementation Support) are expected to have adverse impacts pertaining to social safeguards.

ANNEX 5: ECONOMIC AND FINANCIAL ANALYSIS

1. **The provision of long-term funding is expected to have a major direct impact on the affordability of housing loans.** The impact of longer loan maturity on affordability is illustrated in the example of an RWF 10 million loan to purchase an RWF 15 million home, as shown in Table 5.1. The extension of the loan maturity from 5 to 20 years reduces the monthly mortgage payment almost by half, rendering the mortgage accessible to more than 10 percent of households, which were previously unable to afford it. Thus, the project helps expand mortgage affordability to reach potentially 50 percent of urban households, a significant improvement compared to the current affordability threshold (top 20 percent on income distribution). The contemplated introduction of a concessional interest rate for lower-income segments would further push the boundary down the income distribution, but the magnitude of the impact is less pronounced compared to the extension of the loan maturity.

Table 5.1. Impact of Extended Loan Maturity on Affordability (Simulation)

Cost of Home (RWF)	15,000,000	15,000,000	15,000,000	15,000,000
Loan amount (RWF)	10,000,000	10,000,000	10,000,000	10,000,000
Annual interest rate (%)	15	15	15	12
Loan duration (in years)	5	10	20	20
Monthly mortgage payment	237,899	161,335	131,679	110,109
Required monthly household income	720,907	488,894	399,027	333,662
Income percentile which can afford mortgage (Kigali)	70th–80th percentile	60th percentile	50th–60th percentile	40th–50th percentile

Source: EICV 4, World Bank staff calculations.

2. **The project brings important economic additionality to the housing finance market.** The project will hugely contribute to improve the mortgage financing in Rwanda. Currently, many personal loans are used for housing but do not provide an affordable solution given their short-term nature. With the support of this project and more efficient property registration, financial institutions would gradually convert these loans into long-term mortgage loans. In five years of operations, the project is expected to support the provision of at least 6,000 new housing loans and inject more than US$100 million of long-term funds into the financial system, helping to provide shelter to at least 24,000 people assuming an occupancy of four people per household.

3. **Maximizing Finance for Development.** The project is expected to leverage significant private capital through the RMRC's bond issuance. Over five years, the establishment and operationalization of the RMRC supported under this project will help raise about US$35 million of bonds, a leverage ratio of 3.5 times. Over 10 years, cumulative bonds issuance of the RMRC is estimated to be US$120 million, which would represent a leverage ratio of 12 times.

4. **Impact on jobs.** Housing construction has an important economic multiplier through job creation, including in related sectors along the supply chain, from developers to construction material businesses and commercial activities around new housing. Research shows that affordable housing is more labor-

intensive than high-income housing.[36] In Colombia, it is estimated that every US$10,000 spent on housing creates five additional jobs. In India, each housing unit is estimated to create 1.5 direct and 8 indirect jobs and in South Africa, 5.6 additional jobs. Based on the estimated number of mortgages that will be financed by the RMRC, and assuming an average rate of 5 jobs created per housing unit built, the project may help create approximately 30,000 jobs during the first five years.

5. **Economic rate of return (ERR) analysis.** The economic analysis of this project is built as a financial analysis, with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the project. The ERR is calculated on the basis of the cost of US$145 million (Component 1 of the project) versus the cash flows from increased mortgage lending and refinancing by the RMRC. A discount rate of 15 percent is applied to the calculation. The ERR assumes a 6 percent per year growth in the mortgage market and a 5.2 percent average GDP growth per year between 2019 and 2028. The calculation yields an ERR of 35 percent and a net present value of US$24 million over 10 years.

6. **Indirect socioeconomic benefits.** Various studies have shown that the construction sector has significant input-output multipliers, with the input multiplier ranging from 1.03 to 1.53 and the output multiplier ranging from 1.7 to 2.3. An input multiplier of 1.3 means that if the construction sector increases its demand for primary inputs such as labor and materials by US$1 million, the economy's consumption of primary inputs increases by US$1.3 million. Similarly, an output multiplier of 2.0 means that a US$1 million increase in the construction sector's final output will increase total economic output by US$2 million. Assuming a conservative output multiplier of 1.5, the project would increase total economic output by approximately US$145 million over the first five years. In addition, home ownership increases the health and welfare of its occupants, especially when the alternative is living in unplanned settlements, and is often associated with positive social externalities, including greater participation in community organizations, better maintenance of properties, commitment to stay longer in the community, higher academic achievement, and reduced behavioral problems among children. Finally, as housing assets are leveraged to generate income, home ownership can be instrumental for social security in the case of the elderly.

[36] Erbas and Nothaft. 2002. "The Role of Affordable Mortgages in Improving Living Standards and Stimulating Growth: A Survey of Selected MENA Countries." Working Paper P/02/17*;* In India: Sangeeth Ram, McKinsey, Presentation to the World Bank Global Housing Conference, May 2012.

ANNEX 6: SUMMARY OF GUIDANCE NOTE TO INVESTMENT PROJECT FINANCING FOR FINANCIAL INTERMEDIARY FINANCING ASSESSMENT OF BRD

1. **The BRD was designated to be the implementing agency for the Housing Finance Project.** The BRD is currently the implementing agency for the World Bank Renewable Energy Fund. Financial institutions responsible for administration and management of World Bank loans and credit lines are obliged to comply with the eligibility criteria which follow the 'Guidance Note to Investment Project Financing for Financial Intermediary Financing'

- **Good governance.** 'Fit and proper' owners, adequate Board composition and practices, adequate organization, and competent management with adequate managerial autonomy.

- **Compliance with prudential regulations issued by the BNR.** The bank must be in good standing with the BNR at all times and observe all other applicable laws and regulations.

- **Capital adequacy.** Compliance with the BNR regulations with minimum capital of 15 percent calculated as the ratio of total capital to total assets.

- **Good financial condition and adequate profitability.** Good assets/liabilities structure, positive profitability, well-diversified income structure, and stable earnings trend. Well-managed cost structure, well-diversified funding sources, and regular stress testing.[37]

- **Acceptable risk profile.** Effective Asset and Liability Management Committee, well-defined policies, and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate, and market risk, as well as risks associated with balance sheet and income statement structures) and operational risks.

- **Adequate credit portfolio structure and portfolio quality.** Acceptable credit portfolio structure, including effectiveness of credit risk appraisal and loan underwriting, asset classification, and provisioning;[38] no concentration, lending to connected parties within prudential limits, acceptable level of NPLs, and effective collection practices.

- **Adequate internal audit.** Independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions, and follow-up on issued raised in internal audit reports.

- **Adequate MIS and well-organized information technology support**, with adequate internal controls and security policies. The information technology support should be based on relational database management system providing good accounting and bookkeeping and

[37] This also implies that the bank should not have significant maturity mismatches in its balance sheet and/or that it has a prompt access to funding, if and as needed.
[38] The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions.

adequate system software support for transaction processing and all banking and risk management functions.

- **Appropriate implementation capacity.** For carrying out sub-project appraisals and supervising sub-project implementation under the credit line.

2. **The BRD evaluation was based on the following documents:**

- External audit as of December 31, 2017, prepared by Ernst and Young, Rwanda, with standard terms of reference for end-of-year external audits
- External audit as of March 31, 2018, prepared by Ernst and Young, Rwanda
- BRD Strategic Operating Plan for 2016–2020
- Review of financial condition and asset/liabilities structure, including reviews of audited financial statements (balance sheet, income statement, sources and uses of funds); income structure; and FM capacity
- Interviews and reviews of the loan portfolio and portfolio management, credit risk classification and level of provisions, and credit administration process
- Interviews and internal audit reports, sample of internal audit-related Board reports, and sample of follow-up for internal audit recommendations
- Interviews and reviews of summary information related to information technology systems and software and information security

Key Findings and Recommendations

3. **In 2016, the BRD was reorganized to achieve a better focus on key areas that would further enhance its developmental role.** The BRD is well positioned for adequate administration, including accounting and bookkeeping, an effective internal audit function, and functional information systems.[39] The BRD Strategic Operating Plan 2016–2020 includes housing as one of the five key focus areas. A midterm review of the Strategic Operating Plan is currently ongoing and is expected to be finalized by Q4 2018.

4. **The BRD's financial condition ended with negative income in the first half of 2018 because of a deliberate effort to clean the portfolio.** As of March 31, 2018, the BRD was not compliant with Regulation No. 06/2017 of 19/05/2017 on Capital Requirements for Banks. The regulation requires a bank to be

[39] The BRD has gone live in (a) T24 (Temenos) Core Banking System, including loans management, trade finance, SWIFT, treasury, Fixed Assets Business Intelligence, and so on; and (b) Enterprise resources management, including a financial, human resource management, and payroll and administration package (procurement and self-services).

adequately capitalized by having a total capital of not less than 12.5 percent of total risk-weighted assets of which 10 percent is core capital. As of March 31, 2018, the total capital adequacy ratio for the bank was 12.2 percent against the required total capital of 15 percent and the core capital was 8.5 percent against the minimum of 10 percent. On August 27, 2018, the BRD received approval from the MINECOFIN to transform the GoR special funds held by the BRD (RWF 13.1 billion) into capital—because of the capital increase, the new total capital adequacy ratio for the bank is 18.75 percent against the required total capital of 15 percent and the new core capital is 14.28 percent against the minimum of 10 percent**.**

5. **The NPL ratio stood at 15.52 percent as of March 2018**. The BRD has produced a time-bound action plan to reduce the NPL ratio to below 5 percent through implementation of stringent remedial and recovery measures. As of the end of August 2018, the World Bank managed to recover RWF 2.477 billion and plans to recover RWF 8.352 billion by the end of 2018.

6. **Ownership structure.** As of March 31, 2018, the ownership structure of the BRD included local private companies and banks as BRD shareholders, including the Bank of Kigali. The BRD has started to clean its ownership structure and finalize buy-back of Class B shares held by local banks by Q4 2018. The BRD will provide a detailed progress report on the process to clean its ownership structure and finalize the buy-back of shares held by local private companies and banks by December 31, 2018***.***

Table 6.1. Summary of BRD Due Diligence Review

	Evaluation Summary	Progress Made since July 2018
Ownership Structure	Generally satisfactory. BRD should finalize buy-back of the Class B shares as planned.	New shareholding structure has been approved and BRD has started to clean its ownership structure and finalize buy-back of Class B shares held by local banks by Q4 2018.
Governance and Organization	Generally satisfactory. BRD is well organized and with generally adequate governance structure.	BRD is well organized and with generally adequate governance and capital structure.
Capital Adequacy	Not satisfactory. BRD does not meet capital adequacy requirements and needs to raise additional capital that would allow compliance with prudential requirements and further growth.	On August 27, 2018, BRD received approval from the Ministry of Finance to transform the GoR special funds held by the BRD (RWF13.1 billion) into capital—because of the capital increase, the new total capital adequacy ratio for the bank is 18.75 percent against required total capital of 15 percent and new core capital is 14.28 percent against minimum of 10 percent.
Financial Condition and Profitability	Not satisfactory. BRD ended the first quarter with a loss. Despite improvement in its funding structure, BRD still has issues to be addressed. The most critical one is the increased credit risk cost.	BRD has introduced weekly recoveries of large exposures with a direct impact to profitability. As of the end of August 2018, the BRD managed to recover RWF 2.477 billion and plans to recover RWF 8.352 billion by the end of 2018.
Financial Risk Management	Generally satisfactory—but with a number of issues to be addressed. Of immediate importance is to recruit the chief risk officer.	Recruitment has started and is expected to be completed by Q4 2018.

	Evaluation Summary	Progress Made since July 2018
	The technical capacity of risk appraisal and management staff needs to be improved.	
Credit Function and Portfolio Quality	Not satisfactory—though reasonably well organized and following BNR standards, the NPL level has considerably increased (15.52 percent) and is significantly exceeding the tolerance limit set by BNR. BRD has produced and requested to share a time-bound action plan to reduce the NPL ratio to below 5 percent through implementation of stringent remedial and recovery measures.	BRD has introduced an action plan expected to reduce the NPL ratio to below 5 percent through implementation of stringent remedial and recovery measures including weekly supervision of large exposures. As of the end of August 2018, the BRD managed to recover RWF 2.477 billion and plans to recover RWF 8.352 billion by the end of the year 2018.
Internal Audit	Well organized and well managed. Priority is to consolidate the teams and further improve the technical capacity. Given the recent upgrade of the Core Banking System, the recruitment of the specialized IT auditor should be prioritized.	Recruitment of the IT auditor has started and is expected to be completed by Q4 2014.
IT Systems and MIS	Satisfactory. IT support is well organized and adequately covers BRD functions. BRD recently finalized its system upgrade and went live on a new Core Banking System (T24) with operational modules supporting key business functions.	BRD has finalized its system upgrade and is now live on a new Core Banking System (T24) with operational modules supporting key business functions.

7. The BRD has been requested to effectively address the noted issues before World Bank Loan effectiveness and to continue to meet the eligibility criteria at all times.

Implementation Capacity

8. **The BRD already has experience in providing direct lending and onlending, managing loan portfolios, and providing services expected to be offered and used under the Housing Finance Project.** BRD is the implementing agency for the World Bank Renewable Energy Fund Project. However, to get prepared to effectively administer and manage the Housing Finance Project, the BRD will require to work on a number of actions including development of the PIM with detailed instructions related to administration and management of the project's Component 1.