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Report No: PGD419

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US$125 MILLION TO

THE REPUBLIC OF RWANDA

FOR THE

BOOSTING GREEN FINANCE, INVESTMENT AND TRADE IN RWANDA PROGRAMMATIC DEVELOPMENT POLICY FINANCING

November 9, 2023

Finance, Competitiveness, and Innovation
Eastern and Southern Africa Region

Republic of Rwanda

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2023)

Currency Unit = Rwandan Franc (RWF)

US$1.00 = RWF 1,198.86

ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area	MSMEs	Micro, Small and Medium Enterprises
AFD	French Development Agency	BNR	National Bank of Rwanda
BAU	Business-As-Usual	NBT	Nature-Based Tourism
CAD	Current Account Deficit	NDC	Nationally Determined Contribution
CBR	Central Bank Rate	NST	National Strategy for Transformation
CCDR	Country Climate and Development Report	OAG	Office of Auditor General
CPF	Country Partnership Framework	OECD	Organisation for Economic Co-operation and Development
DPF	Development Policy Financing	PA	Prior Action
EAC	East African Community	PCI	Policy Coordination Instrument
ESRMCNA	Environmental and Social Risk Management Capacity Needs Assessment	PDO	Program Development Objective
ESG	Environmental, Social, and Governance	PER	Public Expenditure Review
ESIA	Environmental and Social Impact Assessment	PIMA	Public Investment Management Assessment
FDI	Foreign Direct Investment	PPL	Public Procurement Law
FY	Fiscal Year	PPP	Public-Private Partnership
GGCRS	Green Growth and Climate Resilience Strategy	RDB	Rwanda Development Board
GDP	Gross Domestic Product	REMA	Rwanda Environmental Management Authority
GIZ	German Corporation for International Cooperation	RICA	Rwanda Inspectorate, Competition and Consumer Protection Authority
GoR	Government of Rwanda	RPPA	Rwanda Public Procurement Authority
ICT	Information and Communication Technology	RSF	Resilience and Sustainability Facility
IFC	International Finance Corporation	SCD	Systematic Country Diagnostic
IMF	International Monetary Fund	SCG	Savings and Credit Groups
IP	Insolvency Practitioner	SDR	Special Drawing Rights
KfW	KfW Development Bank	SMEs	Small and Medium Enterprises
MBRP	Manufacture and Build to Recover Program	SOE	State-Owned Enterprise
MINECOFIN	Ministry of Finance and Economic Planning	STRI	Services Trade Restrictiveness Index
MININVEST	Ministry of Public Investment and Privatization	TA	Technical Assistance
PFM	Public Financial Management	YoY	Year-on-Year
MSEs	Micro and Small Enterprises		

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REPUBLIC OF RWANDA

BOOSTING GREEN FINANCE, INVESTMENT AND TRADE IN RWANDA

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P180196	Yes	1st in a series of 2

Proposed Development Objective(s)

The PDO is to support the implementation of a reform agenda to boost green, private sector-led growth in Rwanda and stimulate green investments.

Organizations

Borrower:	Government of Rwanda
Implementing Agency:	Rwanda Inspectorate, Competition and Consumer Protection Authority, Rwanda Development Board, Ministry Of Trade And Industry, Ministry of Finance and Economic Planning, National Bank of Rwanda, Ministry of Environment

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**125.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	125.00
IDA Credit	125.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	125.00	0.00	0.00	0.00	125.00
Total	**125.00**	**0.00**	**0.00**	**0.00**	**125.00**

PRACTICE AREA(S)

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk	Substantial

Results

Indicator Name	Baseline	Target
Publication of the list of SOEs and enterprises with state shareholdings to be privatized after following an enhanced process integrating considerations on private sector development, labor, environment, and competition	Value: 0 Date: 2022	Value: 1 Date: 2025

Number of competition investigations or merger reviews decided on by RICA in a year.	Value: 7 Date: 2022	Value: 12 Date: 2025
Number of insolvency procedures initiated.	Value: 5 Date: 2022	Value: 15 Date: 2025
Percentage of Banks that have in place a written manual (or an equivalent document) covering BNR financial consumer protection regulations provisions. Percentage of women and female-owned businesses with access to credit financing.	0 percent Date: 2023 18 percent Date: 2020	75 percent Date: 2025 27.5 percent Date: 2025
Number of African Continental Free Trade Area service sectors with major restrictions in cross-border trade and/or FDI, as measured by the World Bank Services Trade Restrictiveness Index score >50/100.	Value: 12 Date: 2023	Value: 9 Date: 2025
Annual amount of investment retained from rapid resolution of high-risk investor issues. Annual amount of investment retained from rapid resolution of "green" high-risk investor issues.	Value: US$5 million Date: 2018-2023 Value: US$750,000 Date: 2018-2023	Value: US$6 million Date: 2025 Value: US$1 million Date: 2025
Number of organizations that have fulfilled at least half of the requirements to manage a nature reserve.	Value: 0 Date: 2023	Value: 15 Date:2025
Amount of climate finance mobilized.	Value: US$100 million Date: 2023	US$400 million Date: 2025
Percentage of the total value of all contracts signed online. Percentage of the total value of all contracts which are invoiced within the e-Procurement system.	Value: 35 Date: 2022 Value: 0 Date: 2022	Value: 70 percent Date: 2025 Value: 90 Date: 2025

**IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO
THE REPUBLIC OF RWANDA**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This document proposes a Development Policy Financing (DPF) in the form of an IDA Credit of US$125 million to the Government of Rwanda (GoR).** The proposed operation is the first in a programmatic series of two DPFs under IDA20. The proposed DPF supports the implementation of the Government's National Strategy for Transformation (NST1) (2017–2024) and advances Rwanda's strategic vision to become a lower-middle-income country by 2035. The proposed structural reforms under this DPF are aimed at stimulating private sector-led and green growth in the economy by increasing private sector participation and investment, building a climate finance architecture, and putting the economy on a fiscally sustainable path.

2. **Rwanda has made great strides along its development path, thanks to the Government's ability to successfully convert development aid into service delivery**. Rwanda—a landlocked, growing economy with a population of over 13 million—experienced a sevenfold increase in gross domestic product (GDP) per capita between 1994 and 2022. Some social indicators[1] outpace low-income peers, placing Rwanda closer to the average of lower-middle-income countries. The country's record of good economic governance, policy coherence, and strong implementation focus has strengthened its development trajectory, and the GoR is committed to seizing opportunities linked to favorable demographics, an emergent middle class, a fertile agricultural landscape, and untapped regional and global market potential. The road to higher productivity and competitiveness, however, will require key reforms to effectively encourage specialization and scale economies across the business fabric.

3. **Progress thus far, however, has not managed to set the foundations for Rwanda to fully tap into its demographic dividend and make the economy more resilient to climate change.** With 38.2 percent of the population still living in poverty, 69.0 percent still primarily engaged in agriculture, and an average of 189,000 Rwandans entering the labor force every year for the period 2017–2022, there is an urgent need to create productive jobs to drive inclusive economic transformation.[2] At the same time, decisive action on adaptation is necessary to build resilience and protect against the negative impacts of climate change which pose a significant threat to development goals. The physical impacts of climate change, such as droughts, rising temperature, flooding, and increased variability of precipitation, is likely to increase variability in crop yields and agricultural production, cause severe damage to physical capital, reduce labor productivity, and negatively impact demand for tourism.[3] According to the ND-GAIN Index,[4] Rwanda is the 10th most vulnerable country in the world due to its reliance on climate-sensitive sectors, including nature-based tourism (NBT), rainfed agriculture, and extractive industries**.** The damages and losses from the 2018 floods in Rwanda alone were estimated at US$237 million, with recovery and reconstruction costs estimated at US$336 million. According to World Bank estimates, climate risks could lead to Rwanda's GDP levels dropping by 5–7 percent below baseline by 2050, with a negative impact on private consumption, exports, and government revenues.[5]

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[1] Including infant and child mortality, life expectancy, and primary school enrolment rates.
[2] International Finance Corporation. 2019. Country Private Sector Diagnostic.
[3] World Bank. 2022. Rwanda Country Climate and Development Report (CCDR). Beyond climate risks, Rwanda is also exposed to various geophysical hazards, such as earthquakes and volcanic eruptions. World Bank. 2023.
[4] ND-GAIN (Notre Dame Global Adaptation Initiative) Index (2023).
[5] ND-GAIN Index (2023). Annex 5 (Paris Alignment) provides further details on the vulnerability of the project's activities to climate hazards and the inherent level of risk to the operation.

4. **To stimulate job creation and widespread productivity growth, Rwanda must continue to remove constraints to the sustainable growth of firms while reducing its overreliance on public investment.** For decades, Rwanda's period of robust growth has been underpinned by large-scale public investment in infrastructure. Yet, the current fiscal situation makes public investment and stimulus programs for job creation more difficult and places a higher premium on measures to boost the capacity of firms to invest and grow sustainably. Existing binding constraints include the lack of market contestability in strategic sectors currently dominated by state-owned enterprises (SOEs); limited access to finance for entrepreneurs, particularly women; pervasive barriers to trade and investment; underdeveloped institutional framework to fully benefit from public and private climate finance; need to streamline public procurement processes.

5. **The GoR is determined to support the development of the private sector and advance an ambitious climate agenda.** To drive the shift in Rwanda's growth model, the GoR is expanding policy efforts to improve the capacity of domestic and foreign firms to invest, particularly in green sectors. Despite relatively low greenhouse gas emissions,[6] Rwanda has committed to reductions of 38 percent in its Nationally Determined Contributions (NDCs) compared to business-as-usual (BAU) by 2030. With the revised Rwanda's Green Growth and Climate Resilience Strategy (GGCRS) it has in addition committed to carbon neutrality by 2050.[7] Realizing this ambitious mitigation agenda while also adapting vulnerable sectors to climate impacts provides a significant economic opportunity, as climate-related investments in agriculture, energy, and infrastructure are expected to increase Rwanda's capital stock, boost industrial output, and raise employment. Blended finance approaches have been recognized by the GoR as opportunities to leverage limited public funding, improve the risk-return profile of investment projects, and unlock green private finance.[8]

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

6. **GDP growth is expected to soften to about 7 percent in 2023, mainly on account of weaker agricultural output and recent floods (Table 1).**[9] Rwanda's economy encountered multi-faceted challenges. The economy experienced setbacks stemming from the slowdown in global growth, rising global inflation exacerbated by spillovers from external challenges, and agriculture underperformance due to unfavorable weather conditions. Despite these challenges, Rwanda's economy has shown some resilience as the Government quickly adopted a series of responses to contain the negative effect of crises while continuing to support recovery from the pandemic (see Annex 2). GDP grew by 7.7 percent in the first half of 2023, after a 9.5 percent expansion in 2021-2022. In the first half, growth was fueled by strong private consumption and improved net exports as well as services and industry on the production side. Expansion in the services sector was mostly led by transport and hospitality services as well as retail and wholesale trade, while the industrial production was boosted by the manufacturing following the extension of the Manufacture and Build to Recover Program.

[6] According to the GGCRS, Rwanda's total GHG emissions in its baseline year of 2015 were 5.3 million metric tons of CO2e (MtCO2e). If emissions trajectories continue to rise on a Business-as-Usual trajectory, this pathway would lead Rwanda to annual GHG emissions of 7.42 MtCO2e in 2020, 9.61 MtCO2e in 2025, and 12.1 MtCO2e in 2030.
[7] Under BAU projections, Rwanda's emissions are projected to more than double between 2015 and 2030. Its NDCs are therefore equivalent to mitigation of up to 4.6 million tCO_2e in 2030 (Updated NDC, May 2020).
[8] UK Aid2019 Technical Assistance to Advise Rwanda's Approach for Mobilizing New Sources of Development Finance, January 25, 2019.
[9] Heavy rainfall in late April and early May 2023 caused loss of life, flooding, landslides, and significant damage to infrastructure and agricultural production.

7. **The current account deficit widened in the first half 2023, in large part due to falling secondary income.** Preliminary trade data indicate exports (both goods and services) increased by 26.7 percent in H1 of 2023. Total exports reached 24.3 percent of GDP, their highest half-year levels in history. International tourism continued to recover, especially the business segment. Travel export receipts exceeded pre-pandemic levels in H1 of 2019, thus partially offsetting the effect of falling secondary income on the current account. On the other hand, imports expanded by 27.2 percent, mainly driven by consumer goods. The current account deficit was estimated at 11.0 percent of GDP. Foreign direct investment (FDI) and capital grants partially financed the current account deficit; the remaining was financed through concessional government borrowing. In June 2023, official foreign reserves were at the same level as end-December 2022. Following the recent devastating floods that amplified external imbalances, the authorities requested a new IMF financing, and are now negotiating a 14-month Stand-by Credit Facility (SCF) arrangement of SDR 200.25 million (representing 125 percent of quota). The Government has also applied for IDA Crisis Response Window (CRW). The first IMF review of Resilience and Sustainability Facility (RSF) completed in April 2023 underlined the need for a more flexible exchange rate policy to absorb external shocks and facilitate needed adjustment.

8. **The National Bank of Rwanda (BNR) has tightened its stance to keep prices under control.** The headline inflation rate was 12.3 percent in August 2023—well below the 21.7 percent peak in November 2022. The BNR raised its policy rate by 50 bps—to 7.50 percent in August 2023, after keeping it at 7 percent since February 2023. In addition, the BNR has doubled its dollar sales to commercial banks from US$5 million to US$10 million per week to counteract the effect on inflation of a sharp depreciation of the franc against the US dollar—10.6 percent between end-December 2022 and August 2023. The financial sector remains stable. The banking sector continued to be profitable, well capitalized, and liquid as of end-June 2023. Credit quality improved, with nonperforming loans (NPLs) standing at 3.5 percent for banks and 3.7 percent for microfinance institutions. From a financial inclusion standpoint, the BNR continues to strengthen the legal and regulatory framework through the issuance of various new and revised legal instruments, that addresses the country’s low savings rate and supports non-discriminatory access to financing.

Table 1. Selected Economic Indicators

	2020	2021	2022	2023f	2024f	2025f	2026f
Real economy: annual percent change							
Real GDP	-3.4	10.9	8.2	6.9	7.5	7.8	7.3
GDP deflator	6.7	2.7	16.0	10.0	5.9	4.3	0.0
Consumer price index (CPI, year-average)	7.7	0.8	13.9	7.3	5.6	5.0	5.0
GDP expenditures, annual percent changes							
Private consumption	-5.0	8.8	11.9	5.9	6.2	6.8	7.0
Public consumption	1.9	13.7	10.6	7.5	5.8	4.5	7.6
Gross fixed investment	-4.5	16.5	-4.2	10.1	5.3	5.7	8.1
Exports, goods and services	-9.2	2.9	30.1	11.4	13.2	11.2	11.3
Imports, goods and services	-3.4	3.6	16.1	10.9	7.0	5.9	10.1
GDP production, annual percent changes							
Agriculture	0.9	6.4	1.6	0.9	4.7	5.0	5.0
Industry	-4.2	13.4	5.0	11.0	8.5	8.5	10.0
Services	-5.5	11.9	12.2	8.2	8.4	8.7	7.2
Balance of payments, percent of GDP, unless otherwise indicated							
Current account balance	-12.1	-11.3	-9.8	-11.5	-10.5	-10.1	-9.5
Exports, goods and services	19.0	24.7	27.2	28.7	28.8	29.3	28.9
Imports, goods and services	35.2	39.5	40.9	42.9	41.9	41.0	38.9
Net FDI inflow	1.5	2.1	3.0	3.2	3.2	3.4	3.9

Gross official reserves (million, US$)	1,719.8	1,889.0	1,747.0	1,832.0	2,099.0	2,411.0	2,520.0
Gross official reserves (in months of import)	5.9	5.1	4.4	4.5	4.8	5.2	5.1
Fiscal account, percent of GDP, FY basis							
Revenues	23.3	25.0	25.8	22.8	21.8	22.9	24.2
Expenditures	31.2	32.5	31.8	29.1	27.5	27.5	27.4
Central government balance	-7.9	-7.5	-6.0	-6.3	-5.7	-4.6	-3.2
Public debt, percent of GDP							
Public and publicly guaranteed debt (PPG)	72.5	73.4	67.1	69.1	74.4	74.9	73.1
o/w External public debt	53.3	54.6	48.7	54.1	60.9	64.8	64.2

Source: National Institute of Statistics of Rwanda (NISR), Ministry of Finance and Economic Planning (MINECOFIN), and the National Bank of Rwanda (BNR) data; IMF country reports; and World Bank staff projections.
Note: Fiscal data are presented on an FY basis.

9. **The Government's continued commitment to fiscal consolidation is gradually reducing spending, even if a significant decline in grants resulted in a slightly higher deficit in FY2022-23.** The fiscal deficit is estimated at 6.3 percent of GDP, 0.3 percentage points higher than in FY2021-22 (see Table 2). The Government reduced total spending by 2.7 percent of GDP in FY2022-23 primarily through spending rationalization with a strong focus on improved efficiency of government services, limits to subsides, and more efficient capital expenditure. Tax revenue collection softened due to exemptions of value added tax (VAT) on rice and maize flower introduced to curtail food inflation. However, reductions in revenue were less than the one recorded in expenditure. The GoR has largely phased out crisis-response spending on grants, largely offsetting the decline in public expenditures. Going forward, the fiscal consolidation plan under the IMF program, ensures the convergence to the 65 percent of GDP debt anchor by 2030, and is backed by a credible medium-term fiscal consolidation, including domestic revenue mobilization (about 1.1 percent of GDP) and spending rationalization measures.

Table 2. Key Fiscal Indicators (percentage of GDP)

	FY20/21	FY21/22	FY22/23e	FY23/24f	FY24/25f	FY25/26f	FY26/27f
Total revenues and grants	**25.0**	**25.8**	**22.8**	**21.8**	**22.9**	**24.2**	**24.4**
Tax revenues	15.8	15.7	15.3	15.4	15.9	17.0	18.0
Taxes on income, profits, and capital gains	6.8	7.1	6.8	6.6	6.7	7.2	7.8
Taxes on property	0.2	0.1	0.2	0.3	0.2	0.3	0.3
Taxes on goods and services	7.6	7.3	6.9	7.0	7.2	7.7	8.0
Taxes on international trade and transactions	1.2	1.1	1.4	1.5	1.6	1.9	2.0
Non-tax revenues	3.8	3.3	2.7	2.6	2.6	2.7	2.6
Grants	5.5	6.9	4.8	3.8	4.4	4.5	3.8
Expenditures	**32.5**	**31.8**	**29.1**	**27.5**	**27.5**	**27.4**	**27.5**
Wages and compensation	2.9	2.7	2.5	2.8	2.9	2.9	3.0
Use of goods and services	6.1	5.7	5.0	4.5	4.1	3.8	3.8
Interest payments	1.8	1.8	2.0	2.7	2.7	2.5	2.4
Subsidies	2.5	3.2	2.0	1.8	1.7	1.5	1.4
Grants	5.3	5.5	6.5	5.7	5.6	5.4	5.2
Social benefits	0.4	0.5	0.3	0.3	0.3	0.3	0.4
Other expenses	1.3	1.2	0.9	0.8	0.8	0.7	0.7
Capital expenditure	12.2	11.2	10.0	9.0	9.4	10.2	10.5
Fiscal balance							
Overall deficit	-7.5	-6.0	-6.3	-5.8	-4.6	-3.2	-3.1
Primary deficit	-5.7	-4.1	-4.3	-3.1	-1.9	-0.6	-0.6
Government financing	**7.5**	**6.0**	**6.3**	**5.8**	**4.6**	**3.2**	**3.1**
Foreign financing (net)	6.4	7.1	5.7	6.3	5.6	3.4	3.3
Domestic financing	1.1	-1.1	0.6	-0.5	-1.0	-0.2	-0.2

Source: MINECOFIN and World Bank staff estimates. Data are presented on a fiscal year basis (July–June).

Table 3. External Financing Requirements and Sources (US$, millions)

	2020	2021	2022	2023f	2024f	2025f	2026f
Financing requirements	1,247.8	1,999.0	1,347.0	1,745.0	1,591.0	1,622.0	1,736.0
Current account deficit	1,227.4	1,243.0	1,306.0	1,576.0	1,454.0	1,440.0	1,462.0
Scheduled gov. debt amortization	148.7	620.0	113.0	169.0	137.0	182.0	274.0
Net errors and omissions	-128.3	136.0	-72.0	0.0	0.0	0.0	0.0
Financing sources	1,247.8	1,999.0	1,347.0	1,745.0	1,591.0	1,622.0	1,736.0
Capital account balance	284.6	380.0	322.0	398.0	348.0	256.0	313.0
Net FDI inflow	152.6	233.0	399.0	518.0	361.0	584.0	642.0
Government borrowing (gross)	802.7	1,170.0	531.0	945.0	1,090.0	1,099.0	831.0
o/w World Bank DPF	112.5	150.0	175.0	200.0	125.0	125.0	125.0
o/w Special Drawing Right (SDR)	0.0	219.0	0.0	0.0	0.0	0.0	0.0
Net all other flows	115.4	153.0	-1.0	-113.0	-32.0	-42.0	106.0
Use of reserve assets (accumulation)	-107.5	63.0	96.0	-3.0	-176.0	-275.0	-156.0
External financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: World Bank staff calculations.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

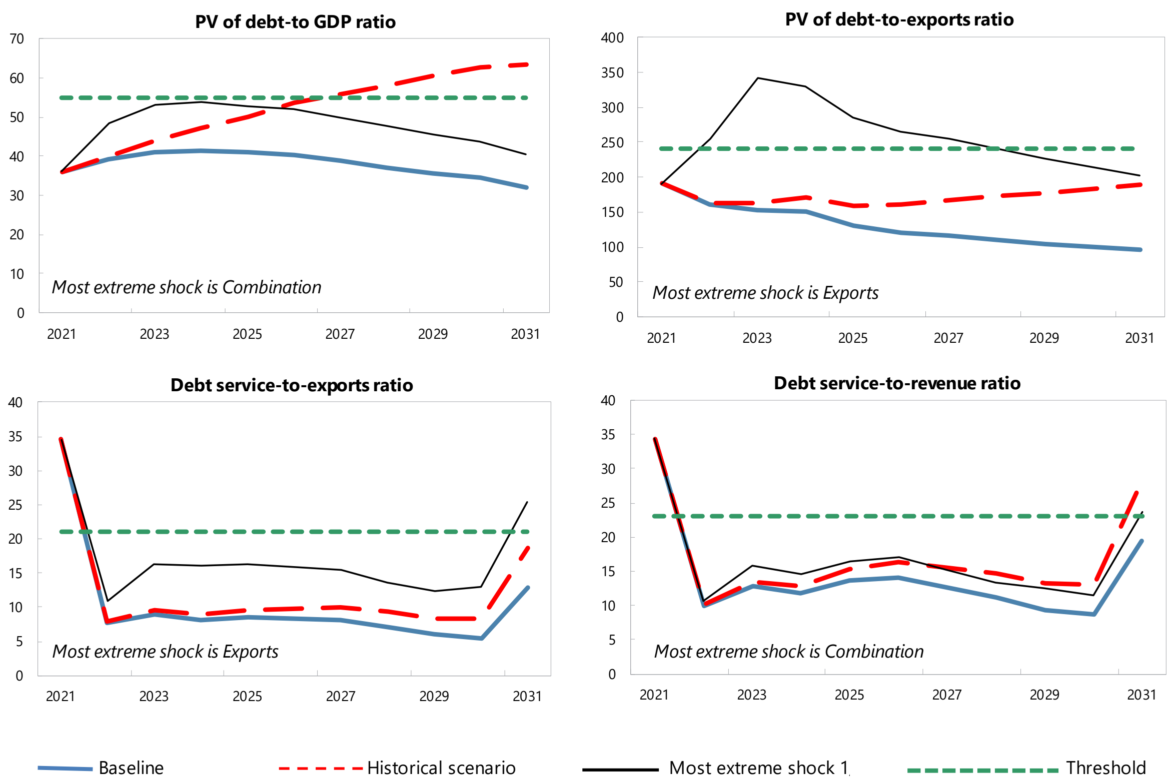
10. **GDP growth is expected to regain momentum, increasing by 7.6 percent on average in 2024–2025**. This improvement will be driven by continued growth in global tourism demand, a pickup in construction with the new airport, and manufacturing activities supported by the Manufacture and Build to Recover Program. The current account deficit is projected to narrow to about 10 percent of GDP on the back of the recovering tourism sector. Continued strong FDI inflows and concessional financing will cover external financing needs. Inflation is expected to gradually return within BNR's target of 5±3 percent in 2024.

11. **The Government remains committed to fiscal consolidation over the medium term**. In the FY2024–26 budget framework, the Government projects spending cuts largely through streamlining and gradually reducing subsidies particularly those related to energy and fuel as well as SOEs by strengthening their oversight and governance and risk management while safeguarding fiscal space for human capital spending. On the revenue side, the Government plans to introduce a number of tax policy measures envisioned in the medium-term revenue strategy (MTRS), aiming at improving revenue administration and cutting tax rates while broadening the tax base.

12. **Rwanda's debt remains sustainable in the medium term, even at its elevated the debt trajectory.** The latest (December 2022) joint World Bank-IMF Debt Sustainability Analysis (DSA) assesses the risk of debt distress as moderate. Although the stock of debt is high and projected to rise above 70 percent of GDP (table 1), the predominance of concessional debt, about 70 percent of the external debt, keeps debt manageable. Principle vulnerabilities come from the uncertain and difficult external environment: the risks of possible declining availability of concessional financing, further US monetary policy tightening and US dollar appreciation, and terms-of-trade shocks. It is important to note that the debt indicators and standard stress tests mechanically classify debt sustainability risks as low.

13. **This outlook is subject to substantial downside risks.** Geopolitical tensions could cause global commodity prices to rise again, placing renewed pressure on inflation and the current account. Rwanda's agricultural sector remains exposed to increasingly frequent weather shocks, which could reduce agricultural output and lead to higher food prices. Investing in and operationalizing planned land management interventions would offer meaningful benefits for inclusive and climate-resilient growth.

Figure 1. Rwanda: Indicators of External PPG Debt under Alternative Scenarios, 2022–2032



Source: World Bank-IMF Debt Sustainability Analysis, December 2022.

14. **Rwanda's macroeconomic policy framework is considered adequate for DPF.** After a solid recovery in 2021-22, GDP is projected to grow by around 7.5 percent over 2024–2026. With recent inflation pressures, the BNR is maintaining a tighter monetary policy stance with no monetization of the financing requirement. The GoR continues to undertake fiscal consolidation through vigorous domestic resource mobilization and expenditure efficiency gains by phasing out COVID-19 and one-off SDR allocation-related spending, tightening recurrent spending control, discontinuing underperforming public investment, and avoiding inefficient spending. Continued reliance on concessional financing will maintain debt sustainability. Performance and Policy Actions agreed under the SDFP are strengthening the macroeconomic policy framework by supporting the development and publication of the pipeline of appraised projects, including project costs and selection criteria of new major projects, as an annex of the budget Law. This operation supports Rwanda in mitigating macroeconomic and fiscal risks through a set of policy actions aimed at unlocking private finance for climate actions and rationalizing Rwanda's public investment, which has been the main driver of debt accumulation since 2013.

2.3. IMF RELATIONS

15. The IMF Executive Board completed the first reviews of Rwanda's Policy Coordination Instrument (PCI) and program under the Resilience and Sustainability Facility (RSF) on May 24, 2023, allowing for an immediate disbursement equivalent to about US$98.6 million for budget support (see annex 3). Arrangements for Rwanda under the RSF and a new 36-month PCI were approved by the IMF Executive Board on December 12, 2022, to support Rwanda's ambitious agenda to build resilience to climate change and help catalyze further financing. The

arrangement is equivalent to an amount of US$319 million. The Country Climate and Development Report (CCDR) 2022 has been instrumental for choosing policy actions under the IMF's RSF program. The World Bank participates in the IMF mission to ensure the alignment between the policy of both institutions. The World Bank also prepares an RSF Assessment Letter at the time of RSF approval and reviews.[10]

3. GOVERNMENT PROGRAM

16. **This DPF operation is guided by the GoR's development plans, primarily the NST1 (2017–2024) which embodies a national vision for private sector-led and green growth**. The proposed operation supports the Government's priorities under the NST1's Economic Transformation Pillar, which aim to create decent and productive jobs, increase productivity, promote industrial development, and secure the sustainable management of natural resources and the environment. The NST2, currently under preparation, is expected to reinforce this vision and propel Rwanda's growth in a sustainable manner.

17. **The operation builds on guiding principles under the *Future Drivers of Growth in Rwanda* Report (2020),[11] a collaboration between the GoR and World Bank that elaborates reform pathways to improve private sector development and investment outcomes.** These include, among others, reforms to (a) harness regional integration as a platform for trade-driven transformation, (b) secure competitive and well-regulated markets for efficient resource allocation, and (c) promote private sector development and technological innovation.

18. **Rwanda is a leader in climate action.** In its updated NDCs, Rwanda has committed to ambitious mitigation and adaptation targets. This includes a planned reduction of emissions by 38 percent by 2030 (based on conditional and unconditional commitments) compared to a BAU scenario as well as significant investments in adaptation and resilience. The GGCRS approved by Cabinet in February 2023 lays out the required economic transition with a move to green industry and knowledge-based services, increased resilience, and reduced ecological footprint of urban settlements as well as greater protection of ecological resources. Furthermore, the CCDR provides relevant recommendations on how the private sector can effectively contribute to the achievement of Rwanda's climate goals in NDC key sectors, such as agriculture, energy, or transport.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

19. **The proposed operation supports a far-reaching reform program that reflects the Government's goals to stimulate private sector-led and green growth captured in Rwanda's Vision 2050**. This programmatic DPF series removes key constraints to private sector investment and green growth through synergistic reforms prioritized based key lessons learned from the World Bank's extensive experience in preparing DPF operations and specific selection criteria. These included: (a) urgency of the reform and government commitment to implement within the operation's time frame, (b) availability of analytical underpinnings and knowledge base to inform action design, (c)

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[10] The Letter aims to convey the World Bank's views to the IMF Board on the Government's climate policies and commitments and covers five key dimensions: (a) the country's vulnerability to climate change, including human, social, and economic costs for the country arising from climate change vulnerabilities; (b) government policies and commitments in terms of climate change adaptation and priority areas to strengthen resilience; (c) government policies and commitments in terms of climate change mitigation and priority areas to reduce greenhouse gas emissions; (d) other challenges, including inter- or cross-sectoral policy reversals or institutional capacity issues; and (e) the World Bank Group engagement in the area of climate change (SecM2023-090 of March 28, 2023).

[11] World Bank and GoR. 2020. "Future Drivers of Growth in Rwanda: Innovation, Integration, Agglomeration, and Competition."

implementation arrangements, and (d) coordination with other Development Partners (DPs). The implementation of government reforms is reinforced through technical assistance (TA) supported by IDA, International Finance Corporation (IFC), IMF, and other DPs.

20. **The proposed set of reforms is aligned with the World Bank's Country Partnership Framework (CPF) 2021–2025,[12] with a focus on maximizing finance for development, expanding the economic role of the private sector, and promoting green growth**. The proposed operation complements ongoing World Bank engagement in Rwanda in support of a US$2.76 billion portfolio that includes 24 operations and advisory services and analysis with 16 active Advisory Services and Analytics (ASAs). The operation is linked to two of five strategic objectives within the CPF (improving conditions for private sector development and expanding access to infrastructure and digital economy) and two cross-cutting themes (governance and institutions; gender and development). Consistent with the Government's stated development goals, as well as IDA20 special themes and cross-cutting priorities, the Program Development Objective (PDO) for the proposed operation is "to support the implementation of a reform agenda to boost green, private sector-led growth in Rwanda and stimulate green investments." Reforms under Pillar A are set to increase the private sector's participation, competition, and trade openness, while Pillar B aims to facilitate climate finance and green public and private investments. Annex 6 captures the theory of change for this operation.

21. **This operation is aligned with the goals of the Paris Agreement.** This DPF aims to stimulate green, private sector led growth that is aligned with Rwanda's priorities for climate mitigation, adaptation and resilience. The DPO is consistent and supportive of the implementation of Rwanda's climate targets as presented in the revised 2020 NDC, long-term strategy, the National Strategy for Transformation, GGCRS, as well as the CCDR recommendations. Second, on mitigation goals, PA 1, 2, 3, 4, 6 are either neutral to or incorporate provisions on climate change, which will contribute to maintaining Rwanda's medium to long-term low emissions pathway.[13] PA 5 is expected to have minimal impact on GHG emissions.[14] PA 7, 8 and 9 are designed to actively reduce GHG emissions.[15] For these reasons, all PAs are aligned with the mitigation goals of the Paris Agreement, and are not expected to cause a significant increase in GHG emissions or any persistent barriers to the transition to low-GHG emissions. Third, on adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on any of the PA's contribution to the PDO. Therefore, all PAs of the proposed DPF are aligned with the adaptation and resilience goals of the Paris Agreement. Detailed review is presented in Annex 5.

22. **The design of this operation reflects lessons learned in the implementation of previous DPFs.** The choice of a programmatic DPF as a lending instrument is in line with the continuity of the proposed reforms, robust implementation and results, and experience with DPFs in Rwanda. This proposed DPF supports the country's continued policy reform trajectory, building on the Human Capital for Inclusive Growth programmatic DPF series (FY2021–23, P171554, P173680, and P178113), which registered robust interim results despite the disruption posed by the COVID-19 pandemic.

[12] Report No. 148876 discussed by the Executive Directors on July 9, 2020.
[13] The proposed Privatization Law (PA 1), the new Competition and Consumer Protection Policy 2023 (PA 2), the amended Insolvency Law (PA 3), the National Bank of Rwanda Directive governing Digital Saving Facilitators and Regulation relating to Financial Service Consumer Protection that prohibits discrimination based on gender in access to credit (PA 4), Revised RDB law that includes a dispute prevention and grievance management mechanism (PA 6).
[14] The ratification of the AfCFTA Trade in Services Protocol (PA 5).
[15] Proposed law governing national parks and national reserves (PA 7), The Rwanda Carbon Market Framework (PA 8), procurement law requiring e-procurement by all procuring entities and by contractors (PA 9).

4.2. PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

Pillar A: Increase the private sector's participation, trade, and contestability.

DPF 1 (2023)	DPF 2 (2024)
Prior Action (PA) 1: The Recipient through Cabinet has approved the proposed Privatization Law and submitted it to Parliament.	**Trigger 1:** The Recipient through Cabinet has approved the Presidential Order determining prerequisites for the establishment of a state-owned company and additional rules for its management.

23. **Rationale**. There are at least 76 wholly or partially SOEs operating in 48 sectors in the economy, with some created over time through Cabinet decisions.[16] More of 50 of them operate in sectors where private participation is generally feasible. Moreover, some of them incurred large losses and represent a potential contingent liability for the state. The 2020 Privatization Policy and Strategy recognizes the importance of reforming SOE governance practices to support the structural transformation of the Rwandan economy.[17] Repealing the 1996 Law Governing Privatization and Public Investment and successfully implementing the new law in line with the 2020 Privatization Policy would strongly support Rwanda's long-term strategy to increase private sector participation and overall efficiency in the economy while reducing the fiscal burden of inefficient SOEs. An updated privatization framework is necessary to clarify conditions to select firms for privatization, define actions for pre-privatization due diligence and options for restructuring, as well as set alternative methods for privatization. An updated framework will allow the Government to divest from enterprises where the rationale for state participation is unclear and the private sector could potentially compete on a level playing field. Given the creation of SOEs overtime, there is need to set specific conditions and processes for the creation of new SOEs. And for the SOEs that will be retained, clear obligations for monitoring performance, effects on the economy and enhancing transparency are needed.

24. **Reform substance.** The proposed draft Privatization Law, approved by Cabinet on August 1, 2023, and submitted to Parliament on August 8, 2023, expands the scope of the previous law. The new law provides for a new institutional structure and procedures to manage the privatization process of SOEs and enterprises with direct and indirect state shareholdings, through the creation of multi-institutional privatization and transaction committees. The law also sets the criteria to consider for the selection of enterprises to be privatized and to assess issues related to labor, environment, and competition in the pre-privatization phase. The law will also enable restructuring to support successful privatizations and dissolution to facilitate exit when needed as well as set sanctions to discourage actions that can undermine the privatization process, among others. The Presidential Order determining prerequisites for the establishment of a state-owned company and additional rules for its management will state the criteria for setting up an SOE[18] and for improved oversight of SOEs.[19]

[16] Based on information provided by the Ministry of Public Investment and Privatization (MININVEST) in July 2023 and complemented through desk research and international ownership databases. Sectors based on NACE-4 digit excluding social sectors.
[17] Both strengthening the framework to identify enterprises for privatization and carry out privatization processes as well as enhancing governance of enterprises with state shareholdings are essential to improve the business environment beyond reducing administrative costs of doing business.
[18] This is informed by a feasibility study that evaluates expected effects on private sector participation, markets, and achievement of public policy objectives.
[19] To limit any potential risks associated with the privatization agenda, ongoing advisory and analytics activities, and operations will in parallel support the capacity building of the ministry. Currently, an environmental risk assessment is carried out whenever a company is privatized to mitigate potential environmental hazards associated with privatization. To compensate for the Government's reduced direct influence over privatized SOEs, the scope of the Privatization Policy is expected to be expanded to include commitments to environmental targets, making an active contribution to relevant sectoral NDC targets.

25. **Expected results:** Publication of the list of SOEs and enterprises with state shareholdings to be privatized after following an enhanced process integrating considerations on private sector development, labor, environment, and competition. The Privatization Law is expected to facilitate the privatization of SOEs and enterprises with state participation where needed and the subsequent Presidential Order will set an improved SOE oversight framework, minimizing both potential crowding out of private investment and associated liabilities on public finances.

DPF 1 (2023)	DPF 2 (2024)
PA 2: The Recipient through Cabinet has approved the new Competition and Consumer Protection Policy 2023, giving directions for effective implementation, ensuring principles of transparency, efficiency, and interinstitutional collaboration.	**Trigger 2:** The Recipient through Cabinet has approved the Amendments to the Competition and Consumer Protection Law 2012 and submitted it to the Parliament, to enhance effectiveness and broaden the scope to address competition issues in the economy considering Rwanda's climate change policies and goals.

26. **Rationale.** Weak competition in Rwandan markets dampens productivity growth, competitiveness, and private investment. The business environment is characterized by regulations that restrict competition and the lack of legal protection against unfair anticompetitive practices, which are among the highest legal risks to business operations in Rwanda[20]. The current Competition and Consumer Protection Policy and Law present deficiencies: do not promote integration of competition principles across government regulations and policies and are limited in scope, leaving MSME and public procurement unprotected from anticompetitive practices. They also fail to account for the challenges created by digitalization and the importance of new goals such as sustainability. Updates in the policy would enable pro-competition reforms informed by Rwanda Inspectorate, Competition and Consumer Protection Authority (RICA) and decisions on anticompetitive practices and mergers to create an environment where the private sector can thrive as it delivers the best deals to consumers, giving opportunities to MSMEs and new investors.

27. **Reform substance.** The new Competition and Consumer Protection Policy clarifies its scope and overarching principles and defines the institutional coordination arrangements needed for its successful implementation (overseen by MINICOM). Importantly, the policy recognizes competitive neutrality across public and private sector market players, further supporting reforms related to SOEs described above and clarifies the interplay between competition policy and consumer protection, which is particularly important in digital markets. Issues related to the scope of application of competition law (which currently leaves out public procurement and SMEs), mechanisms for efficient enforcement, and sanctions to incentivize compliance are highlighted in the policy and will be addressed in the amendments of the Competition and Consumer Protection Law. The policy recognizes sustainability in its objectives and the amended law includes provisions to address products' green washing and support sustainable consumption and consider green policy objectives in the evaluation of the benefits of agreements between competitors and joint ventures - such as for the development and deployment of green technologies and circularity initiatives.

28. **Expected results.** The effective implementation of the competition law will lead to an increased number of decisions on competition cases and advocacy initiatives to embed competition principles in sectoral and national public policies, preventing anticompetitive practices, mergers and regulations that can discourage private investment and reduce market contestability.

[20] Rwanda Country Economic Memorandum (2023)

DPF 1 (2023)	DPF 2 (2024)
PA 3: The Recipient through the Prime Minister's Office has approved and gazetted the amended Ministerial Order n° 001/MINICOM/23 of 05/10/2023 relating to insolvency practitioners to strengthen the competence and integrity of insolvency practitioners.	**Trigger 3:** The Recipient through Cabinet has approved and submitted to Parliament the amended Insolvency Law, which streamlines the existing procedures and adds a new simplified insolvency procedure for micro and small enterprises.

29. **Rationale.** Weak insolvency and debt resolution regimes disincentivize banks and investors from providing credit. Creditors are more willing to lend when they expect to recover a larger amount should the loan or investment fail. And when firms do fail and cannot be restructured, effective insolvency regimes can facilitate asset reallocation to more productive uses via liquidation. While Rwanda went from the status of a country with no insolvency practice in 2011 to a country with some cases in 2023, the framework is significantly held back by a lack of professional capacity and a law unsuitable for the majority of businesses – micro and small. The recovery rate for insolvency in Rwanda was estimated in 2020 to be only 19.3 percent, lower than many other countries in the region.[21] If banks have trouble recovering, they are less willing to extend credit and do so at higher interest rates. In the World Bank Rwanda Enterprise Survey, the top-ranked business environment obstacle for firms was access to finance.[22] While the Rwandan Insolvency Law 2021 (a limited update from the 2018 law) contains some good practices, it is complex, expensive to use and was written primarily for large businesses. Further, some substantive portions of the law are unclear or contradictory. This affects willingness of small businesses to use the law as well as banks, companies, and entrepreneurs to take risks and invest. The insolvency framework is also yet to be fully implemented, partly because insolvency practitioners (IPs) are not yet well regulated. IPs are central to the success of the insolvency system—they assist the court and parties with most procedures, are normally given control over assets, support effective reorganizations, and facilitate communication between the parties.

30. **Reform substance.** The amended Ministerial Order relating to IPs is a change in government policy that will strengthen the competence and integrity of IPs. The reform will strengthen the regulation of IPs, including bolstering the criteria for who can apply to be an IP as well as adding transparent mechanisms to monitor and discipline IPs. Finally, as part of the implementation of this reform, capacity building for IPs will include a training module on climate change and insolvency. IPs will be equipped to consider climate change concerns and potential climate change mitigation measures when assisting affected parties. They will also be sensitized to the physical and transition risks of climate change which can put companies at risk of insolvency. The trigger will amend the Insolvency Law to clarify the main procedures and provide small businesses with a simplified procedure, which is less onerous and more cost-effective.

31. **Expected results.** Reforming the insolvency regime can improve firms' outcomes by lowering the cost of borrowing, increasing access to finance, improving returns to creditors, supporting job preservation through reorganization, and promoting entrepreneurship.[23] Better-qualified IPs will improve functioning of insolvency procedures, create more trust in the system, and increase its use. The reforms will encourage the use of the Rwandan insolvency framework by reducing complexity and increasing predictability and trust. The number of insolvency procedures initiated after completion of the DPF should double from 5 to at least 15 a year.

[21] For example, in 2020, Kenya's recovery rate was almost 32 percent, Uganda's was over 40 percent, and the high-income average for OECD countries was 70 percent.
[22] Enterprise Surveys (2019). www.enterprisesurveys.org, The World Bank.
[23] World Bank Insolvency & Debt Resolution Viewpoint "Insolvency Reform for Credit, Entrepreneurship and Growth" (2014).

DPF 1 (2023)	DPF 2 (2024)
PA 4: The Recipient through BNR has (a) issued Directive No. 4230/2023-00031[613] of 15/05/2023 governing Digital Saving Facilitators that safeguards the funds of Savings and Credit Groups, and (b) gazetted Regulation No. 55/2022 of 27/10/2022 relating to Financial Service Consumer Protection, prohibiting discrimination based on gender in access to credit.	**Trigger 4:** The Recipient through MINECOFIN has issued a Ministerial Order setting up a committee responsible for resolving financial consumers' complaints, including gender-based discrimination.

32. **Rationale.** Inadequate access to financing remains a significant constraint for firm creation, growth, and survivorship, with the low savings rate hindering further financial deepening in Rwanda. Savings and Credit Groups (SCGs) are a major financing vehicle for Rwanda's households, accounting for US$49 million of funds in 2021.[24] Yet, they operate a cash-based system where members' savings are kept in boxes and not accessible by formal financial institutions. At the same time, the lack of legal provisions against discrimination in accessing finance represents an important constraint faced by women in Rwanda when they want to engage in entrepreneurial activities. Inadequate access to funding and start-up capital represents one of the key barriers for women entrepreneurship[25]. Women open their own businesses much less frequently than men, particularly in rural areas.[26] Rwanda scores 75/100 in the 2023 World Bank's Women, Business, and the Law Report indicator for entrepreneurship because it was failing to explicitly outlaw gender discrimination in access to credit. The need for such regulation is driven by deeply entrenched norms and dynamics, including in the banking system, social norms, and stereotypes about women' occupation and women entrepreneurs.

33. **Reform substance.** To increase access to financing, increase trust in digital financial services, and protect financial services consumers, the BNR has issued two key regulations: (a) a Directive that governs the provision of digitization services to SCGs and (b) Regulation Nr 55 Relating to Financial Service Consumer Protection (November 2022). These reforms will help crowd-in informal savings into the financial sector, support financial inclusion (by prohibiting gender-based discrimination in financial service delivery), and guarantee the sustainability of such business models through responsible business conduct and market discipline. To operationalize the Regulation on Financial Service Consumer Protection, BNR has set up a complaints mechanism for financial consumers and aims to complete the legal framework for its functioning.

34. **Expected results.** The reforms will increase the number of informal saving groups linked to the formal financial sector. They will also increase the share of financial institutions that will put in place policies mandated by the BNR regulations on financial consumer protection, as determined by BNR supervision and inspection methods. Ultimately, the reforms are expected to increase the percentage of women and female-owned businesses with access to credit financing. Through digitization, Fintech companies can help crowd-in informal savings and link SCGs to the formal financial sector. Digitization would be especially important to help women borrow and save, as they make up 72.3 percent of SCG members.[27] This is especially important given gender gaps in access to formal financial services (women 74 percent versus men 81 percent).[28] The promotion of savings through SCGs digitization can also

[24] National Bank of Rwanda, SCGs Map.
[25] The data from FinScope Rwanda in 2020 reveals gender gaps in access to and use of formal financial services.
[26] 55 percent of SMEs in urban establishments are male-owned compared to 45 percent women-owned; in rural areas, men own 83.4 percent of enterprises compared to 17 percent owned by women.
[27] National Bank of Rwanda, SCGs Map.
[28] CPF Rwanda (FY2021–26).

lead to improving access to financial products (credit and insurance) for SCGs members which they wouldn't otherwise have, and can contribute to climate resilience, particularly for smallholder farmers.[29]

DPF 1 (2023)	DPF 2 (2024)
PA 5: The Recipient through Cabinet has approved and gazetted the Presidential Order ratifying the AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors is published in the EAC Gazette.	**Trigger 5:** The Recipient through Parliament has approved and gazetted the amended "Law Governing Banking" which enables cross-border supply of banking services by lifting a subsidiary requirement and allowing foreign established branches.

35. **Rationale.** The National Export Strategy III calls for regulatory reforms and regional integration to further stimulate trade and investment in services. This builds on the Government's aim to position Rwanda as a regional services hub in the financial, information and communication technology (ICT), logistics, and tourism sectors. Yet, the World Bank's 2023 Services Trade Restrictiveness Index (STRI) suggests that Rwanda still has considerable restrictions on services trade. Out of 19 service sectors, 12 have major restrictions in their cross-border supply (Mode 1) and/or inward investment (Mode 3). The ambitious goals of the National Export Strategy cannot be achieved in the presence of significant regulatory barriers to trade in services such as the need for foreign banks to enter the Rwandan market through a subsidiary (a restriction of Mode 3). The African Continental Free Trade Area (AfCFTA) Trade in Services Protocol provides a key opportunity for reform, by committing the GoR to progressive liberalization of services based on offer exchanges by Member States. This, in turn, promises to yield significant development dividends by reducing high services trade costs; overcoming the constraints of a small and landlocked market, notably by harnessing digital technologies; better inserting Rwandan services into regional value chains; and crowding in and facilitating the private sector (domestic and foreign) required for an ongoing shift toward a more service-centric economy.[30]

36. **Reform substance.** The publication of the Presidential Order ratifies the AfCFTA Trade in Services Protocol and anchors it into Rwandan domestic law. Yet, its implementation calls for the progressive liberalization of services based on 'WTO plus' positive lists and offer exchanges by Member States. The GoR has initiated this process within the East African Community (EAC) to identify each country's proposed complete or partial opening of market access and national treatment across all the five AfCFTA priority sectors: professional services, communication services, finance, tourism, and transport. The publication of Rwanda's Schedule of Services Commitments in the EAC gazette formally obliges the GoR to implement the legislative changes to services sectors. A key reform scheduled under this proposed operation that would help realize Rwanda's commitments to the AfCFTA Trade in Services Protocol is the "Law Governing Banking". The reform was approved by Cabinet on July 13, 2023, and subsequently submitted to parliament for review and approval. The law removes barriers to cross-border supply of banking services by lifting a subsidiary requirement and allowing foreign established branches. However, efforts need to be made to ensure successful implementation of the new legislation.

37. **Expected results.** The restrictions on cross-border supply of baking services are raising the cost of financial services and limiting the offering available to firms and consumers. By allowing for improved access for foreign providers of financial services, the reforms will substantially reduce the cost and expand the availability of such

[29] Savings improve resilience during emergencies and can help manage climate-related impacts such as droughts. Access to credit also allows investments in crucial adaptation measures, such as fertilizer and irrigation systems, which help sustain agricultural productivity in face of climate-related changes.
[30] 2022. "Making the Most of the AfCFTA: Leveraging Trade and FDI to Boost Growth and Reduce Poverty." World Bank.

services, therefore improving competitiveness of these sectors on export markets as well as competitiveness of sectors using them as inputs. The proposed operation is expected to reduce the number of AfCFTA services subsectors with major restrictions in Mode 1 (cross-border trade) and/or Mode 3 (FDI) to go from 12 currently to 9 in 2025 (as measured by the World Bank Services Trade Restrictiveness Index score >50/100).

Pillar B: Facilitate climate finance and green public and private investments.

DPF 1 (2023)	DPF 2 (2024)
PA 6: The Recipient through Cabinet has approved the revised Rwanda Development Board (RDB) law and submitted it to Parliament; this law includes an investor dispute prevention and grievance management mechanism, in alignment with the AfCFTA Investment Protocol.	**Trigger 6:** The Recipient through the RDB Board has approved implementing guidelines of the investor dispute prevention and grievance management mechanism, that include operating procedures for rapid resolution of “green” investor grievances.

38. **Rationale.** Rwandan investors face considerable political and regulatory risks, that may arise from government regulation and policy. This risk is especially grave for green investment (renewable energy in particular), as this is often considered of ‘public interest’ and are subject to close state supervision and thus more prone to investor-state disputes.[31]Evidence from internal project database of the Rwanda Development Board (RDB) suggests that between 2018 and 2023, Rwanda had almost US$100 million in ‘high-risk’[32] projects with significant potential for divestment due to investor grievances, with around one-third (US$32 million) from ‘green’ investment projects.[33] To avoid divestment, international best practice calls for ‘rapid resolution’[34] within six months, which was the case for only US$30 million of investment projects and US$4.5 million of ‘green’ investment projects. Dispute prevention and grievance mechanisms reduces the political and regulatory risk for investors and helps attract and retain foreign investment.[35]

39. **Reform substance.** The RBD law establishes the requirement for RDB to adopt a dispute prevention and grievance mechanism. This will ensure a team within RDB to facilitate the prevention of disputes and management of grievances between investors and any state organ and facilitate amicable settlement of potential disputes that may arise. It thus provides a systematic way to handle investors’ political and regulatory risks. This also helps meet a core requirement of the AfCFTA investment protocol. The adoption of the implementing guidelines by the RDB Board for the dispute prevention and grievance mechanism will further ensure systematic internal processes and implementation. RDB’s data indicates that a number of investor grievances are in the hydro and solar power sectors and these issues impact projects’ continuity and expansion. Therefore, the implementation guidelines will also be tailored to such grievances linked to ‘green’ projects to ensure their efficient and prompt resolution to facilitate green private investment.

40. **Expected results.** Establishing a dispute prevention and grievance mechanism, embedded in RDB Law, will provide a more systematic way to handle investors’ political and regulatory risks. This also helps meet a core requirement of the AfCFTA investment protocol. The adoption of the implementing guidelines by the RDB Board

[31] World Bank and Energy Charter Secretariat. 2023. “Enabling FDI in Renewable Energy Sector: Reducing Regulatory Risks & Preventing Investor-State Conflicts.”
[32] High risk refers to projects with investor grievances related to the conduct of a government body and that conduct may constitute a ‘potential’ violation of the rights and protections guaranteed to investors in domestic laws and international investment treaties.
[33] Investment made in a sector or activity that contributes to climate adaptation and/or mitigation objectives of Rwanda as determined by RDB in accordance with Rwanda's Updated NDCs (and climate finance taxonomy when its available).
[34] If a solution is found mutually acceptable by the investor and the government body concerned, then the issue is considered as solved.
[35] *2020 Global Investment Competitiveness Report: Rebuilding Investor Confidence in Times of Uncertainty*. World Bank, Washington, DC.

for the dispute prevention and grievance mechanism will further ensure systematic internal processes and implementation. The implementation guidelines will also be tailored to grievances linked to ‘green’ projects (e.g., through targeted trainings and common solutions for issues of hydropower, solar and mini-grids) to ensure their efficient and prompt resolution to facilitate green private investment. The proposed reforms are expected to result in an improved rate of high-risk issues solved in a satisfactory manner and through ‘rapid resolution’ (that is, in a six-month time window). This is measured through investment retained, defined as the total value of the investment of existing foreign and domestic investors suffering high-risk investor issues that benefit from the dispute prevention mechanism. The proposed operation will separately consider investment retained from all ‘high-risk’ investors and for ‘green, high-risk’ investors.

DPF 1 (2023)	PAs DPF 2 (2024)
PA 7: The Recipient through Parliament has approved and gazetted the Law Governing National Parks and Nature Reserves (Law No. 001/2023), enabling private sector participation in nature conservation.	**Trigger 7:** The Recipient through the Ministry of Environment has approved and gazetted Ministerial Orders associated with the Law to facilitate operationalizing greater private sector participation in the management of national parks and nature reserves.

41. **Rationale**. NBT is a productive use of Rwanda’s natural assets (biodiversity and forests), a significant source of foreign exchange earnings, and can create higher-quality jobs in subsectors such as the accommodation and food sector in Rwanda, including formal jobs for women. However, climate impacts (e.g., droughts, wildfire) is leading to irreversible, non-linear adverse effects on nature assets. To expand and diversify the NBT offering requires private investment at multiple scales, including in the natural assets that underpin NBT.[36] Currently, parks, nature reserves, and buffer zones are managed primarily by the state. A law and associated regulations that facilitate private sector engagement in management of the natural assets could assist in expanding the NBT offering.

42. **Reform substance**. The Law Governing National Parks and Reserves provides modalities for the establishment and management of national parks, nature reserves, and buffer zones. Law No 001/2023 of 13/01/2023 Governing National Parks and Nature Reserves was published in the Official Gazette n° Special of 14/02/2023 following its approval in Cabinet and adoption by the Parliament of Rwanda. This law enables private persons authorized by the authority to manage national parks and nature reserves and convert private land to nature reserves. The law creates the opportunity to use collaborative management partnerships to facilitate private sector engagement in management. The Ministerial Orders will help formalize modalities for improved management of National Parks and nature reserves based on scientific evidence and due environmental and social diligence. Private sector involvement in the conservation and management of nature and biodiversity, including in reserves and buffer zones, will bolster the resilience of these natural systems to climate shocks.

43. **Expected results.** Number of organizations that have fulfilled at least half of the requirements to manage a nature reserve. The new legal basis is expected to increase private investment in nature reserves and boost community-based ecotourism, a pillar of Rwanda’s GGCRS. The law will provide guiding principles underscoring the need for evidence-based decision-making, cooperative management of national parks and nature reserves and community-based conservation. Such principles will help ensure private sector investments mobilized to promote the conservation of nature and biodiversity benefit local communities and that private lands can be converted to buffer zones, which can enhance climate resilience of landscapes. Private companies are more prone to implement

[36] An estimated US$97.5–107.7 million is needed for sustainable management of the natural resources, ecosystems, and biodiversity from 2019 to 2030. In addition, investments in physical infrastructure are necessary.

innovative and efficient management practices, which can result in improved infrastructure, better maintenance, and more effective conservation efforts. Private management will promote sustainable ecotourism, engage local communities and generate revenue for conservation efforts. Enhanced management of national parks and the conversion of private land to nature reserves can lead to the restoration of degraded and damaged ecosystems, increasing both ecosystem resilience to climate change and carbon sequestration. Potential environmental risks from private sector involvement will be mitigated through regulatory instruments and standards.

DPF 1 (2023)	DPF 2 (2024)
PA 8: The Recipient through Cabinet has approved the Rwanda Carbon Market Framework, establishing the regulatory framework for access to the international carbon market and carbon trading activities.	**Trigger 8:** The Recipient through Cabinet has adopted the country's climate finance strategy to support decarbonization of the economy and strengthen the resilience to climate change related risks that includes: (i) a taxonomy of climate finance; (ii) a process of project selection for both public and private investments; (iii) a climate finance information system to monitor financing of climate and environmental protection projects; and (iv) a regulatory framework for climate-focused financial instruments, such as thematic bonds or sustainability-linked bonds (SLB).

44. **Rationale.** Rwanda faces a significant funding gap for climate projects which needs to be addressed through climate finance mobilization and better coordination of private and public investments.[37] Maintaining public debt at sustainable levels is also key to reducing the country's vulnerability to external shocks and liquidity pressures and their spillover effects on the country's attractiveness to the private sector. Rwanda is committed to mobilizing financing for climate action without contributing to public debt accumulation. The proposed DPF series supports this commitment through a gradual reform agenda based on the development and implementation of frameworks for non-debt instruments, including for the carbon markets, along with an integrated Climate Finance Strategy designed to promote institutional coordination scaling climate financing.

45. **Reform substance.** The Rwanda Environmental Management Authority (REMA) has prepared the Rwanda Carbon Market Framework, which has been approved by Cabinet in September 2023. The framework establishes a governance and institutional structure that will guide Rwanda's participation in the carbon markets. In addition, the framework provides an operationalization of key operational and technical elements, such as determining specific procedures necessary to participate, including, among other criteria, the project cycle, requirements to ensure environmental integrity, and processes for reporting. The second operation of the proposed series (Trigger 8) will support the adoption of the National Climate Finance Strategy, which will provide a climate finance taxonomy, criteria to guide the process of project selection for both public and private investments, a climate finance information system, and a regulatory framework for climate-focused financial instruments. The Climate Finance Strategy will include an overview of roles and responsibilities and a work plan and will also define a climate finance taxonomy, project selection process, and an information system to monitor investments.

46. **Expected results.** These reforms are expected to increase the flow of investment into climate projects, including through innovative climate finance instruments such as sustainability-linked bonds (SLBs), structured bonds that leverage additional donor support, and crowding in private green investments across priority sectors, in addition to using the Government's resources. Additional climate resilience and nature investments are expected to reach US$400 million (around 4 percent of GDP) by 2025. The national Carbon Market Framework will facilitate Rwanda's participation in carbon markets both within and outside Article 6 (6.2 and 6.4) and in nonmarket approaches under

[37] The financing gap for Rwanda's climate and nature goals remains large, at around US$9.9 billion through 2030 (US$5.75 billion for conditional financing only). This implies a conditional financing gap of around US$719 million annually from 2023 to the end of 2030.

Article 6.8.[38] This will build on the framework for supporting the generation of carbon offset credits under the Clean Development Mechanism of the Kyoto Protocol.[39] It is important to note that this financial instrument does not add to the country's debt stock and contributes to bringing transparency and confidence to the market and reducing uncertainty for project participants, particularly for the private sector. TA efforts will promote the deployment of non-debt investments which can strengthen the implementation of public investments.

PAs DPF 1 (2023)	Triggers for DPF 2 (2024)
PA 9: The Recipient through MINECOFIN has issued a Ministerial Order to implement the procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants as the single online portal for all procurements.	**Trigger 9:** The Recipient through the cabinet has (i) approved and submitted to Parliament an amended Procurement Professionals Association Law (N°011/2016 of 02/05/2016) to enhance procurement professionalization, by transforming the current procurement professionals' association into an independent institution with mandate of procurement capacity building and professional certification; and (ii) approved the sustainable procurement guidelines to implement sustainability aspects of the Public Procurement Procedures Law enacted in November 2022.

47. **Rationale.** The PER finds that Rwanda has made commendable efforts to bring its procurement system up to international standards, but also that issues yet to be addressed cause the loss of public resources. Rwanda's e-procurement system (Umucyo) is currently in use and contains all procurement plans, with full details on all bids made timely available and all rewards published in the system. However, the use of e-procurement remains limited, notably for a number of the largest projects. While 60 percent of operations are already conducted through e-procurement, this still represents only 35 percent in value of all procurements in the country. In addition, no payment has been processed through e-procurement system to date. Moreover, the audited reports of the Office of Auditor General (OAG) show inadequate training, lack of clear technical specifications in some bidding documents, missing documents and fraud, and failures to follow the procurement law. The GoR has revised the public procurement law (Law N° 031/2022 of 21/11/2022) to make e-procurement mandatory. However, the provision of the law on e-Procurement, refers to a Ministerial Order yet to be issued to determine criteria for use or for exception in in the system, so it is not possible to enforce mandatory use of the e-Procurement system until the Ministerial Order has been issued and published.

48. **Reform substance.** The e-Procurement system creates a single online portal for stakeholders, contractors, suppliers, consultants, and the public at large to access information on current procurement opportunities, learn about the procurement process, and obtain procurement documents and templates for all types of public contracts. The open availability of information will promote equal access for all types of businesses, including small and medium enterprises, reducing the possibility of large or well-connected firms gaining an advantage because of information asymmetries. This will not only increase competition for government contracts but will also benefit the private sector by ensuring transparency, fairness, and equal opportunity for all. The second operation of the proposed series will further improve the efficiency, and effectiveness of public investment through adoption of the

[38] Article 6 of the Paris Agreement establishes three approaches for parties to voluntarily cooperate in achieving their emission reduction targets and adaptation aims set out in their national climate action plans under the Paris Agreement (NDCs).
[39] REMA is the designated national authority for the Clean Development Mechanism which provides guidelines for local entities seeking to participate in the global voluntary carbon market and which is notably different from regulated regional markets that issue credits and control prices. REMA is also elaborating the modalities, guidelines, and procedures for the implementation of Article 6 of the Paris Agreement in Rwanda and setting all necessary requirements to maximize carbon market mechanism opportunities under this agreement. The World Bank has provided support to REMA through (a) Ci-Dev (Standardized Crediting Framework which provides an A6 model for governance and crediting for energy access) and (b) PMR TA support through knowledge sharing (that is, Regional Carbon Market Workshop).

Procurement Professionals Association Law, which transforms the current Procurement Professionals Association into an independent procurement institution with mandates of procurement capacity building and procurement professional certification. It will also promote green investments, through the adoption of sustainable public procurement guidelines following internationally recognized standards[40] to effectively implement the sustainability aspects of the Public Procurement Procedures Law enacted in November 2022, providing procuring entities with minimum green procurement criteria for selected sectors.

49. **Results**. The proposed reform will improve transparency and effectiveness of public investment implementation by completing the procurement law requiring the use of the e-Procurement system as the single online portal to conduct procurement operations in the country. The expected result of the reform supported under this DPF program is that the share of procurement operations (in value) conducted through e-procurement increase from 35 percent of the total transactions in 2022 to an average of 70 percent in 2025. It is also expected that the share of contracts invoiced within e-Procurement will increase from 0 percent in 2022 to 90 percent of total signed contracts in 2025.

Table 4. DPF PAs and Analytical Underpinnings

Focus area of PAs	Analytical Underpinnings
Pillar A: Increase the private sector's participation, trade, and contestability.	
PA 1 - Privatization Law	**The Future Drivers of Growth Report (2020)** focuses on four drivers of growth—innovation, integration, agglomeration, and competition, which Rwanda needs to harness to reach its long-term development goals. **Businesses of the State (2023)** analyzes how different ownership arrangements across sectors and institutional settings affect private investment, productivity, technology adoption, and job creation. . **Creating Markets in Rwanda: Country Private Sector Diagnostic (2019)** stresses the need for greater private sector participation including through privatization of SOEs.
PA 2 - Competition and Consumer Protection Policy 2023	**The Future Drivers of Growth Report (2020**) focuses on four drivers of growth—innovation, integration, agglomeration and competition, which Rwanda needs to harness to reach its long-term development goals. **Competition Policy Assessment (2015)** looks at strengthening the effectiveness of competition law and policy and proposes recommendations to strengthen competition-related aspects of the Law No. 36/2012. **Creating Markets in Rwanda: Country Private Sector Diagnostic (2019)** reports that regulation significantly restricts competition and limits private sector competition.
PA 3 - Ministerial Order on Insolvency Practitioners	**FY2021 Rwanda Financial Sector Assessment Program (FSAP) Development Module** supports a coordinated dialogue with national authorities and enhances collaboration in the financial sector. **The Future Drivers of Growth Report (2020)** focuses on drivers of growth that Rwanda needs to harness to achieve its long-term goals. **Rwanda Enterprise Survey (2019)** aims to provide an understanding of what firms experience in the private sector.

[40] For example, the UNDP's global guidelines on Sustainable Public Procurement (SPP), also known as "Green Procurement," provide a comprehensive framework for integrating environmental and social considerations into public procurement processes, so that governments can leverage their purchasing power to drive sustainable development, reduce environmental impacts, playing a significant role in achieving the SDGs.

Focus area of PAs	Analytical Underpinnings
PA 4 - (a) Directive governing Digital Saving Facilitators, to safeguard and protect SCG, and (b) Regulation relating to Financial Service Consumer Protection that prohibits gender-based discrimination in access to credit	**Unequal Laws and the Disempowerment of Women in the Labor Market (2017)** provides evidence from firm-level data on how legal gender disparities disempower women in the labor market. **The Global Findex database (2020)** provides a financial inclusion data set on how adults save, borrow, make payments and manage risk. **Joint IMF-World Bank 2021 Financial Sector Assessment Program** provides in-depth assessments of financial sectors. **FinScope Rwanda 2020** addresses the information needs that would enable the Government to develop and monitor evidence-based policies and regulations which will help extend the reach of financial services in the country. **Women, Business, and the Law (2022)** finds that no applicable provisions could be located on the question: "Does the law prohibit discrimination in access to credit based on gender?"
PA 5 - Schedule of Services Commitments for opening of AfCFTA service sectors	**The Future Drivers of Growth Report (2020)** noted the strategic importance of services for trade performance, while also acknowledging the dominant role of barriers to services trade. The World Bank AfCFTA flagship report **'Making the Most of the AfCFTA' (2022)** provides detailed country-level simulations of the potential benefits of services liberalization in terms of trade, FDI, and income growth. **The World Bank STRI (2023)** provides a regulatory audit of existing services restrictions.
Pillar B: Facilitate climate finance and green public and private investments	
PA 6 - Revised RDB law including dispute prevention and grievance management mechanism	**The Future Drivers of Growth Report (2020)** noted the existing challenge of de facto investment restrictions in Rwanda. **Enabling FDI in Renewable Energy Sector (2023)** highlights the role of regulatory risks for green investments. RDB's **Customer Relationship Management System** (accessed June 2023) provides a detailed account of high-risk investor issues.
PA 7 - Law Governing Natural Parks and Reserves	**Rwanda Economic Update (2023)** provides high-quality analysis that contributes to the policy dialogue in Rwanda and informs interventions by the Government and other stakeholders to support the process of Rwanda's socioeconomic development. **Visit Rwanda: From Crisis to Opportunity.** A Recovery Plan for Rwandan Tourism (November 2021) prepared by RDB and IFC. **A Post-Pandemic, Nature-Based Tourism and Conservation**: Recovery Plan for Rwanda by Benitez et al. (2021). **State of the Wildlife Economy in Africa: Case Study on Rwanda** focuses on how wildlife economies can support conservation efforts. **Mobilizing Private Finance for Nature (World Bank 2020)** highlights approaches to mobilizing private finance for biodiversity. **Rwanda's CPSD (2019)** notes the need to diversify tourism offerings by generating investments in tourism destinations (e.g., Karongi, Akagera National Park, and Nyungwe) and the implementation of laws on standards to regulate the sector.
PA 8 - The adoption of a climate finance framework	**CCDR 2022** recommends developing a climate-smart, private sector-friendly environment that balances investment projects with policy reforms and helps develop a green finance market. **Rwanda Economic Update (2023)** provides high-quality analysis that contributes to the policy dialogue in Rwanda and informs interventions by the Government and other stakeholders to support the process of Rwanda's socioeconomic development.
PA 9 - Ministerial Order to implement the 2017 procurement law requiring the use of e-Procurement	**Rwanda Public Expenditures Review (2022)** assesses public investment management with a special focus on procurement over a seven-year period between 2013 and 2020. **Rwanda Public Investments Management Assessment (2022)** outlines the assessment management framework, oversight, and quality assurance**.** Auditor General Report (2021)

4.3. LINK TO CPF, OTHER BANK OPERATIONS, AND THE WORLD BANK STRATEGY

50. **This proposed programmatic series with two single-tranche operations is designed to help the GoR address key priorities set out in the World Bank's Systematic Country Diagnostic (SCD) (2019),** most notably on the theme of market and private sector development. The PAs in the DPF's Pillar A provide an important way forward on the SCD aspirations to "better balance the role of the state and the domestic private sector," "strengthen the institutions for competition and contract enforcement," and "improve access to finance." Similarly, the actions in the DPF's Pillar B tie in closely with the SCD's objectives to "promote FDI" and "invest in stable and sustainable landscapes." Finally, the DPF's Pillar C also helps attain objectives in Theme 4 to "develop financing instruments for resilience and green growth." The proposed operation's focus on green and inclusive growth aligns with the new World Bank's mission. The operation is also consistent with the World Bank's Eastern and Southern Africa regional priorities to support human capital and stimulate job creation.

51. **The programmatic DPF series is closely aligned to the World Bank's CPF FY2021–26.** As noted, "the second CPF objective aims to improve conditions for PSD in Rwanda, particularly in the areas of inclusive finance, and FDI". The CPF calls for World Bank action to assist through "broader support toward inclusive finance" and in helping "eliminate possible barriers to efficient investment allocations, to help Rwanda become a more attractive destination for local, regional, and international investments" and "support economy-wide improvements in the investment climate and strengthening the business environment in high growth potential sectors."

52. **This programmatic DPF series also builds on the overall objectives of Rwanda's NST1 (2017–2024) which provides the medium-term framework for achieving the country's development aspirations.** NST1 priorities are clustered under three pillars. The first, Economic Transformation, includes a focus on leveraging the private sector, the knowledge economy, and natural resources to accelerate inclusive growth and job creation.

53. **Finally, this programmatic DPF meets the World Bank's commitment to aligning its financial flows with the Paris Agreement and the country's pathway toward low greenhouse gas emissions and climate-resilient development.** Consistent with the country's updated NDCs, it aims to assist the country to improve its access to finance. Implementing the commitments articulated in the NDCs is estimated to require new investments of US$11 billion, of which close to US$7 billion is conditional on new financing. In line with the findings of the Rwanda CCDR, the reform matrix contributes to increasing fiscal space, developing a green finance market, promoting engagement in international carbon markets, strengthening the public investment management, and promoting responsible private sector investment including in Rwanda's natural assets.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

54. **The multisectoral reform program has been developed through extensive intra-governmental dialogue and World Bank-GoR collaboration and informed by joint analytical work and accrued experience in previous DPFs**. The implementation of past and ongoing DPFs in Rwanda has demonstrated to policy makers the usefulness of this instrument in supporting the Government to formulate and implement an ambitious reform program. A series of analytics (table 4) have informed the underlying national and sector plans, while the implementation of the associated policy changes supported by the proposed DPF has been underpinned by an extensive TA program involving the World Bank, IFC, IMF, and other development partners. The pillars and legislative changes supported by this operation have undergone a consultative process across different departments of the GoR as well as wider stakeholder groups within the country. Participatory workshops involving a broad set of stakeholders (including

universities, practitioners, public institutions, and the private sector) were organized thematically, convened by the respective GoR agencies and facilitated by World Bank.

55. **This operation complements contributions from development partners, including other budget support.** Partnerships are a key element of engagement in Rwanda, and the World Bank regularly undertakes consultations with other development partners to leverage financing and non-lending support for large programs. In general, the development partners are committed to supporting efforts by the Government to mitigate the adverse socioeconomic effects of climate change while facilitating private sector-led growth and the opening of the economy. Several partners, including KfW Development Bank, the European Union (EU) delegation, French Development Agency (AFD), and the German Corporation for International Cooperation (GIZ), have been engaged in the preparation of the proposed operation. AFD and GIZ have expressed interest in exploring opportunities for TA collaboration in several reforms and activities, including climate taxonomy and sustainable finance. A broader hands-on collaboration with KfW includes not only non-lending TA support to design and operationalized the reform matrix, but also financial co-funding in the budgetary support. Different World Bank administered multi-donor Trust Funds, such as the Competitiveness for Jobs and Economic Transformation (C-JET) or the PROGREEN[41] Program, also supported reform-specific TAs.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

56. **Most of the policy measures supported by this DPF series are expected to have neutral or positive impacts on poverty.** Policies under Pillar A to enhance competition and consumer protection and increase financial inclusion, especially for women, are expected to have indirect positive impacts on poverty. The details of the design and implementation of the privatization process will determine who is benefited or is negatively affected. Policies under Pillar B to approve the AfCFTA investment and trade in services protocols, and the law governing natural parks and reserves, are expected to have indirect positive impacts on poverty. Policies under Pillar C to adopt a Carbon Market Framework and to expand e-Procurement are expected to have indirect positive impacts on poverty.

57. **For PA 1, depending on how it is designed and implemented, privatization can have both positive and negative distributional impacts.**[42] The way privatization is implemented will determine how impacts materialize and who is benefited or is negatively affected. Some of the main risks of privatization include (a) net transfers from the public to the private sector (typically already wealthy groups or individuals) that increase income and wealth inequality if SOEs are privatized below market value, (b) increased market concentration that can result in price increases (hurting consumers) or decreased access to goods and services, and (c) large job losses as part of restructuring or liquidation of SOEs that could be concentrated in more vulnerable workers (for example, low skills, low education, youth, and women). These risks can be mitigated through market valuations of SOEs, open and competitive bidding processes, and proper regulation and enforcement of anticompetitive behavior. The regulation of the law and subsequent guidelines should explicitly introduce mitigation measures in cases where

[41] PROGREEN is a new global partnership launched by World Bank and Germany in September 2019 to boost efforts to stop deforestation; restore degraded lands; improve livelihoods in poor, rural communities; and reduce greenhouse gas emissions.
[42] Privatization can bring positive impacts through (a) additional fiscal revenue that the Government can use for the benefit of Rwandans, especially the poor, through higher expenditure on agriculture, social services, and human capital; (b) attraction of private investment that can improve the efficiency of operations, increase access to good and services, and reduce fiscal risks; (c) higher competition in markets leading to higher quality in goods and services and lower prices for consumers; and (d) higher levels of employment in the medium term as a result of increased efficiency of restructured privatized firms.

layoffs affect vulnerable workers, in line with the 2020 Privatization Policy and Strategy, and including in the case of dissolution. These measures include fair severance pay for dismissed workers and/or programs to retrain them or facilitate their labor market transition.

58. **PA 4, improving the financial inclusion of women, is expected to have positive indirect impacts on poverty reduction.** Both country-specific and cross-country studies find that financial inclusion, especially for women, is associated with significant reductions in poverty, especially extreme poverty.[43]

59. **PAs 5 and 6 focused on the AfCFTA trade in services and investment protocols are expected to have neutral or small positive indirect impacts on poverty reduction.** More generally, increases in trade and FDI in Rwanda would lead to job creation, especially in agriculture (due to the elimination of agricultural tariffs) and wage growth, especially for women and unskilled workers.[44]

60. **Gender aspects**. PA 4 1 seeks to address gender gaps related to women's limited access to finance, including access to formal banking services and gender-based discrimination in access to credit within financial institutions. The PA 4 (a) supports the issuance of the Directive governing Digital Saving Facilitators that safeguards the funds of Savings and Credit Groups (SCG) where women make up to 72.3 percent of members. Through this process, the informal savings of SCG members will be linked to the formal financial sector, which will help women borrow and save. The PA 4 (b) aims at financial inclusion through supporting regulations on Financial Service Consumer Protection, prohibiting discrimination based on gender in financial service delivery. To operationalize the Regulation on Financial Service Consumer Protection, the Trigger 4 provides for a gender responsive complaint mechanism for financial consumers which supports the implementation of the new regulation. The DPO's results matrix will monitor the progress in this regard through tracking the share of women and female-owned businesses who access financing in formal institutions.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

61. **The effects on the environment and natural resources of reforms to accelerate private sector investment need to be duly monitored**. Several policy actions and legislation supported by this operation are likely to cause downstream environmental and social effects, including those promoting fiscal, privatization, competition, and consumer protection policies, as well as cross-cutting policies with special impact on nature-based economic sectors such as forestry, tourism, and agriculture. These effects are summarized in annex 5. Based on the Rwanda Natural Capital Accounts for Ecosystems[45] (2019), a further review would be required to inform the potential policy reform measures stimulating Rwanda's private sector in green space. The review should be done in the context of Rwanda's weak institutional capacity to manage and control potentially negative effects of investment projects, including the weak system for conducting ESIAs and enforcing compliance with the results. The need to strengthen this capacity is of particular significance given that the priority reforms identified for investments include national parks and nature reserves, expanding the fiscal space for climate and nature action, forestry, and land use.

62. **Environmental and Social Risk Management Capacity Needs Assessment (ESRMCNA).** This assessment of environmental policy and institutional governance notes that Rwanda's development transformation requires

[43] Saha, et al. 2023. "Financial Inclusion and Poverty Alleviation;" Omar, and Inaba. 2020. "Does Financial Inclusion Reduce Poverty and Income Inequality in Developing Countries;" Swamy. 2010. "Financial Development and Inclusive Growth;" Abor, et al. 2018. "Mobile Telephony, Financial Inclusion & Growth."
[44] 2022. "Making the Most of the African Continental Free Trade Area." World Bank.
[45] Compiled by the National Institute of Statistics of Rwanda (NISR), MINECOFIN and the MoE with World Bank assistance.

better integration of environmental, social, and sustainability considerations into policy and institutional frameworks to achieve efficient use of resources that contribute sustainably to economic development, poverty reduction, and quality of life. The ESRMCNA also outlines legal and institutional reforms that would contribute to improve environmental outcomes, including ESIA that require occupational health and safety safeguards, the enforcement of labor laws, and the management of vulnerabilities within project-affected communities.

5.3. PUBLIC FINANCIAL MANAGEMENT (PFM), DISBURSEMENT, AND AUDITING ASPECTS

63. **The GoR supports a transparent and comprehensive annual budget process.** The last Public Expenditure and Financial Accountability (PEFA) assessment conducted in 2022 reported good performance[46] in the GoR's budget classification and documentation. There is public access to fiscal information. Annual and in-year budget execution reports are published and accessible to the public[47] mostly within 45 days of the quarter end. MINECOFIN prepares a three-year Medium-Term Macroeconomic Framework and Medium-Term Expenditures Framework. The GoR recently introduced performance-based budgeting to align budget allocations with expected results.

64. **The PFM system and public procurement framework provide reasonable assurance that the Government can manage the country's budget resources appropriately.** The strengths of the PFM system include clearly laid-out PFM legal frameworks and structures, timely public finance reporting aligned with international standards, and widespread use of Integrated Financial Management and Information Systems (IFMIS) and e-Procurement systems across central and local government agencies. The OAG, Rwanda Public Procurement Authority (RPPA), and the legislature use of internal audit units, multiannual procurement plans, as well as grievance and oversight mechanisms on public resources. However, the Rwanda Public Procurement Law is revised, November 2022 and the ministerial order should be approved to facilitate implementation of the new law.

65. **The identified gaps in the PFM system are being addressed through various initiatives**. Areas that require improvement include timely action on audit findings and oversight by the legislature; alignment with the Public Procurement Law (PPL) and regulations; procurement regulations for commercial public institutions; identification and detection of corruption risks and their mitigation; and regulations, manuals, and updated standard procurement documents to cater for the provisions in the new PPL on sustainable procurement. Coordination between OAG and the RPPA on procurement audit can be further strengthened with the publication of comprehensive information on receipt, processing, and decision on complaints. The GoR is addressing these gaps through its PFM sector strategic plan (2018–24) that aims to support the Government's transformation through effective and accountable PFM. The World Bank has supported the GoR's implementation of the PFM reform agenda through its Rwanda Public Finance Management Reform Project (P164807).

66. **The foreign exchange environment in Rwanda is controlled by the BNR.** All official GoR financial transactions is transacted using the BNR official rates in line with the operation of the Treasury Single Account. An updated safeguard assessment of the BNR was completed by the IMF in January 2022. BNR continues to maintain sound external and internal audit arrangements. Good governance and financial reporting arrangements exist. In addition, the BNR continues to maintain effective operational controls. The BNR has implemented all recommendations from the 2016 assessment.

[46] Rating of 'B' and above for Budget classification, documentation and transparency indicators.
[47] Quarterly budget execution reports available on MINECOFIN's website.

67. **Loan and credit disbursement will follow the World Bank's procedures for development policy lending.** After the operation is approved and the Financing Agreement has become effective, the GoR will be entitled to withdraw the IDA Credit in a single tranche. The DPF proceeds from the World Bank will be transferred to an account in the BNR that forms part of the foreign exchange reserves. The GoR, is expected to report to the IDA within 30 days after the withdrawal of the financing on: (a) the exact sum received into the BNR account, (b) the details of the account to which the Rwanda franc equivalent of the financing proceeds will be credited, (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems, and (d) the statement of receipts and disbursement of the foreign reserve account. Disbursements of the credit will not be linked to any specific purchases and no procurement requirements must be satisfied, except that the borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank credit proceeds, as defined in the Financing Agreement.

68. **Auditing arrangements.** The audit of the BNR is up-to-date and publicly available on the BNR's website as part of the annual report; the auditor (PwC) expressed an unqualified, that is, clean audit opinion in relation to the latest financial statements for the period ended June 30, 2022. Since the overall fiduciary risk is assessed as moderate, there is no requirement for an audit; however, the World Bank reserves the right should it deem it necessary, to request the recipient to carry out an independent audit carried out by an auditor acceptable to the World Bank. Should the requirement of an audit arise, the audit report shall be furnished to the World Bank as soon as available, but, in any case, not later than three months after the request of the Association.

5.4. MONITORING, EVALUATION, AND ACCOUNTABILITY

69. **Results and implementation of the DPF series are monitored and evaluated through several mechanisms.** MINECOFIN, in collaboration with relevant line ministries and agencies, will lead results monitoring and reporting on behalf of the GoR. This will include regular assessment of progress toward achievement of results indicators for the reform program. All relevant line ministries and agencies have monitoring and evaluation systems (including management information systems) which will be leveraged to track progress on the DPF results indicators.

70. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. 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/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

71. **The overall risk rating of this operation is substantial.** Substantial risks to achieving the development objectives of this operation include the following categories: environmental and social, institutional capacity for

implementation and sustainability, sector strategies and policies, and technical design of program. As the program has an impact on many stakeholders from across government, the private sector, and civil society, stakeholder risk is deemed moderate—the same evaluation is for political and governance, macroeconomic and fiduciary risks.

72. **Institutional capacity risks are substantial.** In addition to governance risks of reform, there is a substantial risk at the technical level for implementation and monitoring. MININVEST, a ministry established in 2022, was initially tasked to sustain the process of privatization and ensure the productivity of profit-oriented public investments, but these functions have recently been transferred to MINECOFIN in September 2023. This transfer can cause transaction costs and affect technical capacity for delivery. The Public Financial Management (PFM) project implemented in Rwanda has been restructured to allow the World Bank to respond to emerging needs to build capacity at GoR to manage performance and fiscal risk emanating from the SOEs. This stems from fragmentation across the ministerial bureaucracy and a lack of effective mechanisms for coordinating and monitoring reforms, particularly where they are cross-sectoral. The program aims to mitigate these risks by establishing a cross-ministerial working group, chaired by MINECOFIN, to coordinate the implementation and monitoring of reform actions.

73. **Environmental and social risks are substantial.** The environmental impact of the proposed reforms, in all cases, are either positive or neutral. The targeted policy and legal reforms aim to create a more sustainable socioeconomic system with environmental and social benefits. However, implementing changes involves significant risks. To address environmental and social risks, the implementation of these reforms should be accompanied by improvements in the environmental and social regulatory framework. This will help avoid adverse effects on the environment and natural resources as well as on the vulnerable population. Policy actions in PAs 2, 3, 4, and 5 are not expected to entail significant environmental risks. The proposed reforms in PAs 1, 2, 4, 7 and 9 are likely to have a positive effect on poverty through private sector-led investments that promote fair and competitive participation. The proposed reforms in PA 7 and PA 8 are likely to contribute to enhanced livelihood options for local communities which are the most vulnerable groups by improving the quality of life through climate-sensitive, social, and environmental protection which could lift the poorest out of poverty and protect the most vulnerable in the face of shocks. Altogether, these reforms could increase private sector jobs which could contribute to poverty reduction.

74. **Sector strategies and policies risks are substantial.** The proposed operation covers several sectors, some of which are sensitive in nature. The risk assessment accounts for potential risks resulting from the special political economy surrounding both the privatization of SOEs (PA 1) and the private management of natural assets (PA 7). To mitigate this risks the World Bank will assist the GoR in securing adequate community engagement and management of environment and social risks during the preparation of the Ministerial Orders, building on the experience of the benefit sharing practices in Rwanda[48].

75. **Technical design risks are substantial.** Inherently complex reforms such as PA 1, 2 and 9 are executed by GoR agencies that have been recently staffed, making it more difficult to assess the client's real implementation capacity in some cases. The combination of a strong TA program including capacity building activities and hands-on implementation support in these reforms is expected to mitigate this risk. This risk also captures the fact that the implementation of some reforms can be affected by exogenous factors which cannot be foreseen during program design.

[48] For example, the GoR launched the Tourism Revenue Sharing Program (TRSP) in 2005 to effectively engage communities living around the protected areas and distribute 10 percent of the total gross tourism revenue collected each year between four National Park regions.

Table 5. Summary Risk Ratings

Risk Categories	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	Substantial
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline (2023)**	**Target (2025)**
Pillar A: Increase the private sector's participation, trade and contestability				
Prior Action #1: The Recipient through Cabinet has approved the proposed Privatization Law and submitted it to Parliament.	**Trigger # 1:** The Recipient through Cabinet has approved the Presidential Order determining prerequisites for the establishment of a state-owned company and additional rules for its management.	Publication of the list of SOEs and enterprises with state shareholdings to be privatized after following an enhanced process integrating considerations on private sector development, labor, environment, and competition	0 Date: 2023	1 Date: 2025
Prior Action #2. The Recipient through Cabinet has approved the new Competition and Consumer Protection Policy 2023, giving directions for effective implementation, ensuring principles of transparency, efficiency, and interinstitutional collaboration.	**Trigger #2:** The Recipient through Cabinet has approved the Amendments to the Competition and Consumer Protection Law 2012 and submitted it to the Parliament, to enhance effectiveness and broaden the scope to address competition issues in the economy considering Rwanda's climate change policies and goals.	Number of competition investigations or merger reviews decided on by RICA	7 Date: 2022	12 Date: 2025
Prior Action #3: The Recipient through the Prime Minister's Office has approved and gazetted the amended Ministerial Order (n° 001/MINICOM/23 of 05/10/2023) relating to insolvency practitioners to strengthen the competence and integrity of insolvency practitioners.	**Trigger #3:** The Recipient through Cabinet has approved and submitted to Parliament the amended Insolvency Law, which streamlines the existing procedures and adds a new simplified insolvency procedure for micro and small enterprises.	Number of insolvency procedures initiated	5 Date: 2022	15 Date: 2025
Prior Action #4: The Recipient through BNR has (a) issued Directive No. 4230/2023-00031[613] of 15/05/2023 governing Digital Saving Facilitators that safeguards the funds of Savings and Credit Groups, and (b) gazetted Regulation No. 55/2022 of	**Trigger #4:** The Recipient through MINECOFIN has issued a Ministerial Order setting up a committee responsible for resolving financial consumers' complaints, including gender-based discrimination.	Percentage of Banks that have in place a written manual (or an equivalent document) covering BNR financial consumer protection regulations provisions.	0 percent Date: 2023	75 percent Date: 2025

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline (2023)**	**Target (2025)**
27/10/2022 relating to Financial Service Consumer Protection, prohibiting discrimination based on gender in access to credit.		Percentage of women and female-owned businesses with access to credit financing	18 percent Date: 2020	27.5 percent Date: 2025
Prior Action #5: The Recipient through Cabinet has approved and gazetted the Presidential Order ratifying the AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors is published in the EAC Gazette.	**Trigger #5:** The Recipient through Parliament has approved and gazetted the amended "Law Governing Banking" which enables cross-border supply of banking services by lifting a subsidiary requirement and allowing foreign established branches.	Number of AfCFTA service sectors with major restrictions in cross-border trade and/or FDI, as measured by World Bank Services Trade Restrictiveness Index score >50/100.	12 Date: 2023	9 Date: 2025
Pillar B: Facilitate climate finance and green public and private investments				
Prior Action #6: The Recipient through Cabinet has approved the revised RDB law and submitted it to Parliament. This law includes an investor dispute prevention and grievance management mechanism, in alignment with the AfCFTA Investment Protocol.	**Trigger #6:** The Recipient through the RDB Board has approved implementing guidelines of the investor dispute prevention and grievance management mechanism, that include operating procedures for rapid resolution of "green" investor grievances.	Annual amount of investment retained from rapid resolution of high-risk investor issues. Annual amount of investment retained from rapid resolution of "green" high-risk investor issues.	US$5 million Date: 2018-23 US$750,000 Date: 2018-23	US$6 million Date: 2025 US$1 million Date: 2025
Prior Action #7: The Recipient through Parliament has approved and gazetted the Law Governing National Parks and Nature Reserves (Law No. 001/2023), enabling the inflow of private investment for nature conservation.	**Trigger #7:** The Recipient through the Ministry of Environment has approved and gazetted a Ministerial Order to facilitate greater private sector participation in the management of national parks and nature reserves.	Number of organizations that have fulfilled at least half of the requirements to manage a nature reserve	0 Date: 2023	15 Date: 2025
Prior Action #8: The Recipient through Cabinet has approved the Rwanda Carbon Market Framework, establishing the regulatory framework for access to	**Trigger #8:** The Recipient through Cabinet has adopted the country's climate finance strategy to support decarbonization of the economy and strengthen the resilience to climate change related	Amount of Climate Finance mobilized	US$100 million Date: 2023	US$400 million Date: 2025

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline (2023)**	**Target (2025)**
the international carbon market and carbon trading activities.	risks that includes: (i) a taxonomy of climate finance; (ii) a process of project selection for both public and private investments; (iii) a climate finance information system to monitor financing of climate and environmental protection projects; and (iv) a regulatory framework for climate-focused financial instruments, such as thematic bonds or sustainability-linked bonds (SLB).			
Prior Action #9: The Recipient through MINECOFIN has issued a Ministerial Order to implement the procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants as the single online portal for all procurements.	**Trigger #9:** The Recipient through the cabinet has (i) approved and submitted to Parliament an amended Procurement Professionals Association Law (N°011/2016 of 02/05/2016) to enhance procurement professionalization, by transforming the current procurement professionals' association into an independent institution with mandate of procurement capacity building and professional certification; and (ii) approved the sustainable procurement guidelines to implement sustainability aspects of the Public Procurement Procedures Law enacted in November 2022.	Percentage of the total value of all contracts signed online. Percentage of the total value of all contracts which are invoiced within the e-Procurement system.	35 percent Date: 2022 0 percent Date: 2022	70 percent Date: 2025 90 percent Date: 2025

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Pillar A – Increase the private sector's participation, trade and contestability	
Reformed selection process of SOE for privatization as evidenced by technical assessment report and the publication of the list of SOEs to be privatized. (Number)	
Jan/2023	Jul/2025
0	1
Number of competition investigations or merger reviews handled by RICA (Number)	
Dec/2022	Jul/2025
7	12
Number of AfCFTA service sectors with major restrictions in cross-border trade and/or FDI, as measured by World Bank Services Trade Restrictiveness Index score >50/100. (Number)	
May/2023	Jul/2025
12	9
Number of insolvency procedures initiated (Number)	
May/2023	Jun/2025
5	15
Percentage of women and female-owned businesses with access to credit financing (Percentage)	
Dec/2020	Jul/2025
18	27.5
Percentage of Banks that have in place a written manual (or an equivalent document) covering BNR financial consumer protection regulations provisions. (Percentage)	
Jan/2023	Jul/2025
0	75
Pillar B – Facilitate climate finance and green public and private investments	
Percentage of the total value of all contracts which are invoiced within the e-Procurement system (Percentage)	
May/2022	Jul/2025
0	90
Amount of climate finance mobilized (Amount(USD))	
May/2023	Jul/2025
100000000	400000000

Percentage of the total value of all contracts signed online. (Percentage)	
May/2023	Jul/2025
35	70
Number of organizations that have fulfilled at least half of the requirements to manage a nature reserve (Number)	
May/2023	Jul/2025
0	15
Annual amount of investment retained from rapid resolution of high risk investor issues (Amount(USD))	
Jan/2023	Jul/2025
5000000	6000000
Annual amount of investment retained from rapid solution of "green" high risk investor issues. (Amount(USD))	
Jan/2023	Jul/2025
750000	1000000

ANNEX 2: GOVERNMENT’S REPONSES TO RECENT SERIES OF ECONOMIC CHALLENGES

Rwanda quickly adopted a series of responses to contain the negative effect of rising energy and food prices while continuing to support recovery from the pandemic. To mitigate the impact of rising commodity prices, the authorities used fuel, fertilizer, and public transport subsidies and social protection interventions.

- **Fuel subsidies.** The pass-through of international fuel prices to domestic prices was moderated through temporary reductions in the fuel levy between May 2021 and August 2022. These subsidies are estimated at 0.2 and 0.3 percent of GDP in FY2021-22 and FY2022-23, respectively.
- **Social protection programs.** Established in early 2000s, Rwanda’s social protection programs include Vision 2020 Umurenge Program (including cash transfers, public works, and economic empowerment), Girinka (“one cow per poor family”), and Ubudehe (community projects). The Government temporarily increased spending on social program activities by 0.4 percent of GDP, especially the expansion of social protection programs (e.g., home-based early childhood development, public works, skills development, and asset transfer).
- **Subsidies for agricultural inputs.** Orders for agricultural inputs, including fertilizers and quality seeds, are placed in the Smart Nkunganire System—a technology-based agricultural input subsidy system—and matched by private sector traders. The Government provides subsidies if international prices are too high so that orders are cleared. International prices almost doubled from a year before and the subsidies were set to absorb about 60 percent of this increase. The FY2022-23 budget envisages 0.9 percent of GDP for this scheme.
- **Public transport subsidies.** Public transport fares are adjusted considering private operators’ profits and the affordability to end-users. At the onset of COVID-19, public transport subsidies were introduced to offset the losses from reductions in passenger capacity to allow social distancing. Fares also benefitted from reductions in excise taxes. The FY2022-23 budget maintains the level of the subsidies amounting to 0.3 percent of GDP.
- **Education measures to improve the coverage and quality of education and to ease the cost of living for teachers.** In August 2022, the Government took a decision to increase the salaries of all primary school teachers by 88 percent and that of secondary school teachers (A0 &A1) by 40 percent to address a longstanding issue of low teacher pay given the cost of living. There were also increases in subsidies for school feeding, and the contribution of the Government now amounts to 40 percent of the school feeding budget of every student. This policy added 1.0 percent of GDP to spending in FY2022-23.
- **Diversification of import sources.** In order to contain the imported food inflation, Rwanda has opted to tap into other markets especially for edible oil products and sugar. Moreover, the Government has, through the Manufacture and Build to Recover Program (MBRP), encouraged the domestic production of some consumer products such as bar soap and refined oil.
- **Monetary policy measures:** the central bank policy rate was increased from 4.5 percent in Feb. 2022 to 7.5 percent in August 2022.

Source: World Bank staff compilation from the recent REU editions.

ANNEX 3: FUND RELATIONS

IMF Executive Board Completes First Reviews Under the Policy Coordination Instrument, and Resilience and Sustainability Facility for Rwanda

May 24, 2023

- The IMF Executive Board today completed the first reviews of Rwanda's Policy Coordination Instrument and program under the Resilience and Sustainability Facility, allowing for an immediate disbursement equivalent to about US$98.6 million for budget support.
- Rwanda's economy had robust growth in 2022, but the overlapping crises have eroded policy buffers. The outlook remains subject to high uncertainty and the costs of the humanitarian response and reconstruction of damaged infrastructure in the wake of the recent disastrous floods will add to existing spending pressures.
- Immediate policy priorities need to focus on implementing a strong policy mix that can prevent macroeconomic imbalances from becoming entrenched. The frontloaded fiscal policy adjustment, decisive monetary tightening, and greater exchange rate flexibility are needed to contain inflationary pressures and promote external stability.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the first reviews of Rwanda's Policy Coordination Instrument (PCI) and program under the Resilience and Sustainability Facility (RSF). The Board's decision allows for an immediate disbursement of SDR 73.95 million (about US$98.6 million) under the Resilience and Sustainability Facility. The PCI and RSF arrangement were approved on December 12, 2022, the latter with a total amount of SDR 240.3 million (about US$319 million or 150 percent of quota).

Rwanda's economy continued with fast-paced post-pandemic growth in 2022, but macroeconomic imbalances have emerged. Rising food prices and strong domestic demand fueled by high credit growth contributed to a persistent inflation which stood at 17.8 percent in April. Robust import demand coupled with high commodity prices and tightening global financing conditions have weakened Rwanda's external position. The uncertain external environment and the reduced prospects for external concessional financing are compounding the challenges from the legacy of the recent global crises. A strong and carefully calibrated policy mix—including frontloaded fiscal policy adjustment, corrective actions to address delays in domestic revenue mobilization, a decisive monetary policy tightening, and greater exchange rate flexibility—is needed to correct domestic imbalances, promote external stability, and channel resources to the authorities' ambitious development and climate agenda. The outlook is subject to high uncertainty, mainly stemming from the risks of deepening geopolitical fragmentation, volatility in global energy and fertilizer prices, a steeper-than-projected decline in trading partners growth, or a funding squeeze. The costs of humanitarian response and reconstruction following the recent floods will generate further spending needs.

Notwithstanding the challenging environment, reforms remained broadly on track under the PCI, while the authorities' commitment to advancing the climate agenda has been very strong. The PCI supports Rwanda's macroeconomic policies and reforms, with emphasis on policies to ensure macroeconomic stability and reforms to mitigate pandemic scars and to build socioeconomic resilience to shocks and insure against downside risks. The RSF-supported program, the first for an African country, will advance the authorities' efforts to build resilience to climate change by improving the transparency and accountability in the planning, execution, reporting, and oversight of budget resources dedicated to addressing climate change. Continued reforms to allocate climate resources more effectively and transparently will be key to mobilizing additional climate funding and achieving Rwanda's ambitious climate agenda.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, and Acting Chair, made the following statement:

“1. The Rwandan authorities are to be commended for their commitment to macroeconomic stability and the satisfactory implementation of reforms supported by the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF), notwithstanding a challenging environment. Economic activity expanded at a strong pace, but macroeconomic imbalances have emerged reducing the room for maneuver. Implementing an appropriate and carefully calibrated policy mix is key to prevent imbalances from becoming entrenched. The recent natural disaster is expected to take a heavy toll on Rwanda’s economy, and it is a testament of the country’s high vulnerability to climate change shocks.

“2. Continued fiscal consolidation, including ensuring the credibility of domestic revenue mobilization, will provide space to withstand future shocks. To address delays in implementing the Medium-Term Revenue Strategy, the authorities need to promptly implement revenue-raising measures aimed at broadening the tax base, streamlining exemptions, and enhancing tax compliance. Adopting a more prudent, transparent, and credible public financial management and investment frameworks, should also remain a priority.

“3. Tighter and forward-looking monetary policy is needed to help contain persistent inflationary pressures and preserve external stability. Strengthening communication, pursuing greater exchange rate flexibility and implementing reforms to deepen financial and government securities markets will improve the effectiveness of the interest rate-based monetary policy framework. Vigilance is needed to ensure that financial risks remain contained with continued efforts to promote financial inclusion. Further strengthening of the AML/CFT framework is also important.

“4. Rwanda’s commitment to building socio-economic resilience and efforts to transition to greener growth is commendable and should be sustained. Rwanda continues to be at the forefront of tackling the climate change adaptation and is the first country in the sub-Saharan region to benefit from the RSF. Pressing ahead, it will be important to advance reforms in green public finance management and climate-focused public investment management with a view to create an enabling environment for attracting climate finance and support private green investment.”

ANNEX 4: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF RWANDA

Kigali, 24 OCT 2023
No 0574/10/2023-24/MIN

MINISTRY OF FINANCE AND ECONOMIC PLANNING
P.O. Box 158 Kigali
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E-mail: info@minecofin.gov.rw

Mr. Sahr KPUNDEH
Country Manager for Rwanda
The World Bank
Kigali-Rwanda

Dear Mr. Kpundeh,

Subject: Letter of Development Policy for the First Development Policy Operation to Boost Green Finance, Investment and Trade in Rwanda

1. On behalf of the Republic of Rwanda, I am writing to request financing in the amount of US$ 125 million from the International Development Association (IDA) for the First Boosting Green Finance, Investment and Trade Development Policy Financing (GreenFIT, P180196). The first of a series of two Development Policy Financings (DPFs) supported by the World Bank, the requested financing will support the Government of Rwanda in the implementation of a new reform agenda to stimulate green, private sector-led growth driven by a level playing field and sustainable trade and investment. The policy actions supported by this DPF series aim to (i) increase private sector participation, trade and contestability, and (ii) strengthen the regulatory environment to stimulate green investments. The proposed DPF supports the implementation of the government's National Strategy for Transformation (NST1) (2017 – 2024) and advances Rwanda's strategic vision to become a lower Middle-Income Country (MIC) by 2035.

2. Rwanda's sustained growth during the last two decades has reduced poverty and improved living conditions. Gross domestic product (GDP) has increased by 7 percent a year since 2010, the share of the population below the national poverty line fell by more than 20 percentage points from 2001 to 2017, and life expectancy and, access to health care have improved sharply. Investment, particularly rapid increases in public investment, has been the main driver of growth. The Government's infrastructure investments have yielded significant improvements in access to and quality of basic services. Public investment is and has been an important catalyst of economic growth but, if Rwanda is to achieve its development goals, there is a growing need for private investment to play a stronger role in spearheading the economy.

3. To continue its economic development and reap the benefits of a demographic dividend, Rwanda needs to create more and better private sector jobs, and to make the economy more resilient to climate change. Despite a broad-based recovery from COVID-19, the

Website: http://www.minecofin.gov.rw

war in Ukraine and other shocks exacerbate the vulnerability of Rwanda's economy to the shock-prone external environment, necessitating the urgent need to rebuild policy buffers. With around 200,000 Rwandans entering the labor force every year, there is an urgent need to create productive jobs to drive inclusive economic transformation. Another spike in global energy and fertilizer prices, a steeper decline in trading partners' growth, or global financial market and geopolitical developments that adversely affect the availability of resources to confront developmental challenges and address climate change.

4. To stimulate job creation, Rwanda must improve the private investment-to-GDP ratio in the economy. The government of Rwanda recognizes that shifting the main growth drivers in the economy requires a broad reform agenda to increase private sector participation, growth and investment. Government efforts are focusing towards improving the competitiveness, openness and resilience of the business fabric, combined with access to climate finance and actions to improve the contestability of key strategic sectors to further stimulate trade and investment, and attract new waves of technologies.

Reform Program

5. This DPF operation is guided by the Government of Rwanda's development plans, primarily the NST1 (2017-2024) which embodies a national vision for private sector-led and green growth. The proposed operation supports the priorities under the NST1's Economic Transformation Pillar, which aim to create decent and productive jobs, increase productivity, promote industrial development, and secure the sustainable management of natural resources and the environment. The successor of NST1, currently under preparation, is expected to reinforce this vision and propel Rwanda's growth in a sustainable manner.

6. The operation builds on the priorities identified during the analysis undertaken by the World Bank and the Government of Rwanda; primarily the Future Drivers of Growth in Rwanda Report (2020), but also a follow up report currently under preparation. These priorities include reform pathways to improve private sector development and investment outcomes. These include, among others, reforms to (a) harness regional integration as a platform for trade-driven transformation; (b) secure competitive and well-regulated markets for efficient resource allocation; and (c) promote private sector development and technological innovation.

7. The climate focus of the DPF operation is informed by Rwanda's updated Nationally Determined Contributions (NDCs), the Green Growth and Climate Resilience Strategy (GGCRS), and the Country Climate and Development Report (CCDR). In our updated NDCs, Rwanda has committed to ambitious mitigation and adaptation targets. This includes a planned reduction of emissions by 38 percent by 2030 (based on conditional and unconditional commitments) compared to a Business-as-Usual (BAU) scenario, as well as significant investments in adaptation and resilience. The GGCRS approved by the cabinet in February 2023 lays out the required economic transition with a move to green industry and knowledge-based services, increased resilience, and reduced ecological footprint of urban settlements, as well as greater protection of ecological resources. Furthermore, the CCDR, developed by the Government of Rwand in collaboration with

the World Bank, provides relevant recommendations on how the private sector can effectively contribute to the achievement of Rwanda's climate goals in NDC key sectors, such as agriculture, energy, or transport. Pursuing this vision may also provide significant economic opportunities as climate-related investments would increase Rwanda's capital stock, boost output, and raise employment. Blended finance approaches have also been identified to unlock green private finance.

Pillar A: Increase the private sector's participation, trade, and contestability.

8. The Green FIT DPF1 supports the need to create fiscal space that enables the core reforms aimed at increasing the private sector's participation, trade and contestability. Specifically, DPF1 supports the government through (a) publication of the list of State-Owned Enterprises to be privatized; (b) approval of the new Competition and Consumer Protection Policy 2023, giving directions for effective implementation, ensuring principles of transparency, efficiency, and interinstitutional collaboration; (c) approval and gazetting of the amended Ministerial Order relating to Insolvency Practitioners to strengthen the competence and integrity of insolvency practitioners; (d) issuance of a directive governing Digital Saving Facilitators that safeguards the funds and protects the members of Savings and Credit Group, and gazetting the Regulation on Financial Service Consumer Protection, prohibiting discrimination based on gender in access to credit; and (e) approval and gazetting of the Presidential order ratifying the African Continental Free Trade Area (AfCFTA) Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors is published in the East African Community (EAC) Gazette.

Pillar B: Facilitate climate finance and green public and private investments

9. To further the efforts under this operation, the GreenFIT DPF1 supports the facilitation of climate finance and green public and private investments, through: (a) approval and submission to Parliament of the revised law which includes an investor dispute prevention and grievance management mechanism, in alignment with the AfCFTA Investment Protocol; (b) approval and gazetting of the Law Governing National Parks and Nature Reserves, enabling the inflow of private investment for nature conservation; (c) approval of the Rwanda Carbon Market Framework, establishing the regulatory framework for access to the international carbon market and carbon trading activities; (d) gazetting the Ministerial Order to implement the procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants, as the single online portal for all procurements, (e) adoption of a revised law to establish an independent procurement institute to enhance procurement professionalization, and (f) the adoption of a Green and Sustainable Public Procurement Policy and related procurement guidelines. This will enhance transparency, sustainability and value-for-money of public procurement as well as reducing the negative impact on climate through sustainable and green procurement.

Additional reform areas under consideration

10. During the preparation of this DPF series, several legal and regulatory reforms were

screened, with 9 being selected to be included in the policy matrix for this DPF operation series. There is, however, ongoing engagement in a few others that are also strategic and which could benefit from World Bank support in its design and implementation. Namely, support to the upgrading of the PPP framework, amending the National Law on Environment to require a combined Environmental and Social Impact Assessment, which will enhance Rwanda's position as a destination for Environmental, Social, and Governance (ESG) investing, and implement Rwanda's Industrial policy for 2023 – 2033 and the NST2 (including, for instance, through reforms and interventions to facilitate sector competitiveness policies and support to SME capabilities).

Conclusion

11. The Government of Rwanda is confident that the first operation in the GreenFIT DPF series is well placed to lay groundwork that will be built upon by the second operation in this series and will enable enhanced implementation of plans and interventions to boost green finance, investment and trade. Accordingly, this Letter of Development Policy seeks support from the International Development Association of the World Bank by approving financing to this operation to complement our efforts and policy commitments, which are fully aligned with our ongoing partnership and fruitful collaboration.

Yours sincerely,

MINISTRY OF FINANCE AND ECONOMIC PLANNING

Dr. Uzziel NDAGIJIMANA
Minister

Cc:

- Hon. Minister of Trade and Industry
- Hon. Minister of Environment
- Hon. Minister of State in charge of National Treasury
- Hon. Minister of State in charge of Public Investment and Resources Mobilization
- Chief Executive Officer of Rwanda Development Board
- Director General of Rwanda Environment Management Authority
- Director General of Rwanda Inspectorate, Competition and Consumer Protection Authority

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objectives: Support the Government of Rwanda in the implementation of a new reform agenda to boost green, private sector-led growth in Rwanda and stimulate green investments.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer** Yes. **Explanation**: This DPF aims to stimulate green, private sector led growth and to help make the economy improve its mitigation, adaptation and resilience to climate change. The reform program is consistent with and supportive of the implementation of the country's climate strategies presented in the revised 2020 Nationally Determined Contribution (NDC), Rwanda's long-term strategy, the National Strategy for Transformation (NST), Rwanda's Green Growth and Climate Resilience Strategy (GGCRS) as well as the CCDR recommendations. In particular, the CCDR notes that considering the current global and national fiscal context, finding the right balance between development and climate action will be instrumental for Rwanda to sustain its impressive growth rates and deliver its national development plan Vision 2050.
Mitigation goals: assessing and reducing the risks	
Pillar A: Increase the private sector's participation, trade, and contestability	
Prior Action 1, 2, 3, & 4: The proposed Privatization Law (PA 1), the new Competition and Consumer Protection Policy 2023 (PA 2), the amended Insolvency Law (PA 3), the National Bank of Rwanda Directive governing Digital Saving Facilitators and Regulation relating to Financial Service Consumer Protection that prohibits discrimination based on gender in access to credit (PA 4)	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: Prior Action 1, 2, 3, & 4 incorporate provisions on environment and climate change which contribute to maintaining Rwanda's medium to long-term low emissions, hence supporting the climate change mitigation agenda.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** Not applicable. **Explanation**: Rwanda's GHG emissions are currently low, but they are expected to rise as the country's economy continues to grow. the design of these PAs includes climate regulations to ensure that the economic growth resulting from their implementation does not introduce or reinforce barriers in reducing GHG emissions.
Conclusion for PAs 1, 2, 3, & 4:	
These PAs are either neutral or incorporate provisions for mitigation goals, as they meet the criteria for step 2. Further consideration of Step 3 is not necessary.	
Prior Action 5: Ratification of the AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No. **Explanation**: This PA represents no harm to the environment and does not contribute to GHG emissions. The AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors will enable more cross-border service trade as Rwanda aims to position itself as a regional services hub in the financial, ICT, logistics, and tourism sectors. The implementation of this PA will notably by harness digital technologies, which have minimal impact on GHG emissions, to improve Rwanda's position in regional value chains. Furthermore, the full implementation of AfCFTA Trade in Services Protocol covers liberalization of provision of professional services, such as engineering services. This would facilitate

	the provision of environmental services and use of more carbon efficient technologies, supporting Rwanda's adaptation and/or mitigation efforts.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer:** No. **Explanation:** The implementation of this PA will decrease the number of AfCFTA service sectors with major restrictions in cross-border trade and/or FDI which will stimulate growth, and GHG emission are theoretically expected to rise as the economy grows. For example, increase in tourism will even though not significantly, increase carbon footprint as tourists travel to and within Rwanda. However, Rwanda's Green Growth and Climate Resilience Strategy (GGCRS) is in place to propel the country's growth on a green pathway.
Conclusion for PA 5:	
This PA is aligned for mitigation goals, as it meets the criteria for step 2. Further consideration of Step 3 is not necessary.	
Pillar B: Facilitate climate finance and green public and private investments	
Prior Action 6: The revised RDB law that includes a dispute prevention and grievance management mechanism	
Pillar Objective: Strengthen regulatory environment to attract private investment for green growth	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No **Explanation**: PA 6 incorporate climate regulations. These prior actions will therefore contribute to maintaining Rwanda's medium to long-term low emissions, hence supporting the climate change mitigation agenda.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer** Not applicable. **Explanation**: Revising the RDB law that includes a dispute prevention and grievance management mechanism will strengthen the regulatory environment and subsequently attract more funding potentially leading to more economic growth, and GHG emission are theoretically expected to rise as the economy grows. However, Rwanda's Green Growth and Climate Resilience Strategy (GGCRS) is in place to propel the country's growth on a green pathway.
Conclusion for PA 6:	
This PA is either neutral or incorporate provisions for mitigation goals, as it meets the criteria for step 2. Further consideration of Step 3 is not necessary.	
Prior Actions 7: The Law Governing National Parks and Nature Reserves (PA 7)	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: The Law governing national Parks and Nature Reserves will facilitate greater private sector participation in the management of national parks and nature reserves and natural parks and nature reserves positively contribute to the decrease in GHG emissions.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer** Not applicable. **Explanation**: Rwanda's GHG emissions are low, and the Law Governing National Parks and Nature Reserves will not introduce or reinforce significant and persistent barriers to Rwanda's aim to reduce national emissions.
Conclusion for PAs 7	
This pillar is aligned for mitigation goals, as it meets the criteria for step 2. Further consideration of Step 3 is not necessary.	

Prior Actions 8: The Rwanda Carbon Market Framework	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: The Rwanda Carbon Market Framework will support easy access to international carbon market and carbon trading activities which will stimulate green growth because the carbon-market system is built to reduce GHG emissions by creating financial incentives to do so.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer** Not applicable. **Explanation**: This reform has reduction of GHG emissions built in its concept and it is unlikely to introduce or reinforce significant and persistent barriers to transition to the country's goal to reduce GHG emissions that are already low.
Conclusion for PA 8:	
This pillar is aligned for mitigation goals, as it meets the criteria for step 2. Further consideration of Step 3 is not necessary.	
Prior Actions 9: The procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants, as the single online portal for all procurements.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer** No. **Explanation**: By requiring all procuring entities and contractors, suppliers, and consultants, to use e-Procurement as the single online portal for all procurements, the procurement law is helping reduce carbon footprint by leveraging technology. E-Procurement is unlikely to introduce or reinforce significant and persistent barriers to transition to the country's goal to reduce GHG emissions that are already low.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways	**Answer** Not applicable.
Conclusion for PA 9:	
This pillar is aligned for mitigation goals, as it meets the criteria for step 2. Further consideration of Step 3 is not necessary.	
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program **The operation is aligned with Paris mitigation goals.**	

Adaptation and resilience goals: assessing and managing the risks	
Pillar A: Increase the private sector's participation, trade and contestability	
Prior Action 1, 2, 3, & 4: The proposed Privatization Law (PA 1), the new Competition and Consumer Protection Policy 2023 (PA 2), the amended Insolvency Law (PA 3), the National Bank of Rwanda Directive governing Digital Saving Facilitators and Regulation relating to Financial Service Consumer Protection that prohibits discrimination based on gender in access to credit (PA 4)	
Pillar Objective: Increase the private sector's participation and contestability	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No. **Explanation**: Risks from climate hazards are unlikely to have an adverse effect on the contribution of the proposed Privatization Law, Competition and Consumer Protection policy, Insolvency Law, BNR Directive to ensuring an increase in private sector participation and contestability.
Conclusion for Prior Action 1,2,3 & 4	
These PAs are aligned for adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	

Prior Action 5: Ratification of the AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors is published in the EAC Gazette	
Pillar Objective: Increase the private sector's participation and contestability	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation**: Climate hazards are not expected to affect the intended results of the prior action, which is to reduce the number of restrictions for cross-border trade for key services sector.
Conclusion for Prior Action 5	
This PA is aligned for adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	
Pillar B: Facilitate climate finance and green public and private investments	
Prior Action 6: The revised RDB law that includes a dispute prevention and grievance management mechanism	
Pillar Objective: Strengthen regulatory environment to attract private investment for green growth	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No. **Explanation**: Extreme weather events are unlikely to adversely affect the implementation of the dispute prevention and grievance management mechanism under the RDB law.
Conclusion for Prior Action 6	
This PA is aligned for adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	
Prior Actions 7: The Law Governing National Parks and Nature Reserves (PA 8).	
Pillar Objective: Strengthen regulatory environment to attract private investment for green growth	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No. **Explanation**: While climate hazards are likely to adversely affect National parks and Nature Reserves, the PA's contributions to strengthening the regulatory environment to attract private investment for green growth is likely to be unaffected.
Conclusion for Prior Action 7	
This pillar is aligned for mitigation, adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	
Prior Actions 8: The Rwanda Carbon Market Framework (and **trigger 8**: Rwanda's Climate Finance Strategy)	
Pillar Objective: Effectively leverage public investments for green growth	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer**: No **Explanation**: Climate hazards are unlikely to adversely affect the intended results of this prior action, which is to develop the policy enabling environment for carbon markets in Rwanda.
Conclusion for Prior Actions 8	
This PA is aligned for adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	
Prior Actions 9: The procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants, as the single online portal for all procurements.	
Pillar Objective: Effectively leverage public investments for green growth	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No. **Explanation**: The implementation of e-procurement is unlikely to be affected by climate hazards.
Conclusion for Prior Actions 9	
This PA is aligned for adaptation and resilience goals: Step A2 requirements are met, so further analysis is not required.	

ANNEX 6: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Pillar A: Increase inclusive private sector participation, trade and contestability		
Prior Action #1: The Cabinet has approved the Draft Privatization Law and submitted it to Parliament.	Yes. The law will incentivize investment in both new and ongoing projects. As part of this effort, measures will be put in place to assess, monitor, and manage any environmental or social impacts that may arise as a result of these initiatives.	The details of the privatization law and its implementation will determine how distributional impacts materialize and who is benefitted or is negatively affected. Some of the risks include increases in income and wealth inequality, an increase in market concentration potentially leading to higher prices and reduced access (hurting consumers) if privatization design and post-privatization regulation is deficient, and job losses as part of restructuring or dissolution. Conversely, a well implemented privatization strategy will not only increase private sector participation but also enable greater competitiveness and growth through the delivery of citizen-led outcomes.
Prior Action #2. The Recipient through Cabinet has approved the new Competition and Consumer Protection Policy 2023, giving directions for effective implementation and ensuring principles of transparency, efficiency, and interinstitutional collaboration.	Unlikely to have direct environmental consequences. The policy's implementation could indirectly affect the environment if, for example, it leads to changes in market dynamics that affect the production or distribution of goods and services with environmental implications. The policy also acknowledges the need of supporting sustainable consumption and production through education and enforcement actions.	Expected positive indirect impacts on poverty. Increased contestability and competition can lead to price reductions, increases in household welfare, and higher job creation. The reform will also boost the quality and value proposition of domestic products to make them more competitive in international markets.
Prior Action #3: The Recipient through the Prime Minister’s Office has approved and gazetted the amended Ministerial Order (n° 001/MINICOM/23 of 05/10/2023) relating to insolvency practitioners to strengthen the competence and integrity of insolvency practitioners.	Unlikely to have direct environmental consequences.	No significant impacts on poverty are expected.
Prior Action #4: The Recipient through the National Bank of Rwanda (BNR) has (a) issued Directive No 4230 /2023-00031[613] of 09/05/2023 governing Digital Saving Facilitators, that safeguards the funds and protects the members of SCG, and (b) gazetted Regulation No. 55 of 27/10/2022 Relating to Financial Service	Unlikely to have direct environmental consequences.	Expected positive indirect impacts on poverty reduction, especially extreme poverty. This intervention to facilitate gender-led digital inclusion will directly contribute to the increase economic opportunities among vulnerable groups especially women and persons living in the rural areas

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Consumer Protection that prohibits discrimination based on gender in access to credit.		of Rwanda, which will likely catalyze positive outcomes on accumulation of human capital among poor and vulnerable families.
Prior Action #5: The Recipient through Cabinet has approved and gazetted the Presidential Order ratifying the AfCFTA Trade in Services Protocol, and Rwanda's Schedule of Services Commitments for the opening of AfCFTA service sectors is published in the EAC gazette.	Yes, there are potential environmental risks and impacts associated with the opening of markets across the five priority service sectors in the AfCFTA Trade in Services Protocol. This has the potential to both positively and negatively impact the environment and will require careful monitoring and regulation to ensure that negative impacts are minimized, and environmental sustainability is prioritized.	Expected positive indirect impacts on poverty reduction through increased job creation -especially in agriculture- and wage growth.
Pillar B: Facilitate climate finance and green public and private investments		
Prior Action #6: The Recipient through Cabinet has approved the revised Rwanda Development Board (RDB) law and submitted it to Parliament; this law includes an investor dispute prevention and grievance management mechanism, in alignment with the AfCFTA Investment Protocol.	Unlikely to have direct environmental consequences.	Expected positive indirect impacts on poverty reduction through increased job creation -especially in agriculture- and wage growth.
Prior Action #7: The Recipient through Parliament has approved and gazetted the Law Governing National Parks and Nature Reserves (Law No. 001/2023), enabling private sector participation in nature conservation.	Yes: Laws and regulations governing protected areas such as national parks and nature reserves can have both positive and negative environmental impacts.	Expected positive indirect impacts on poverty reduction if benefits are shared with local communities.
Prior Action #8: The Recipient through Cabinet has approved the Rwanda Carbon Market Framework, establishing the regulatory framework for access to the international carbon market and carbon trading activities.	Yes: The establishment of a Carbon Market Framework to expand fiscal space for climate and nature action has the potential to have both positive and negative environmental impacts. On the positive side, a Carbon Market Framework can incentivize emissions reduction and promote the adoption of cleaner technologies and practices, leading to reductions in greenhouse gas emissions that contribute to climate change. However, carbon offset projects may have unintended negative impacts on local communities and ecosystems, particularly in cases where they involve land-use changes, such as afforestation or reforestation.	This reform could foster carbon credit gains for locals and, if successful, communities could benefit from carbon financing. Expected indirect positive impacts on poverty if the increased availability of non-debt public resources increases expenditures in programs that benefit the poor. The proposed reforms in PA 7 will enforce the need to protect local communities, minimizing risks and impacts that relate to climate change, gender, disability, and the elderly.

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
		Evidence[49] shows that the involvement of local private sector-led investments might foster other community reinvestments, improve quality of life, and in the long run, contribute to graduation out of extreme poverty. To enhance potential positive impacts on local communities, as part of the implementation of the law government can engage with the private sector in creating opportunities for the poor, joint ventures, employment of local staff, and business linkages with local entrepreneurs[50].
Prior Action #9: The Recipient through MINECOFIN has issued a Ministerial Order to implement the procurement law requiring e-Procurement by all procuring entities and by contractors, suppliers, and consultants, as the single online portal for all procurements.	Yes: The use of e-Procurement by procuring entities and contractors, suppliers, and consultants as a single online portal for all procurements has the potential to have both positive and negative environmental impacts.	Expected indirect positive impacts on poverty if the increased availability of resources as a result of higher efficiency of public investments increases expenditures in programs that benefit the poor.

[49] [i] The Case of a Pro-Poor PPP in Rwanda (Case study Urwibutso, 2019). [ii] The Doi Tung Model for Sustainable Alternative Livelihood Development.
[50] 2023. Making the most of nature based tourism in Rwanda. The World Bank

ANNEX 6: THEORY OF CHANGE