

AFRICAN DEVELOPMENT BANK



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REPUBLIC OF RWANDA

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RWANDA INNOVATION FUND

APPRAISAL REPORT

PITD/RDGE

February 2018

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Currency Equivalents

As of October 2017

UA 1 = USD 1.41

Fiscal Year

1 July – 30 June

Weights and Measures

| | | |
|-------------------|---|-------------------|
| 1 metric tonne | = | 2204 pounds (lbs) |
| 1 kilogramme (kg) | = | 2.200 lbs |
| 1 metre (m) | = | 3.28 feet (ft) |
| 1 millimetre (mm) | = | 0.03937 inch (“) |
| 1 kilometre (km) | = | 0.62 mile |
| 1 hectare (ha) | = | 2.471 acres |

Acronyms and Abbreviations

| | |
|-----------|---|
| AC | Advisory Committee |
| ADB | African Development Bank |
| ADF | African Development Fund |
| AREF | Africa Renewable Energy Fund |
| CEO | Chief Executive Officer |
| CMU | Carnegie Mellon University |
| CoE | Centre of Excellence |
| CSP | Country Strategy Paper |
| DBDM | Development and Business Delivery Model |
| E&S | Environmental and Social |
| EAC | East African Community |
| EDPRS | Economic Development and Poverty Reduction Strategy |
| ESG | Environmental & Social Guidelines |
| ESMS | Environmental and Social Management System |
| GDP | Gross Domestic Product |
| GHG | Green House Gases |
| GoR | Government of Rwanda |
| GP | General Partner |
| ICT | Information and Communication Technology |
| IC | Investment Committee |
| IDEV | Independent Development Evaluation |
| IPO | Initial Public Offering |
| ISS | International Safeguard Systems |
| KIC | Kigali Innovation City |
| KOICA | Korea International Cooperation Agency |
| LP | Limited Partner |
| M&E | Monitoring and Evaluation |
| MINECOFIN | Ministry of Finance and Economic Planning |
| MIT | Massachusetts Institute of Technology |
| MOU | Memorandum of Understanding |
| MYICT | Ministry of ICT |
| NICI | National Information Communication Infrastructure |

| | |
|-----|-----------------------------------|
| PE | Private Equity |
| RDB | Rwanda Development Board |
| RIF | Rwanda Innovation Fund |
| RMC | Regional Member Countries |
| SDG | Sustainable Development Goals |
| SME | Small and Medium size Enterprises |
| TA | Technical Assistance |
| TYS | Ten Year Strategy |
| UA | Unit of Account |
| USD | United States Dollar |
| VC | Venture Capital |

Loan Information

Client's information

BORROWER: Republic of Rwanda

EXECUTING AGENCY: Ministry of Finance and Economic Planning

Financing plan

| Source | Amount (USD) | Instrument |
|----------------------|----------------------|---------------------|
| ADB | 30.00 million | ADB project loan |
| Government of Rwanda | 8.60 million | counterpart Funding |
| Private investors | 30.00 million | |
| TOTAL COST | 68.60 million | |

ADB's key financing information

| | |
|-------------------------|---|
| Loan currency | USD |
| Interest type | Floating |
| Interest rate | Base rate + Funding margin + 80 basis points + maturity premium |
| Commitment fees | 25 basis points to be charged on the undisbursed balance of new Loan |
| Front end fees | 25 basis points to be charged on the new approved loan amount |
| Loan payment | Semi annually |
| Maturity | 25 years |
| Maturity premium | Up to 20 basis points |
| Interest rate features* | Option to fix, unfix and re-fix for a fee at any time, cap and collar |
| Grace period | 8 years |
| Currency features | Option to change currency at any time |
| FIRR (base case) | 14% |
| EIRR (base case) | 22% |

Timeframe - Main Milestones (expected)

| | |
|-----------------------|----------------|
| Concept Note approval | March, 2016 |
| Project approval | March, 2018 |
| Effectiveness | May, 2018 |
| Completion | December, 2022 |
| Last disbursement | December, 2023 |

Project Summary

1. Project Overview: The Government of Rwanda wants to create a ‘smart’ economy built, in part, on local, tech-focused solutions. The Rwanda Innovation Fund (RIF), to be established under the proposed project, aims to address the financing gap that tech-enabled companies face at different growth stages in Rwanda and in the wider East African region. In order to address the financing gap, the project will establish affordable funding mechanisms for growth companies. To achieve this, the project will provide equity financing for Tech Enabled Small and Medium-size Enterprises (SME’s), train tech-oriented entrepreneurs in business planning and management, and increase awareness and sensitization with respect to intellectual property rights. The Fund is expected to support one hundred and fifty (150) companies at various stages of growth, invest in about twenty (20) early growth stage opportunities, and create roughly two thousand (2000) direct jobs and an estimated six thousand (6,000) indirect jobs throughout its lifecycle (ten (10) years + two (2) years).

The Technical Assistance Pool (entrepreneurial ecosystem capacity) will provide capacity building to a range of seven (7) to ten (10) incubators and accelerators, facilitate three (3) – five (5) additional angel networks, and train approximately thirty thousand (30,000) entrepreneurs across the region. The RIF will be formed and managed by a Fund Manager (Angaza-IM) which was selected by the Government of Rwanda (GoR). The Fund Manager possesses global experience working with and helping ICT innovators in the East Africa region. The Fund Manager executed an MOU with the GoR to perform the role of Fund manager for the RIF and to be a key participant during all stages of the innovation life cycle ranging from early stage start-ups to IPO ready firms. Under the MOU, the fund Manager is required to raise USD 70 Million from private investors to achieve a target fund size of USD 100 million.

The total estimated cost of the project is USD 68.6 million (UA 48.65 million). A total amount of USD 30 million (UA 21.27 million) is the proposed ADB loan to the GoR; USD 8.6 million (UA6.09 million) will be counterpart funding in the form of technical Assistance and project management from the GoR; and USD 30 million will be the initial private investors contribution for the first disbursement of ADB Loan.

2. Needs assessment: A knowledge based economy, supportive entrepreneurial ecosystem and financial industry, the existence of solid ICT infrastructure and a growing and innovative human resource base are positioning Rwanda as a regional tech hub. Further, the government aims to accelerate “services development” by providing highly efficient government services thus increasing private sector productivity and Rwanda’s global competitiveness. To do so, the government needs to invest sustainable and patient long-term capital into the tech-led ventures and create a sustainable entrepreneurial eco-system in the region. The GoR views the development of the tech sector as an enabler of development across other sectors of the economy.

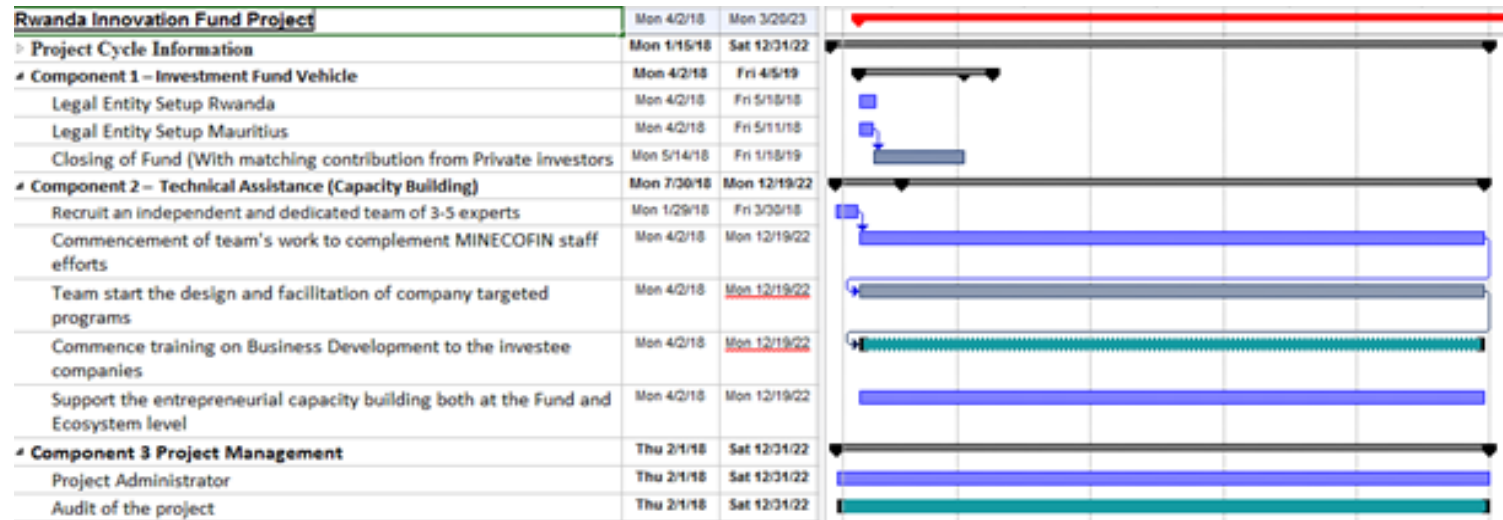
3. Bank’s value added: The Bank’s support is expected to complement the Government’s efforts to promote technology as a key means to economic transformation and as an enabling tool for other sectors like Industrialisation, Agriculture, Energy, Climate Change, Health and Education. The Bank’s support will also help establish a more conducive environment for businesses engaging in value added activities through improved ICT infrastructure and a better skilled workforce, thereby incentivizing and attracting local and foreign investors. At the technical level, the Bank’s value added will include providing support in project implementation based on its long-term experience in equity investment.

4. Knowledge management: The Bank will acquire knowledge from the project design based on innovative Funding mechanism that will be established including equity financing. The Bank will use and share the knowledge generated from its project preparation and implementation activities as well as exchange of experience among the project staff, RMCs, Fund Manager and experts in Rwanda.

RESULT-BASED LOGICAL FRAMEWORK

| Country and project name: Rwanda Innovation Fund (RIF) project | | | | | | |
|--|---|--|--|---|--|---|
| Purpose of the project: is to contribute to the innovation economy in Rwanda and the East African Community region, through the establishment of an investment vehicle focused on funding ICT Tech Enabled SME's and to develop the country's entrepreneurial/innovation ecosystem capacity. | | | | | | |
| RESULTS CHAIN | | PERFORMANCE INDICATORS | | | MEANS OF VERIFICATION | RISKS/MITIGATION MEASURES |
| | | Indicator (incl. CSI) | Baseline | Target | | |
| IMPACT | (i) Increase technology contribution to GDP (ii) Low carbon climate resilient (iii) Multiplier effect on the Capital Markets. | (i) (%) Share of ICT sector in GDP (ii) No. of companies with individual valuation of US\$50 million by RIF (iii) Leveraged follow-on investments (iv) No. of companies whose actions reduce GHG emissions or reduce vulnerability to climate change | By 2017 (i) 3% (ii) 0 (iii) 0 (iv) 0 | By 2028 (i) 7% (ii) 6 – 8 companies (iii) US\$300 Million (2 to 3 Times) (iv) 1/3 rd of companies supported | MINECOFIN/ RDB Annual Report Desk-based climate change assessment of supported companies' business models | Risks RIF Fund is not successfully implemented Mitigation measures Broad stakeholders' engagement is sustained. |
| | (i) Increase in job creation (ii) Increase in Entrepreneurial Capacity at Fund & Ecosystem levels (iii) Access to finance to early growth high impact tech enabled ventures (iv) Improved enabling environment | (i) No of Direct/Indirect jobs created (ii) No. of entrepreneurs trained (iii) No. of businesses supported (gender disaggregated) (iv) No. of investee companies supported (v) No. of incubators/accelerators supported (vi) No. of additional angel networks facilitated | By 2017 (i) None (ii) None (iii) 0 (iv) 0 (v) 3 (vi) 1 | By 2028 (i) About 2000/6000 (ii) 30,000 in the region (iii) 150 (iv) 20 (v) 7- 10 Incubators (vi) 3-5 Additional Angel Networks | MINECOFIN/RDB Annual Report | Risks Fund Manager is unable to execute Fund investment strategy. TA Pool poorly implemented Mitigation Measures Fund Manager has international/regional experience in venture capital investments. TA Pool implemented by qualified experts |
| | (i) Rwanda Innovation Fund is established (ii) Technical Assistance Pool is operational (iii) Partnership Law is enacted. | (i) Fund close is aimed to achieve at least US\$ 60 million at a target fund size of D100 million (ii) TA Pool Fund/ Project Administration committed (US\$8.6 million) (iii) Partnership Law is enacted | By 2017 (i) None (ii) None (iii) None | By 2018 (i) Fund is fully operational (ii) TA Pool / Project Administration interventions underway (iii) Partnership Law in enacted | MINECOFIN/ RDB Report. | Risks Fund closing is not successful by Fund Manager. Mitigation measures Indicative list of investors with corresponding commitments already lined up by Fund Manager. Target to close in Q3 2018. |
| KEY ACTIVITIES | COMPONENTS | | | | INPUTS | |
| | (i) Investment Fund (ii) Technical Assistance (TA) Pool (iii) Project Management & Audit | | | | | Investment Fund USD 60 million Technical Assistance USD 8 million Project Management & Audit USD 0.6 million |

Project timeframe



REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF RWANDA FOR THE RWANDA INNOVATION FUND PROJECT

Management submits the following Report and Recommendation on a proposed loan for USD 30 million to the Republic of Rwanda to finance the Innovation Fund Project.

I – STRATEGIC THRUST & RATIONALE

1.1. Project linkages with country strategy and objectives

1.1.1 In its 2015 National Information Communication Infrastructure (NICI) III plan, the Government of Rwanda (GoR) identified Private Sector Development as a key element of its strategy to achieve its objective to “develop services by leveraging ICTs to improve service delivery to citizens, as Rwanda approaches the fourth and final phase of the NICI process that will propel Rwanda to achieve Vision 2020 goals”. To this end, the country must, in a relatively short period of time, develop and adopt ‘smart’ solutions built on effective use of technology to create a vibrant, modern economy positioned to compete regionally. This project, which seeks to address the necessary private sector development, thus responds to clearly established government needs and priorities expressed in policy documents and strategies. The project also supports the realization of the Sustainable Development Goals (SDGs), the second Economic Development and Poverty Reduction Strategy (EDPRS II) 2013-18. Many of the technologies supported by the Fund will contribute to the effective and efficient achievement of Rwanda’s Nationally Determined Contribution to the Paris Agreement through improved communication, information flows, monitoring and reporting systems, more efficient enterprises and reduced vulnerability to climate change.

1.1.2 The project will finance investments in tech-enabled ventures that address key market sectors, including power, finance, water and agriculture. It will also support, through a technical assistance pool, the development of entrepreneurial skills in Rwanda and the broader region. As such, the project, which is a priority for the GOR, is in line with the Bank’s Country Strategy Paper (CSP) 2017 - 2021 for Rwanda approved in 2016 which focuses on (i) Investing in energy and water infrastructure to enable inclusive and green growth and (ii) Developing skills to promote high value added economic activities and economic transformation. The introduction of smart solutions to key sectors such as agriculture and power, alongside the private sector development envisaged by the Fund, are in line with the Bank’s High 5s on Power and Light Africa, Feed Africa and Industrialise Africa..

1.1.3 The project will create an entrepreneurial, tech-focused cluster in Rwanda. The GoR has already initiated the Kigali Innovation City, which will host entrepreneurs and the private sector. The City will be served by high-speed broadband that is already available, with multiple routes to submarine fibre systems, providing worldwide connectivity. Anchor tenants of the Kigali Innovation City include key academic institutes that are already present in Kigali: Carnegie Mellon University, the African Institute for Mathematical Sciences and the International Centre for Theoretical Physics. The project will address the fourth component of a technology cluster: access to finance. Specifically, it will focus mainly on providing equity investment for ICT Tech Enabled SMEs. The project will indirectly support one hundred and fifty (150) companies at various stages, invest in about twenty (20) early growth stage opportunities, and create about two thousand (2,000) direct jobs and six thousand (6,000) indirect jobs over its life (10 years + 2). The Rwanda Innovation Fund

(RIF) will upon closing aim to mobilize at minimum sixty million (US\$60 million) in direct commitments from government and private investors and a maximum of USD100 million from private investors, while targeting a leverage multiplier effect of up to US\$300 million in follow-on investments. As per the entrepreneurial ecosystem's capacity, the TA Pool will provide capacity building to between seven (7) to ten (10) incubators and accelerators, facilitate three (3) – five (5) additional angel networks, and training about thirty thousand (30,000) entrepreneurs across the region.

1.2. Rationale for Bank's involvement

1.2.1 The project will leverage on other ICT and education investments including the Rwanda ICT Centre of Excellence (CoE) which was financed by the Bank. The CoE aimed to address the acute shortage of advanced ICT technical skills in Rwanda and the East African region. The project which is operated by Carnegie Mellon University (CMU), has contributed towards building technical capacity in the country and the region. More still, the project is expected to deliver about one thousand (1000) technical graduates, creating one thousand one hundred and forty two (1142) direct and indirect jobs by 2020. The outputs from CoE will be valuable to the objectives of RIF project.

1.2.2 The project aligns with the Bank's High 5 goals and Ten Year Strategy in leveraging innovation across sectors to promote inclusive growth, youth empowerment, and the creation of high value jobs. RIF also supports the Bank's ICT and Human Capital strategies with regard to skills development for competitiveness to enhance Technology contribution to GDP, and unleash innovation economies across Africa. The project aligns with the goals of the Climate Change Action Plan by helping to create environments which facilitate investment in low carbon and climate resilient enterprises.

1.2.3 Rwanda has a young/vibrant entrepreneurial population (58% of the population - 12.8 million people, are between 15 to 64 years). RIF project is of strategic national importance, as GoR seeks to unlock its fast growing innovation economy, and expand/diversify growth in a low carbon climate resilient manner, aligned with the Vision 2020, and its current strategy to drive private sector led inclusive growth. There is no Venture Capital (VC) Fund vehicle in the country for supporting its promising young entrepreneurs, and local investors struggle to service early stage ventures, including follow on investments, due to limited Funding capacity and liquidity issues.

1.2.4 As a country that is placed 2nd position in Africa in the World Bank Doing Business ranking (41st globally), with business friendly policies, GoR is focused on making Rwanda a financial and innovation hub in the region. It aims to achieve this by providing the right enabling, financial, and business support environment to attract, develop, and invest in high impact world-class innovative technology enabled businesses operating across the region and beyond. The project also complements the proposed development of the Kigali Innovation City, a free trade zone to support highly differentiated export oriented tech enabled enterprises, and impact investment industry.

1.2.5 The Bank's role will help provide comfort to and crowd-in private capital in terms of developing suitable Fund structures which align with public and private interests, interventions on enabling environment. It will also enable government to actively develop the sector and attract private investors. The project will enable the Bank to play a leading role in helping RMCs foster and

finance sustainable innovation ecosystems, spur entrepreneurial growth, address funding gaps, reduce poverty, and promote socio-economic growth.

1.3. Donors coordination

Table 1.3: Donor contribution to the sector

| Sector or subsector* | Size | | |
|---|--|----------|--------------------------|
| | GDP | Exports | Labor Force |
| ICT | 3% | 3.4% | 0.3% |
| Players - Public Annual Expenditure (average)** | | | |
| | Government | Donors | |
| UA | UA 35.22m | UA8.72 m | <i>Japan</i> 1.2% |
| m | | | <i>Netherlands</i> 24.4% |
| % | 80.2% | 19.8% | <i>South Korea</i> 74.4% |
| Level of Donor Coordination | | | |
| | Existence of Thematic Working Groups | | Y |
| | Existence of SWAPs or Integrated Sector Approaches | | Y |
| | ADB's Involvement in donors coordination*** | | M |

* as most appropriate ** Years [yy1 to yy2] *** for this sector or sub-sector

**** L: leader, M: member but not leader, none: no involvement

1.3.1 There is a wide range of active donors providing development assistance to Rwanda across all the economic sectors. Donors include the Korean International Cooperation Agency (KOICA), Department for International Development (DFID), the United State Agency for International Development (USAID), the European Union (EU), the French Cooperation, the Dutch Cooperation, International Telecommunication Union (ITU), the United Nations Development Programme (UNDP), the World Bank and the African Development Bank, etc. There has been a strong coalition between donors in general to develop aid coordination activities encouraged by the Rome Declaration on Harmonization and the Paris Declaration on Aid Effectiveness. Rwanda has a formal donor aid coordination mechanism that includes all donors present in the country.

II – PROJECT DESCRIPTION

The main objective of the RIF project is to contribute to the innovation economy in Rwanda and the East African Community (EAC) region. The specific objective is to establish an investment vehicle focused on funding Tech-Enabled SME's and to develop the country's entrepreneurial/innovation ecosystem capacity. In order to achieve these objectives, the project involves the structuring and establishment of a US\$60 million, at initial closing, and a target fund size of USD100 million venture capital investment vehicle (Rwanda Innovation Fund, the "Fund") that will invest in early stage growth of innovative technology enabled ventures in Rwanda and the rest of the EAC, while developing the country/region's venture capital market and innovation economy. The project also includes a US\$8.6 million Technical Assistance (TA) Pool program that will be funded by the GOR, and project management, which will help provide business development support to investee companies of the Fund, and build innovation and entrepreneurial ecosystem capacity in the country and beyond.

2.1. Project components

Table 2.1: project components

| S/N | Component name | Est. cost (USD) in million | Component description |
|-----|---------------------------------------|----------------------------|--|
| 1 | Investment Fund | 60 | <p>This component establishes a commercially viable early-stage company investment vehicle, with an initial closing of \$60 million and a target und size of USD100 million.</p> <ul style="list-style-type: none"> The fund will make equity investments (US\$0.250 million – US\$10 million, including follow-on). Proposed exit options include trade sale, secondary purchase, or IPO etc. The Fund will mobilize Limited Partners' (LP) commitments from Public investors - US\$30 million (ADB Public to GoR) and Private investors (led by the Fund Manager) - US\$60 million, including the Fund Manager's 1% commitment. Public commitment is catalytic, providing a cushioning and crowd-in effect for Private commitments. |
| 2 | Technical Assistance (TA) Pool | 8 | <p>This component envisions a</p> <ul style="list-style-type: none"> Committed budget and an independent and dedicated team of 3-5 experts, with experience in the VC/PE sector, innovation and technology enabled entrepreneurship. The team will complement the interface between government and the RIF, while overseeing the design, implementation and operation of several ecosystem intervention programs Design and facilitation of company targeted programs, together with partners, to develop a pipeline of start-ups and SME's sourced from incubators/accelerators and the market, to be eligible for RIF investment Focused on helping provide business development support to investee companies of RIF, in order to scale regionally and internationally Support the entrepreneurial capacity building both at the fund and ecosystem level, leveraging off the investments of the RIF, and anticipated follow-on investments. |
| 3 | Project Management | 0.6 | <p>This component makes provision for project management and auditing the project.</p> |

2.2. *Technical solution retained, and other alternatives explored*

2.2.1 The Government of Rwanda identified a need to catalyse and grow tech-enabled businesses to foster a ‘smart’ economy. It recognised that this need could be met, in part, through a Fund of patient long term capital that would focus on developing the entrepreneurial ecosystem and professionalizing SME companies.

2.2.2 The Rwanda Innovation Fund will be successful only if in addition to global experience and connections in this specialized financial space, the Fund Manager can bring i) a developed understanding of the young innovation community developing within Rwanda and the region and ii) a strong commitment to contribute actively to the long-term development of innovation value chains from start up through growth and IPO/sale.

2.2.3 The Government has selected the Fund Manager (Angaza-IM) who has local, regional and global experience on both the investment and operational elements that are critical to building successful ICT businesses. As such, the Fund Manager has executed an MOU with the Government of Rwanda to manage the RIF upon their undertaking to develop high potential ICT SME’s and help develop the broader ICT and financial ecosystem in Rwanda. The fund Manager has undertaken to raise a maximum fund size amount of USD 100 million with private investor contribution.

2.2.4 Relative to the structure, as there is no partnership law in place in Rwanda at present, the interim approach will utilize a parallel structure, while the partnership law is being passed by the Government of Rwanda.

| Alternative Name | Brief Description | Reasons for Rejection |
|-------------------------------------|---|--|
| Banks | This is the traditional source of Funding in the country. Whereby local banks will identify and finance projects. This approach is typical to a lot of the Funding in larger private sector. | <ul style="list-style-type: none"> • High Risk projects • Lack of collateral as typical with innovation projects • Smaller loans are difficult to provide and monitor |
| Private Sector (PE & VC) Funds Only | This is a collective investment scheme used for making investments in various equity (and to a lesser extent debt) securities according to one of the investment strategies associated with private equity. This approach is popular with technology start-ups. PE Funds invest in such to build from incubation stage to full fledge running concern or IPO/sale | <ul style="list-style-type: none"> • Appetite for PE Funds in Rwanda is low, relative to larger markets • PE focuses on larger transactions (\$10 million+) • Underdeveloped ecosystem for facilitating investments |
| Public Sector Funds Only | This approach is when governments invest in private sector start-ups to encourage certain sectors. | <ul style="list-style-type: none"> • Government does not have the know how to run Funds like private sector- as run by Fund Managers. (from Incubation to running concern/IPO) |

2.3. *Project type*

2.3.1 This is a stand-alone operation, financed by an ADB loan. The project will, facilitate the establishment by providing an initial investment in the Innovation Fund. It will also provide TA to support capacity building for business development expert and provide finance for the development

of a deal pipeline, which will involve working with entrepreneurs to develop their businesses to a point where the Innovation Fund might support them.

Credit Risk

2.3.2 A risk note on Rwanda was prepared in 2017. The Credit Risk Committee (CRC) subsequently approved special access to the Bank’s sovereign window, in line with the policy on ADB-access by ADF countries, as Rwanda fulfilled the following four (4) criteria: i) the country is at low risk of debt distress, ii) the country has headroom for non-concessional borrowing, iii) the country has a sustainable macroeconomic position, and iv) the country’s request for financing is cleared by the Bank’s CRC. The project was cleared by CRC on 29 November 2017.

Development Outcomes

2.3.3 The Bank has reviewed the expected development impact and results of the fund based on information collected and the proposed fund pipeline. The review has concluded that significant development outcomes will be met once the fund is established. See attached in the Technical Annexes the completed ADOA indicator template.

2.4. Project cost and financing arrangements

2.4.1 A total amount of USD 30 (UA 21.27) million is the proposed ADB loan to the Government of Rwanda. The Government counterpart funding is estimated at USD 8.6 million and the private investors initial contribution is estimated at USD 30 million and the target fund size is USD100million. The following tables 2.3, 2.4 and 2.5 below present the estimated project costs by components, financing source and category of expenditure. In addition, table 2.6 and 2.7 illustrates the expenditure schedule by component and component by financing source respectively. Technical Annex B2 & A3 provide detailed cost estimates and justification for financing 43.7% of the Project Cost through an ADB Loan

*Table 2.3 : Project Cost estimates by Component
(Figures in USD)*

| Description | USD (Million) | | | UA (Million) | | | % Foreign | % Total |
|--------------------------------------|---------------|-------------|--------------|--------------|-------------|--------------|-----------|-------------|
| | Foreign | Local | Total | Foreign | Local | Total | | |
| Component 1: Investment Fund | 60.00 | | 60.00 | 42.55 | - | 42.55 | 87% | |
| Component 2: Technical Assistance | | 8.00 | 8.00 | - | 5.67 | 5.67 | | 12% |
| Component 3: Project Management | | 0.60 | 0.60 | - | 0.43 | 0.43 | | 1% |
| | | | | - | - | - | | |
| Total Project Cost | 60.00 | 8.60 | 68.60 | 42.55 | 6.10 | 48.65 | | 100% |

Note: Exchange rates are provided in the introduction of this report (page (i)) UA 1.00 to USD 1.41

Table 2.4: Sources of financing [figure in USD Million]

| Description | Foreign | Local | Total | % Total |
|-----------------------------|--------------|-------------|--------------|-------------|
| ADB Loan | 30.00 | | 30.00 | 43.7% |
| Government of Rwanda | | 8.60 | 8.60 | 12.6% |
| Private Investors (initial) | 30.00 | | 30.00 | 43.7% |
| Total Project Cost | 60.00 | 8.60 | 68.60 | 100% |

Table 2.5: Project cost by category of expenditure ADB funding [figure in USD and UA]

| Description | USD (Million) | | | UA (Million) | | |
|---------------------------|---------------|-------------|-------------|--------------|-------------|-------------|
| | Foreign Cost | Local Cost | Total Cost | Foreign Cost | Local Cost | Total Cost |
| Services | | 8.60 | 8.60 | | 6.10 | 6.10 |
| Total Project Cost | | 8.60 | 8.60 | | 6.10 | 6.10 |

Table 2.6: Expenditure schedule by component [figure in USD]

| Components | 25% | 25% | 25% | 25% | 100% |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2018 | 2019 | 2020 | 2021 | Total |
| Component 1 : Investment Fund | 15.00 | 15.00 | 15.00 | 15.00 | 60.00 |
| Component 2 : Technical Assistance | 1.00 | 3.00 | 2.00 | 2.00 | 8.00 |
| Component 3: Project Management | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 |
| Total Project Cost | 16.15 | 18.15 | 17.15 | 17.15 | 68.60 |

Table 2.7: Components by financing source
[figure in USD]

| Components | Government | | ADB | | Private Sector(initial) | | Total(USD) | |
|------------------------------------|-------------|-------------|--------------|-------------|-------------------------|-------------|--------------|-------------|
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Component 1 :Investment Fund | | | 30.00 | 100% | 30.00 | 100% | 60.00 | 87% |
| Component 2 : Technical Assistance | 8.00 | 93% | | | | | 8.00 | 12% |
| Component 3: Project Management | 0.60 | 7% | | | | | 0.60 | 1% |
| Total Project Cost | 8.60 | 100% | 30.00 | 100% | 30.00 | 100% | 68.60 | 100% |

2.5. Project's target area and population

2.5.1 The project is intended to serve Rwanda and countries of the East African region and beyond. The total surface area of the region to be covered is 1.82 million km² including water bodies and a population of 126 million.

2.5.2 The project will support about one hundred and fifty (150) companies at various stages, invest in about twenty (20) early growth stage opportunities, and create about two thousand (2,000) direct jobs and six thousand (6,000) indirect jobs over its life (10 years + 2). RIF will aim to mobilize an initial US\$60 million in direct commitments from the government and private investors with a target fund size of USD100 million. The focus areas are: Access to smart energy and resources, smart agriculture, smart transport and logistics, digital health and medical technology, nano technology, and inclusive FinTech. As per entrepreneurial ecosystem capacity, the TA Pool will provide capacity building to over seven (7) – ten (10) incubators and accelerators, facilitate three (3) – five (5) additional angel networks, and training about thirty thousand (30,000) entrepreneurs across the region.

2.6. Participatory process for project identification, design and implementation

2.6.1 The project was designed through a participatory process. The Bank's identification, preparation and appraisal mission involved face to face discussions with all stakeholders including ICT companies, decision makers, and civil society and development partners in the region. The design process that involved Fund Documentation submitted to the Bank by the Rwanda Development Board (RDB). Reports were also discussed with relevant stakeholders including RDB, government authorities and technical staff during meetings held sometimes via conference calls and a site visit.

2.6.2 All stakeholders in the country agree that the establishment of the Fund will boost Rwanda's innovation economy and the region. This is because consultations were carried out at the highest levels across stakeholder groups both public (RDB, MYICT, MINECOFIN), and private (Angaza IM, incubators and accelerators – HeHe, Klab, Spring etc..) and Telecom operators etc., to gauge

stakeholders' buy-in and market demand for the project. In addition, the ICT Joint Sector review consultation also brought together various stakeholders from Government Institutions, the Private Sector, Academia, and Development Partners. The outcome so far has been very positive. The project also enjoys the strong support from the Government of Rwanda. The process of consultation will be continuous during implementation to ensure stakeholders' engagement.

2.7. Bank Group experience, lessons reflected in project design

2.7.1 The Bank financed a Regional Center of Excellence (CoE) in Rwanda via an ADF loan of US\$13 million, approved in 2010. The CoE aimed to address the acute shortage of advanced ICT technical skills in Rwanda and the region. The project which is operated by Carnegie Mellon University (CMU), USA, has contributed towards building technical capacity in the country and the East African region. Moreover, the project is expected to deliver about one thousand (1000) technical graduates, creating one thousand one hundred and forty two (1142) direct and indirect jobs by 2020. The outputs from CoE will be valuable to the objectives of RIF project.

2.7.2 Lessons learned from the Bank's operations in the country, and from other development partners, suggest the crucial need of ensuring high project quality at entry, and to promote public private partnership to enhance implementation capacity and ensure sustainability. Also, recent experience of the Bank with regard to the Africa Renewable Energy Fund (AREF) demonstrates the importance of a clear market and legal framework to ensure Fund closing success. The project also addresses the recent IDEV evaluations of the Bank's support to SMEs, which recommended that the Bank should go further than providing just lines of credit but in addition build capacity, to ensure segments of SMEs in greatest need are effectively served. This is reinforced by market findings, which show that entrepreneurial capacity is a key success factor in attracting venture capital investments. The RIF project takes these lessons into account. It will mobilize commitments from public and private sources, while the Fund management will be private sector led to ensure sustainability. Also entrepreneurial capacity support via the TA Pool is a key component, both at Fund and ecosystem levels.

2.8. Key performance indicators

2.8.1 Several indicators are proposed to monitor the innovation Fund (see Logframe). ***Impact indicators:*** (%) Share of ICT sector in GDP; Qualitative assessment of contribution to low carbon and climate resilient development; ***Outcome indicators:*** No. of businesses supported (gender disaggregated), No. of investee companies supported, No. of incubators/accelerators supported; No. of Entrepreneur trained; ***Output indicators:*** Fund close is achieved (initial US\$60 million and target USD100million), Technical Assistance (TA) Pool Fund and project management (US\$8.6 million), and Partnership Law enacted.

III – PROJECT FEASIBILITY

3.1. Economic and financial performance

The project is economically and financially viable as shown in the table below.

Table: Key economic and financial figures

FIRR (base case) 14.00%

EIRR (base case) 22.00%

NB: detailed calculations are available in the fund model

3.1.1 The assumptions that serve as the basis for calculations of the IRR include the underlying investments and exits from the approximate 20 companies in the fund portfolio. The FIRR is forecast to be 14.00% over the 10-year life of the fund. The fund model assumptions were reviewed by the project appraisal team. The projections were found economically viable and aligned with return expectations for similar fund range (ICT venture capital).

3.1.2 The EIRR calculation reflects the IRR return, plus the additional estimated economic impacts of the project, including the following jobs: 1) High value employment of about 20 engineers / managers in each portfolio investee company 2) Employment of about 20 support staff per investee company 3) Employment of professionals in support services around the company, estimated at 60 per investment such as marketing, accounting, tourism, audit, security, cleaning, and renovation. Total jobs that would be created by the project is estimated at 2,000.

3.1.3 The project is also expected to generate additional unqualified benefits from improved governance, and other social benefits such as competitiveness, improved skills in the economy, export of ICT and business model to other countries, improved financial market enabling business environment, and robust capacity for public and private sector. Investee tax revenues would also add to returns, from a GoR perspective.

3.2. *Environmental and Social impacts*

3.2.1 In accordance with the Bank's Environmental and Social Management Guidelines and Procedures and the Integrated Safeguards System (ISS), the proposed project is classified as Category 4C on account of the fact that the portfolio of projects to be financed will be low on Environmental and Social (E&S) risks, mostly ICT-based solutions and services such as access to clean energy, digital health solutions and medical technology that will not pose significant negative environmental impacts. The project interventions are not expected to include development of physical infrastructure, and any impacts that could arise will be managed using the existing environmental and social protocols that Fund Manager has already developed for its existing portfolio. In addition, a number of the investments to be financed will include those promoting use of cleaner and green technologies, such as clean energy, with overall positive impacts to the environment.

3.2.2 To ensure that the Fund operations in Rwanda and within the region will comply with environmental and social requirements, Fund Manager will develop a comprehensive Environmental and Social Management System (ESMS) dedicated to Fund operations. The Government of Rwanda, through its Ministry of Finance and Economic Planning has already provided commitment to ensure that Fund Manager develops this ESMS. Fund Manager has provided to the Bank an ESMS policy framework which defines the company's approach and procedures for managing environmental and social risk which are to be applied in tandem with all other risk management procedures and fully integrated at each stage of the investment process. This will further be elaborated in a comprehensive ESMS to be developed for the project by the Fund Manager. The ESMS will be disclosed in the Fund manager's website in compliance with ADB requirements for Category 4 projects.

3.2.3 In addition to the ESMS, the Government of Rwanda and other potential beneficiary RMCs have robust environmental laws and frameworks in place, which are supported by a range of environmental policies which the Fund will be expected to comply with.

3.2.4 For effective implementation of the ESMS, all team members – at the investment sourcing level, deal making level, portfolio management, business development and risk assessment levels – are fully trained and required to analyse Environmental and Social Governance (ESG) issues in their processes to ensure that the established principles are followed through at all stages. As further commitment to ensure that the ESMS becomes an integral part of investment processing and implementation, the Fund Manager is committed to place ESMS implementation oversight at the highest management level, to be coordinated by the Company CEO as the main point of contact, supported by the Compliance Officer having direct responsibility to ensure compliance.

3.2.5 ***Climate Change and Green Growth:*** Since the project activities are not expected result in the construction of significant infrastructure the Climate Safeguards Screening Tool is not applicable. Similarly, the project is not expected to generate significant greenhouse gas emissions therefore the GHG accounting and reporting tool is not applicable. However, the selection criteria for projects should include consideration of GHG emissions and encourage low carbon and climate resilient technologies and business models.

3.2.6 The project is expected to contribute to the development of clean energy, low carbon and climate resilient technologies and as such will help to mitigate greenhouse gas emissions and reduce vulnerability to climate change. Since the project is a fund which will contribute to multiple ICT businesses, it is not possible to assess accurately the mitigation or adaptation commitments at the outset. Contribution to low carbon and climate resilient technologies will be assessed during the monitoring and reporting phase.

3.2.7 ***Gender and Social Effects:*** The proposed project is expected to directly and indirectly contribute to job creation, and youth and women are expected to benefit from the eight thousand (8,000) jobs to be created over the project period. Although the structure of the Fund beneficiaries cannot be pre-determined at this time, it is expected that a portion of the proposed projects will directly benefit businesses that are owned by women as well as youth entrepreneurs. The project also focus area is to facilitate women and youth in ICT capacity building projects through talent detection, financial support and mentorship.

3.2.8 ***Climate change effects:*** The proposed project is not expected to have any negative impacts related to greenhouse gas (GHG) emissions and will mostly be climate neutral from a GHG emissions perspective.

IV – IMPLEMENTATION

4.1. ***Implementation arrangements***

4.1.1 **Executing Agency** : The Ministry of Finance and Economic Planning (MINECOFIN) will be the executing agency. MINECOFIN will assign a project administrator and the Accountant General's Office to coordinate the capital calls with the Fund Manager and monitor the fund investments. The Project fiduciary responsibilities will rest with MINECOFIN, specifically with the existing Single Project Implementation Unit (SPIU), which will handle the day to day financial

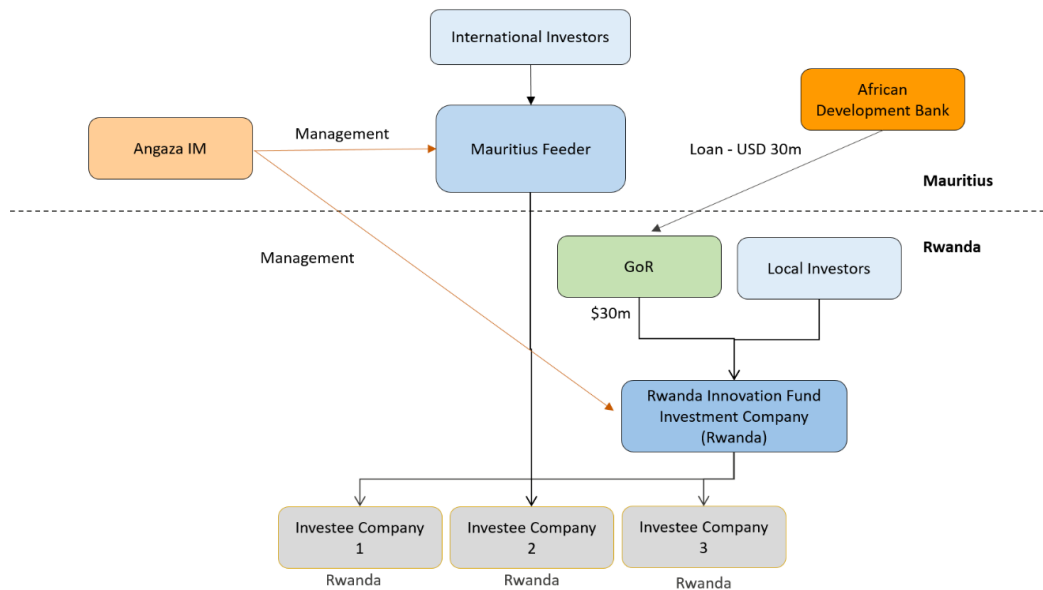
management of the project. Technical and operational support will be the responsibility of Rwanda Development Board (RDB). A Steering Committee will be established, consisting of representatives from the Ministry of ICT, the Ministry of Finance and Economic Planning, RDB, Kigali Innovation City (KIC) educational institution, and Bank's Field Office to ensure oversight and monitoring. It will meet biannually to review progress. The implementation of the project shall be carried out through a project administrator, under MINECOFIN. See Annex-B3 for further details on MINECOFIN and RDB and its institutional set-up.

4.1.2 An assessment made by the Bank on the capacity of RDB revealed that it has adequate staff to support the government activities. RDB has previously implemented investment projects on behalf of the Government. The project administrator at MINECOFIN and support staff at RDB are engaged and paid by the Government.

4.1.3 **The role of the Fund Manager:** The Fund will be managed by Angaza IM, with an associated Investment Committee comprised of subject matter experts, and an Advisory Board. Angaza IM is a fund management company that will be incorporated in Rwanda, made up of seasoned international investment professionals with over 50 years cumulative hands-on experience in private equity and debt vehicles, in emerging and developed markets - investing, value creation - including operations, management, and governance, and exiting technology enabled ventures. The team also has rich EAC regional experience managing big companies and SMEs at senior management levels. The team has deployed capital across industries from early stage financing and business development to growth/mature stage ventures via flagship alternative investment funds. The fund Manager is obliged to raise private sector contributions of USD70Million, thereby achieving a target fund size of USD 100Million. The fund Manager is entitled to a 2% management fee on the fund size.

4.1.4 Since there is no Limited Liability Partnership law in place, the fund manager has proposed the following structure for the fund under the Limited Partnership Agreement. The proposed fund structure has been reviewed and has been found acceptable to welcome both local and international investors.

Rwanda Innovation Fund - Structure



4.1.5 Overall Commitment: The Fund will mobilize Limited Partners' (LP) commitments from Public investors - US\$30 million (ADB Public Loan to GoR) and target Private investors (led by the Fund Manager) - initial US\$60 million and target fund size of USD100 Million, including Fund Manager's 1% commitment. The Fund Manager has progressed on attracting international and commercial investors.

4.1.6 Public Commitment: A loan of US \$30 million will be provided by the AfDB to the Government of Rwanda through the sovereign loan window. The Government of Rwanda will then commit said amount to the Rwanda Innovation fund as a Limited partner (Anchor Investor). The term of the fund will be 10 Years from the date of the final closing, plus an optional 2 year extension, unless earlier terminated pursuant to the terms of the Fund's Governing document.

4.1.7 Capital Calls: The fund will make Capital calls on an "as needed" basis. Capital contributions will generally be due, upon not less than 10 business days' prior notice, as such times and in such amounts as will be specified in capital calls issued by or on behalf of the Fund. The fund may draw down commitments from the partners to make investments at any time from the initial closing through the 5th Anniversary of the last day of the month of the Final closing. Proceed of the sale or other disposition of investments other than short terms investments of excess cash generally will not be subject to reinvestments and, once distributed, generally will not be subject to recall.

4.1.8 Distributions: Both Public and Private investors are to receive distribution as LPs. Distribution waterfall (Tier 1 - Return of capital - 100% to LP's; Tier 2 - Preferred return (6% return - 'hurdle') - 100% to LP; Tier 3 - Catch up (20% return) - 80% to GP/20% to LP; and Tier 4 - Exits/Carry (anything over 20% return) - 80% to LP/20% to GP). The distribution waterfall provides a strong financial performance incentive for the Fund Manager or GP to further achieve higher return for the LP as well.

4.1.9 Focus areas and portfolio: The focus areas of investment are smart energy and resources, smart agriculture, smart transport and logistics, digital health and medical technology, and nano technology. The Fund's portfolio is expected to be comprised of 3 categories:

- Rwanda-based (Headquarter in Rwanda or some operation in Rwanda) - 30-40% of investments
- Regional/ East Africa initial focus – 30-40% of investments
- Tech-transfer from international companies setting up local operators & Wider African market – 30-40% of investments

On all 3 categories, the Fund Manager has developed a strong prospective pipeline of investments which exceeds the target fund size (\$60m).

4.1.10 Restrictions: The fund will not invest more than 10% of the total commitments in a single portfolio investment.

4.1.11 Disbursement Arrangements

On fulfilment of disbursement conditions, the proposed loan of US 30 million will be disbursed using a transaction based disbursement method, referred to as the special account method. All Bank disbursement methods will be available to the project including direct payments. The Bank will disburse the funds into a foreign currency (USD) account opened by the GoR at the BNR to receive the proceeds of the RIF project. Disbursements under the ADB loan will be made in accordance with the Bank's rules and procedures as laid forth in the Disbursement handbook, which will be accompanied by a Bank's Disbursement Letter, the contents of which will be discussed and agreed during negotiations. Disbursements into the special account will be based on a six month cash flow projection aligned with the Fund Manager's capital calls and an agreed work plan. Actual expenditures shall be replenished through submission of withdrawal applications supported by Statements of Expenditures (SOE). The opening of a foreign currency special account will be a one of the condition of the loan.

4.1.12 Financial Management

The overall conclusion of the FM Assessment is that the FM arrangements for the Rwanda Innovation Fund Project satisfy the Bank's requirements, under its Financial Management Policy for Bank financed operations and Implementation Guidelines; to provide with reasonable assurance, accurate, complete, and timely information on the status of the execution of the project. The overall assessed fiduciary risk is deemed moderate for the RIF project. The Project fiduciary responsibilities will rest with MINECOFIN, specifically with the existing Single Project Implementation Unit (SPIU), which will handle the day to day financial management of the project. The RIF project will use the existing FM arrangements at MINECOFIN – SPIU and may hiring of any additional FM staff for this project. The SPIU, which has prior experience managing Bank financed operation, is adequately staffed with qualified permanent FM personnel and uses all FM tools (including Smart IFMIS), procedures, and manuals of MINECOFIN; which are deemed adequate to implement the project based on the overall assessment of Rwanda's Public Financial Management (PFM) system including that of the Executing Agency - MINECOFIN as enforced by the Rwandan 2013 Organic Law on State Finances and Property (N° 12/2013/OL of 12/09/2013).

The GoR has a Government Internal Audit Unit headed by a Chief Internal Auditor – CIA- within MINECOFIN. The GoR internal controls are generally comprehensive, codified, sound, understood, and adequately implemented. As part of its mandate and based on its internal risk based approach, the Government Internal Audit Unit will include in its annual work programs for the years of the project, the review of the RIF project as part of its review of the MINECOFIN - SPIU. The detailed FM arrangements are described in the Technical Annex (B4) of this project.

4.1.13 Audit

In line with current practices and as governed by the financial regulations under the Organic Law on State Finances and Property, MINECOFIN – SPIU will submit quarterly progress reports within forty-five (45) days of each quarter’s end showing cash receipts by sources and expenditures by main expenditure classifications as well as highlighting issues that require management attention. At the end of each fiscal year and at project closure, the Project shall prepare annual financial statements which will be audited by the Office of the Auditor General as part of its statutory mandate, in accordance with International Standards on Auditing and using agreed upon Bank’s Terms of Reference (TORs) for external audit. The audit report, complete with a Management Letter, will be submitted to the Bank no later than six months after the end of the fiscal year.

4.1.14 Procurement Arrangements

Procurement of goods and the acquisition of consulting services, financed by the Bank under this project, will be in accordance with the “*Procurement Framework for Bank Group Funded Operations*”, dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, procurement would be carried out following:

- **Borrower Procurement System (BPS):** Specific Procurement Methods and Procedures (PMPs) under BPS comprising the Public Procurement Law N°12/2007 of 27/03/2007 on as modified and completed by the Law N°05/2013 of 13/02/2013 and ministerial order n° 001/14/10/tc of 19/02/2014 establishing regulations on public procurement, standard bidding for the procurement of technical service and audit services to be entailed under the project.
- **Procurement of Fund Manager** - The selection of the Fund Manager, Angaza IM, followed an unsolicited procurement process involving cross functional government agencies, leading to direct negotiations with the Government of Rwanda (GoR). With a young ICT sector and nascent asset management sector, GoR was focused on taking a partnership approach with the Fund Manager (FM), given the unique objective and timing of the RIF. More than simply a professional investor, it is critically important that the FM be not only well versed in the inner workings of the local ICT sector, but also willing to engage in broader sector development. The targeted investee companies are expected to be at a stage of development, where FM engagement in all aspects of scaling and growing the enterprise, will be needed. Angaza fit the unique profile of being able to be a sophisticated financial investor, while offering operational expertise and ecosystem development, within a Rwandan and Regional context. Specifically, GoR’s focus was on the below three factors:

(1) **Profile & Investment Philosophy** - The Angaza Investment Management is an emerging markets sustainable impact investing firm. Their Vision is making Africa-born global companies a transformation force for good and with a mission to create fast growing companies that catalyze

positive impact at scale. They seek to invest in leapfrog solutions, paving the way for a sustainable exponential development trajectory, not following the path of incumbent players; (2) **Team experience investing and operating locally** – Angaza has an experienced team of growth and technology investors together with multiple-times entrepreneurs, public and private companies’ board members and top business executives with extensive experience in investing, growing and driving companies and innovations in emerging markets (Africa, India, Asia) and developed markets (Israel, Silicon Valley, UK); (3) **History & Relationship** – The FM’s history and relationship with GoR traces back to late 2012, when the idea for the RIF was originally conceived. Since then, the FM has patiently and consistently worked with GoR to bring the RIF to fruition. The FM’s resilience and long-term strategy combined with the principals’ extensive ties and relationships within both the GoR and private sector, position it as a clear choice to fulfill the role. In conclusion, Angaza IM have demonstrated what they are capable of contributing to the long term development of the innovation community in East Africa. It is on that basis that the GoR executed an MOU with Angaza IM to perform the role of Fund Manager for the Rwanda Innovation Fund upon their undertaking to continue to be a key participant at all stages of the innovation life cycle from early start-up stage all the way to IPO stage. The Bank reviewed the terms and conditions of the signed memorandum and found them acceptable. Angaza IM shall incorporate a local entity in Rwanda called Angaza IM Rwanda which shall be the Fund Manager. Further, it was agreed that Angaza IM will submit its Certificate of Incorporation or Article of Association to the Bank for review and acceptance in order to establish its eligibility with regards to the Rule of Origin.

The assessment of procurement risks at the country, sector, and program levels and of procurement capacity at the executing agency, were undertaken for the program and the outputs have informed the decisions on the procurement regimes being used for specific transactions or groups of similar transactions under the program. The details of these are available in B5 of the Technical Annex.

4.2. Monitoring

4.2.1 Monitoring will be based on the Project log-frame, using project resources. The project administrator will be responsible for monitoring, and report regularly to the Steering Committee and to the Bank. Another level of monitoring will be through quarterly progress reports, annual audits and Bank supervision missions. In addition, ad hoc supervisions may be undertaken as the need arises. The proposed Project will support M&E capacity development.

| <u>Timeframe</u> | <u>Milestone</u> | <u>Monitoring process / feedback loop</u> |
|------------------|--|--|
| April 2018 | Project team is in place. Project launched. | Completed ToR to recruit 3 – 5 TA experts to support the TA pool component |
| June 2018 | Launch Request for Proposals for the recruitment of the TA experts | Individual contract signed with the selected TA experts |
| August 2018 | Recruit TA experts | TA experts start work |
| October 2018 | Start operation of the Fund | Fund Manager |
| December 2018 | Capital calls & monitoring investments | Quarterly Progress Reports Supervision missions |
| June 2019 | Capital calls & monitoring investments | Quarterly Progress Reports Supervision missions |
| December 2019 | Capital calls & monitoring investments | Quarterly Progress Reports Supervision missions |
| June 2020 | Capital calls & monitoring investments | Quarterly Progress Reports Supervision missions |
| December 2020 | Capital calls & monitoring investments | Quarterly Progress Reports Supervision missions |
| December 2022 | Project completed | Last Quarterly Progress Reports. PCR mission planned |

4.3. Governance

4.3.1 The Fund will have a two-tier governance comprising an Advisory Committee (AC) and Investment Committee (IC). The AC will consist of at least 5 LP representatives designated by the General Partner. The General Partner will serve as the chairman of the Advisory Board. The Advisory Board will meet to review conflicts of interest, which may arise as well as other matters as further described below and in the Partnership Agreement. Members of the Advisory Board will be indemnified by the Fund to the fullest extent permitted by law.

4.3.2 The IC shall consist of at least 3 key principals. Investment Committee will be responsible for vetting and approving all proposed investments to be made on behalf of the Fund. The Investment Committee will meet periodically and ad-hoc, as necessary, to determine whether or not to pursue the business opportunity proposed by the portfolio managers.

4.3.3 The coverage team is responsible for leading Fund Manager's engagement with each portfolio company. This work involves monitoring business, financial and other developments at the company and maintaining an updated financial model and assessment of fair value. The coverage team regularly updates the IC on developments relating to portfolio companies. In addition, the Fund Manager will appoint a Fund's administrator and an independent Auditor in line with Private Equity industry practice. During the appraisal, the team found that the governance is reasonably structured based on private sector's perspective in order to manage the fund.

4.3.4 With regard to the ICT sector, the Government of Rwanda National Information Communication Infrastructure (NICI) plan process, which coincides with Vision 2020, focuses on creating the necessary enabling environment that would enable the establishment and growth of Rwanda's ICT sector. Emphasis was placed on establishing the appropriate institutional, legal and regulatory framework, liberalization of the telecoms market, and reduction of entry barriers to the telecom market as well as an effective implementation and co-ordination mechanism. The NICI plan called for a stable and clear governance structure to be put in place and made clear to all stakeholders.

4.3.5 For the present project, a Steering Committee will be established during implementation to oversee the overall management and operations of the project. The Project Administrator will report to the Steering Committee and the Bank on a regular basis.

4.4. Sustainability

4.4.1 The Fund aims to be sustainable through its expected tenor of (ten) 10 years, with a disciplined investment approach and individual investment restrictions as stated in the term sheet. The Fund will not invest more than 10% of the total commitments in a single portfolio investment. Only a portion of this restriction will be eligible for initial investment, allowing for available capacity should follow-on investments be needed. The aim of the Fund is to also develop and expand the companies it invests in, to where they are better able to access any future financing needs from alternative sources, including other private and public capital. The Fund Manager is responsible for ensuring the restrictions are adhered to, so as to ensure that risks are spread across multiple investments and investments can leverage on this to ensure they are sustainable.

4.4.2 The Fund Manager will aim to be a majority shareholder and at a minimum a sizable minority shareholder, taking directorships on boards of the beneficiary businesses. This will enable the Fund Manager to provide mentoring to the leadership teams throughout the company's growth through the in-house team, the TA pool or through its network of partners. With this process, the beneficiary

businesses will be supported to transition from a small-scale founder or family business to an institutional corporate structure. The Fund Manager will consult, advise and demand the highest standard of governance and guide the company’s management throughout the growth stages of the businesses. This access to fund manager experience as well as to guidance and mentoring will be a critical sustainability factor as the beneficiary companies would retain the capacity developed. Ultimately, the Fund will aim to exit these companies, once they have matured and reached a sustainable growth rate, allowing them to be independently managed and financed. Thus, the Fund Manager's incentives are directly aligned with developing a portfolio of indefinitely sustainable enterprises.

4.5. Risk management

4.5.1 The project has identified key risks that may negatively affect project outputs and outcomes. The table below presents the main risks, which is elaborated in the results-based logical framework.

| Risk | Rating | Risk Mitigation Factors |
|--|-----------------|--|
| <i>Fund Raising</i> | Low - Medium | Public commitment to the Fund is already secured, while private commitment led by the Angaza IM is firm, towards closing the Fund. There is an indicative list of investors with corresponding commitments already lined up. The investors are happy with the proposed structure of the Fund and project in general, and have comfort with the Bank’s intervention. |
| <i>Entrepreneurial Capacity</i> | Low | Entrepreneurial capacity is critical to ensure success of the RIF project. The project via the TA Pool adopts a deliberate multi-year programmatic approach to address entrepreneurial capacity building both at the Fund and ecosystem levels, as well as business development activities for investee companies of the Fund. Key partners such as MIT, Singularity and services providers are fully engaged. |
| <i>Deal Pipeline</i> | Medium | Angaza IM has developed a strong propriety pipeline of deals. The Fund manager is adopting a proactive and active involvement in business development and value creation. |
| <i>Regulatory</i> | Low - Medium | To attract private investment in Fund vehicle in Rwanda and to support the domiciliation of investment vehicles, the necessary policies and contractual arrangements between investors and the relevant Government agencies will be put in place. |

4.6. Knowledge building

4.6.1 The establishment of the Innovation Fund will generate knowledge on project financing and equity investment for Rwanda, the EAC region and the Bank. The process for design of this project involving the setup of the legal entities in Rwanda and Mauritius respectively, enhance the capacity and scale of select incubators, tech hubs, and accelerators, and facilitate angel networks, and launch an annual \$100k venture competition in partnership with the private sector. This project also provide capacity building both at the fund and ecosystem level, leveraging off the investments of the RIF, and anticipated follow-on investments.

4.6.2 The Bank will use the knowledge generated to study, design and implement Innovation Funds in other countries. This knowledge will be available through documents and web sites as well as exchange of experience between the project staff and experts in Rwanda.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. *Legal Instrument*

The proposed project shall be financed through a Loan agreement to be signed between the African Development Bank (the “Bank”) on the one part, and the Republic of Rwanda (as Borrower) on the other part for an amount of USD 30 million.

5.2. *Conditions associated with the Bank’s intervention*

Conditions precedent to Entry into force of the Loan Agreement: The Loan agreement shall enter into force upon the fulfilment by the Borrower of the conditions set forth in Section 12.01 of the *General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Bank (Sovereign Entities)*.

Conditions precedent to First Disbursement: The obligations of the Bank to make the first disbursement of the Loan shall be conditional upon the entry into force of the Loan Agreement and the submission by the Borrower, evidence in form and substance satisfactory to the Bank, of the fulfilment of the following conditions:

- Legal opinion issued by counsel to the Fund confirming that the Fund has been duly established and has the requisite power and licenses required within Rwanda for the exercise of its functions and obligations under the Project with the copies of the incorporation documents of RIF attached to same;
- Legal opinion issued by the company secretary of Angaza IM Rwanda confirming that it has been duly established and has the requisite power and licenses required within Rwanda for the exercise of its functions and obligations under the Project with copies of the incorporation documents of Angaza IM Rwanda attached to same;
- Executed copy of Management Agreement signed between Angaza IM Rwanda and the Government of Rwanda on the administration of the Fund.
- Board resolution of Angaza IM Rwanda authorising Angaza IM Rwanda to manage the Fund
- A letter of commitment from the other private investors totalling USD30M as proof that amounts equal to the initial Fund size of USD 60 million have been secured
- Evidence of the establishment of the Project Team, whose qualifications are acceptable to the Bank

Other Conditions: The Borrower shall provide evidence, in form and substance satisfactory to the Bank, of the fulfilment of the following conditions:

- The establishment of Environmental and Social Management System (ESMS) within three (3) months of first disbursement;
- Opening of a special account prior to first disbursement;
- Evidence of the establishment of Steering Committee, whose qualifications and experience are acceptable to the Bank within six (6) months of first disbursement.

Undertaking: The Borrower undertakes to submit to the Bank, regular quarterly progress reports in relation to the Project.

- To implement the ESMSP and report to the Bank on a quarterly basis, as part of the quarterly progress report;
- To implement the Project and have it implemented by its contractors in accordance with: (a) the rules and procedures of the Bank; (b) national law; and (c) recommendations and procedures contained in the Project Environmental and Social Management System (ESMS); and
- To facilitate Bank's oversight through procurement audits to be conducted concurrently and upon completion of the Project.

5.3 Compliance with Bank Policies

5.3.1 This project complies with all applicable Bank policies.

VI – RECOMMENDATION

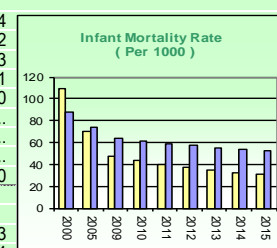
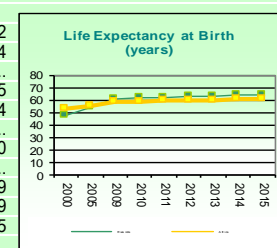
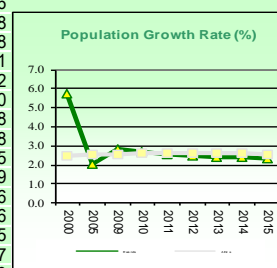
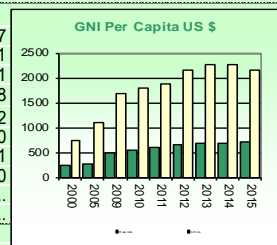
Management recommends that the Board of Directors approve the proposed ADB loan of USD 30 million to the Government of Rwanda for the purposes and subject to the conditions stipulated in this report.

Appendix I: Country's comparative socio-economic indicators

Rwanda

COMPARATIVE SOCIO-ECONOMIC INDICATORS

| | Year | Rwanda | Africa | Developing Countries | Developed Countries |
|---|-----------|--------|---------|----------------------|---------------------|
| Basic Indicators | | | | | |
| Area ('000 Km²) | 2016 | 26 | 30,067 | 97,418 | 36,907 |
| Total Population (millions) | 2016 | 11.9 | 1,214.4 | 6,159.6 | 1,187.1 |
| Urban Population (% of Total) | 2016 | 32.0 | 40.1 | 48.7 | 81.1 |
| Population Density (per Km²) | 2016 | 481.7 | 41.3 | 65.1 | 33.8 |
| GNI per Capita (US \$) | 2015 | 700 | 2 153 | 4 509 | 41 932 |
| Labor Force Participation *- Total (%) | 2016 | 84.9 | 65.7 | 63.5 | 60.0 |
| Labor Force Participation **- Female (%) | 2016 | 86.3 | 55.7 | 48.9 | 52.1 |
| Sex Ratio (per 100 female) | 2016 | 92.0 | 100.1 | 106.0 | 105.0 |
| Human Develop. Index (Rank among 187 countries) | 2015 | 159 | ... | ... | ... |
| Popul. Living Below \$ 1.90 a Day (% of Population) | 2013 | 60.4 | ... | 12.6 | ... |
| Demographic Indicators | | | | | |
| Population Growth Rate - Total (%) | 2016 | 2.4 | 2.5 | 1.3 | 0.6 |
| Population Growth Rate - Urban (%) | 2016 | 6.1 | 3.6 | 2.4 | 0.8 |
| Population < 15 years (%) | 2016 | 40.6 | 40.9 | 27.9 | 16.8 |
| Population 15-24 years (%) | 2016 | 19.3 | 19.3 | 16.9 | 12.1 |
| Population >= 65 years (%) | 2016 | 2.9 | 3.5 | 6.6 | 17.2 |
| Dependency Ratio (%) | 2016 | 76.8 | 79.9 | 54.3 | 52.0 |
| Female Population 15-49 years (% of total population) | 2016 | 25.8 | 24.0 | 25.7 | 22.8 |
| Life Expectancy at Birth - Total (years) | 2016 | 65.3 | 61.5 | 69.9 | 80.8 |
| Life Expectancy at Birth - Female (years) | 2016 | 67.8 | 63.0 | 72.0 | 83.5 |
| Crude Birth Rate (per 1,000) | 2016 | 30.5 | 34.4 | 20.7 | 10.9 |
| Crude Death Rate (per 1,000) | 2016 | 6.6 | 9.1 | 7.6 | 8.6 |
| Infant Mortality Rate (per 1,000) | 2015 | 31.1 | 52.2 | 34.6 | 4.6 |
| Child Mortality Rate (per 1,000) | 2015 | 41.7 | 75.5 | 46.4 | 5.5 |
| Total Fertility Rate (per woman) | 2016 | 3.7 | 4.5 | 2.6 | 1.7 |
| Maternal Mortality Rate (per 100,000) | 2015 | 290.0 | 476.0 | 237.0 | 10.0 |
| Women Using Contraception (%) | 2016 | 54.1 | 31.0 | 62.2 | ... |
| Health & Nutrition Indicators | | | | | |
| Physicians (per 100,000 people) | 2005-2015 | 5.5 | 41.6 | 125.7 | 292.2 |
| Nurses and midwives (per 100,000 people) | 2005-2015 | 67.8 | 120.9 | 220.0 | 859.4 |
| Births attended by Trained Health Personnel (%) | 2010-2015 | 90.7 | 53.2 | 69.1 | ... |
| Access to Safe Water (% of Population) | 2015 | 76.1 | 71.6 | 89.4 | 99.5 |
| Access to Sanitation (% of Population) | 2015 | 61.6 | 39.4 | 61.5 | 99.4 |
| Percent. of Adults (aged 15-49) Living with HIV/AIDS | 2015 | 2.9 | 3.4 | ... | ... |
| Incidence of Tuberculosis (per 100,000) | 2015 | 56.0 | 240.6 | 166.0 | 12.0 |
| Child Immunization Against Tuberculosis (%) | 2015 | 99.0 | 81.8 | ... | ... |
| Child Immunization Against Measles (%) | 2015 | 97.0 | 75.7 | 83.9 | 93.9 |
| Underweight Children (% of children under 5 years) | 2010-2015 | 11.7 | 18.1 | 15.3 | 0.9 |
| Prevalence of stunting | 2010-2014 | 44.3 | 33.3 | 25.0 | 2.5 |
| Prevalence of undernourishment (% of pop.) | 2015-2016 | 31.6 | 16.2 | 12.7 | ... |
| Public Expenditure on Health (as % of GDP) | 2014 | 2.9 | 2.6 | 3.0 | 7.7 |
| Education Indicators | | | | | |
| Gross Enrolment Ratio (%) | | | | | |
| Primary School - Total | 2010-2016 | 133.6 | 101.2 | 104.9 | 102.4 |
| Primary School - Female | 2010-2016 | 135.1 | 98.4 | 104.4 | 102.2 |
| Secondary School - Total | 2010-2016 | 39.1 | 52.6 | 71.1 | 106.3 |
| Secondary School - Female | 2010-2016 | 40.9 | 50.2 | 70.5 | 106.1 |
| Primary School Female Teaching Staff (% of Total) | 2010-2016 | 53.3 | 47.1 | 59.8 | 81.0 |
| Adult literacy Rate - Total (%) | 2010-2015 | 71.2 | 66.8 | 82.3 | ... |
| Adult literacy Rate - Male (%) | 2010-2015 | 74.7 | 74.3 | 87.1 | ... |
| Adult literacy Rate - Female (%) | 2010-2015 | 68.3 | 59.4 | 77.6 | ... |
| Percentage of GDP Spent on Education | 2010-2015 | 5.0 | 5.0 | 4.0 | 5.0 |
| Environmental Indicators | | | | | |
| Land Use (Arable Land as % of Total Land Area) | 2014 | 46.6 | 8.7 | 11.2 | 10.3 |
| Agricultural Land (as % of land area) | 2014 | 73.3 | 41.7 | 37.9 | 36.4 |
| Forest (As % of Land Area) | 2014 | 19.2 | 23.2 | 31.4 | 28.8 |
| Per Capita CO2 Emissions (metric tons) | 2014 | 0.1 | 1.1 | 3.5 | 11.0 |



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

June 2017

UNAIDS; UNSD; WHO, UNICEF, UNDP: Country Reports.

Note : n.a. : Not Applicable; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Appendix II: Table of ongoing portfolio in the country

List of active projects (loans and grants) by Sector:

| | Project | Instrument | Total approved (UA m) | Date Approved | Closing Date | Disb. Rate (%) |
|----|--|--------------|-----------------------|---------------|--------------|----------------|
| | AGRICULTURE | | | | | |
| 1 | FIP Investment Preparation Plan | Grant | 0.71 | 28-Jun-16 | 31-Dec-18 | 85.8 |
| | SUB-TOTAL AGRICULTURE | | 0.71 | | | 85.8 |
| | WATER AND SANITATION | | | | | |
| 2 | Water and Sanitation Masterplan | AWF Grant | 1.55 | 21-Nov-16 | 30-Dec-20 | 5.5 |
| 3 | Sustainable Water Supply and Sanitation Project | ADB Loan | 85.63 | 17-Nov-17 | 30-Dec-21 | 0 |
| | Sustainable Water Supply and Sanitation Project | AGFT Loan | 35.34 | 17-Nov-17 | 30-Dec-21 | 0 |
| | SUB-TOTAL WATER & SANIT. | | 122.52 | | | 5.5 |
| | TRANSPORT | | | | | |
| 4 | Base Nyagatare | | 49.03 | 19-Nov-14 | 31-Dec-19 | 22.9 |
| | SUB-TOTAL TRANSPORT | | 49.03 | | | 22.9 |
| | ENERGY | | | | | |
| 5 | Scaling Up Energy Access Project | ADF Grant | 11.87 | 26-Jun-13 | 31-Aug-18 | 50.2 |
| | Scaling Up Energy Access Project | ADF Loan | 15.49 | 26-Jun-13 | 31-Aug-18 | 68.1 |
| 6 | Additional Financing for Scaling Up Energy Access Project | ADF Loan | 2.2 | 30-Mar-17 | | 0 |
| 7 | Increasing Climate Change Adaptive Capacity of Rwandan Communities | GEF-Grant | 6.46 | 23 Nov-16 | 30 Dec-20 | 0.8 |
| | SUB-TOTAL ENERGY | | 36.02 | | | 46 |
| | SUB-TOTAL INFRASTRUCTURE | | 207.57 | | | 32.2 |
| | HUMAN DEVELOPMENT | | | | | |
| 8 | Support to Skills Dev in Science & Tech | ADF loan | 6.00 | 11-Nov-08 | 31-Jun-18 | 88.3 |
| 9 | Regional ICT Centre of Excellence | ADF Loan | 8.60 | 14-Dec-10 | 31-Mar-18 | 65.6 |
| 10 | EAC-CoE In Biomedical Sciences | ADF Loan | 12.50 | 26-Sep-14 | 30-Dec-19 | 2.8 |
| | SUB-TOTAL HUMAN DEV. | | 27.10 | | | 41.7 |
| | Total National Operations | | 113.88 | | | 32.8 |
| | MULTI SECTOR | | | | | |
| 11 | Skills and Business Development Program | | 60 | 24-Nov-17 | 30-Nov-20 | 30 |
| | SUB TOTAL MULTI SECTOR | | 60 | | | 30 |
| | PRIVATE SECTOR | | | | | |
| 12 | Kivuwatt | | 17.67 | 3-Feb-11 | 15-Jun-26 | 100 |
| 13 | Kigali Bulk Water | ADB Loan | 14.64 | 16-Dec-15 | 30-Dec-18 | 0.0 |
| 14 | BRD LoC | ADB Loan | 14.45 | 16-May-17 | 16-Oct-26 | 50 |
| | SUB-TOTAL PRIVATE SECTOR | | 46.50 | | | 53.3 |
| | Total Nat. Op - Public + Private | | 341.07 | | | 26.4 |
| | MULTINATIONAL | | | | | |
| 15 | Nyamitanga-Ruhwa-Ntendezi | ADF grant | 50.62 | 16-Dec-08 | 30-Jun-18 | 95.5 |
| 16 | Regional Rusumo Falls | ADF Loan | 25.38 | 23-Nov-13 | 31-Dec-18 | 2.2 |
| 17 | Ruzizi III | ADF Loan | 1.50 | 16-Dec-15 | 31-Dec-22 | 6% |
| | Ruzizi III | ADF Loan | 16.00 | 16-Dec-15 | 31-Dec-22 | 0% |
| 18 | NELSAP Interconnection | ADF grant | 30.47 | 27-Nov-08 | 31-Dec-19 | 88.4 |
| 19 | Sustainable management of woodlands and restoration of natural forests of Rwanda | | | 29-Nov-11 | 30-Jun-18 | 93.2 |
| 20 | Rubavu-Gisiza road Project | ADF loan | 40.52 | 27-Jun-12 | 31-Dec-19 | 57.8 |
| | Rubavu-Gisiza road Project | ADF grant | 4.52 | 27-Jun-12 | 31-Dec-19 | 29.2 |
| 21 | Lake Victoria Water & Sanitation | ADF grant | 15.11 | 17-Feb-10 | 31-Jun-18 | 89.7 |
| 22 | Kagitumba Kayonza Rusumo Road Project | ADF loan | 66.56 | 22-Jun-16 | 31-Dec-20 | 14.2 |
| | | EU-Infrastr. | 15.90 | 22-Jun-16 | 31-Dec-20 | 13.5 |
| 23 | Payment & Settlement Systems Integration Project | ADF grant | 3.69 | 5-Dec-12 | 1-Jun-18 | 47 |
| | SUB-TOTAL MULTINATIONAL | | 274.80 | | | 47.9 |
| | GRAND TOTAL | | 615.88 | | | 40 |

Appendix III: Key related projects financed by the Bank and other development partners in the country

| Project - ICT Sector | Donor Country | USD |
|--|----------------------|------------|
| Training Program | Japan | 143,628 |
| Technical Assistance - Private Enterprise Partnership IFC | Netherlands | 3,000,000 |
| Enhancing ICT innovation Capacity in Rwanda | South Korea | 3,719,036 |
| Human Resource Development and Civil Service Capacity Building Project | South Korea | 3,141,818 |
| Capacity Building for Tax and Customs Service | South Korea | 1,672,999 |
| Establishment of Information Access Centre (IAC) | South Korea | 417,902 |
| Consultation on Radio Frequency Spectrum Management Policy in Republic of Rwanda | South Korea | 200,000 |

Appendix IV: Map of the Project Area

