AFRICAN DEVELOPMENT BANK

Project Summary Note

Compagnie Generale De Banque PLC

Thematic Facility:

"Supporting structural transformation in Rwanda by improving access to finance to local SMEs in transformative sectors"

Rwanda

July 2019

Borrowers:	Cogebanque is a leading, private commercial bank in Rwanda with over 19 years of operations. Its current shareholding is held by Rwandan institutions (44%), businesspersons (53%) and the balance (3%) is held by individuals. Rwanda Social Security Board (RSSB)[1] is the largest shareholder with a 43% shareholding[2]. Licensed and regulated by the National Bank of Rwanda, Cogebanque has 26 branches scattered across the country supported by numerous agents and ATMs. It provides a comprehensive range of products and services to corporate, SMEs and retail customers.
Financing Plan:	Cogebanque seeks to mobilize approximately USD 75 million to fund its pipeline of projects consisting of SMEs transactions as well expanding business operations. This proposal will fund a portion of this plan while the balance will be from internally generated resources, interbank borrowings and possible borrowings from other DFIs.
Bank's Role:	Provision of a financial package comprising: i) Up to USD 4 million LoC with an 8-year maturity, including two year grace period; and ii) Up to USD 10 million Sub-debt with an 8-year maturity, including five years grace period. *Both facilities will be availed in RwF on a best endeavor basis*.
Co-financing:	The Rwf will be availed through a bond solely issued to RSSB.
Implementation Arrangements:	The LoC and Sun-debt Agreements will govern the use of proceeds, disbursement triggers, reporting requirements as well as environmental and social compliance. Following internal approvals and fulfilment of conditions precedent, the facilities will be disbursed in a single tranche.
Market:	Rwanda has been one of the fastest growing countries internationally. It is ranked 29th globally and second in Africa (after Mauritius), as the best destination to do business (World Bank 2019 Doing Business Report). It has also made significant progress across all socio-economic indicators since 2000 and sustained an average GDP grow rate of 7.8% leading to a real GDP per capita of USD787 in 2018. In tandem, poverty headcount decreased from 56.7% in 2005/06 to 38.2% in 2016/17 while income inequality, as measured by the Gini index, decreased from 0.52 to 0.43. Despite the aforementioned growth, the gains have been on the back of low value added production contributing marginally to sustainable economic growth. At 8% of GDP, the share of manufacturing remains below par with only 4% of the labour force employed in the sector. Two thirds of the labour force is still in the agriculture sector, where productivity is the lowest. Accelerating Rwanda's economic transformation will require greater focus on high value added economic activities such as investment in industries and the service sectors by both the public and private sector. Access to finance is critical to facilitate the envisaged investment in the real sector. In November 2017, Fitch Ratings affirmed Rwanda's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Stable Outlook, while Standard and Poor's Global Ratings affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings on Rwanda. The 12-month consumer price inflation in Rwanda reduced to 3.27 from 4.84% in 2017. The financial system comprises of 17 commercial banks, 17 insurance companies and other complimentary financial services providers
Justifications for the Bank's Involvement:	
Strategic Alignment:	The proposed project is well-aligned with key Bank policies and strategies, namely the Bank Group's TYS, the High 5s and the Financial Sector Development Policy and Strategy (2014-19). In the case of the High 5s, the proposed project is aligned with all of its five pillars: *Improve the quality of life of the people of Africa, Feed Africa, Light and Power Africa, Integrate Africa and Industrialize Africa*. Furthermore, the project's aim to support Rwanda's financial sector is in line with the Country Strategy Paper (CSP) for Rwanda, which seeks to use NSO resources to help accelerate the country's transformation.
Commercial Viability:	Cogebanque is the fourth largest bank in Rwanda by assets and ranks as the third most profitable lender in the country. As at end of year 2018, its shareholder funds stood at circa USD 30 million, its Capital Adequacy Ratio was at 19% (regulatory benchmark, 15%) while it reported a Return on Assets of 2.2% and a Return on Equity of 17%. Net NPLs stood at 6.3% (industry average 10%).
Development Outcomes:	The proposed lending will avail important longer-term resources to growth-oriented SMEs focused in agribusiness and manufacturing in Rwanda and therefore enhance private sector development. This targeted lending is expected to drive job creation and revenue growth among beneficiaries at sub-project level as well as incremental tax accrual

1 RSSB is the Government agency that administers the country's social security.

2 Cogebanque Shareholders as at 31.12.2017

	to the government. Overall the facility will enable Cogebanque to contribute to poverty alleviation and sustainable economic transformation in Rwanda.
Additionality and Complementarity:	The AfDB longer tenor funds will allow Cogebanque to meet its customers' borrowing requirements particularly in industries where long-term funds are scarce/ unavailable due to the perceived risk profile of SMEs. If approved The Bank will be the first long-term lender to Cogebanque and, will significantly boost the balance sheet and potentially help attract other complementary resources. The sub-debt will enhance Cogebanque's lending ability as will form Tier II and thus facilitate the availability of more resources towards SME lending.
Pricing:	LoC Base Rate + margin: Sub debt Base Rate + Margin
Headroom:	Rwanda's current headroom is sufficient to accommodate the proposed project
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