

## Rwanda Issues First-Ever Sustainability-Linked Bond (SLB) Backed by World Bank's Innovative Financial Structure

The Development Bank of Rwanda issued its inaugural SLB through an innovative credit enhancement mechanism structured and funded by the World Bank. This sets a scalable precedent for mobilizing private capital by *de-risking* investor funds while releasing IDA resources for other projects.

This is the first time a development bank has issued an SLB globally, the first SLB in the Eastern Africa region, and the first time the Development Bank of Rwanda (BRD) has issued a bond.

### Background

According to the United Nations, Africa needs 1.3 trillion dollars annually to achieve its Sustainable Development Goals (SDGs) by 2030. That is a formidable task, given that concessional financing sources are becoming ever more scarce. Rwanda has incorporated its commitment to the SDGs in its national development agenda, [Vision 2050](#).

The Development Bank of Rwanda (BRD) has been a long-standing partner and has played a crucial role in financing key development sectors in Rwanda. However, in addition to the borrowings from development financial institutions and its own capital, BRD requires mobilizing funding in larger volumes and at attractive conditions to continue to grow its lending capacity in a sustainable manner. In a bid to diversify their funding sources and mobilize private capital, BRD decided to enter for the first time into the domestic capital market with the collaboration of the World Bank as a part of the [Access to Finance for Recovery and Resilience Project](#).

### Project and Financial Objectives

- Help BRD launch its Sustainability-Linked bond issuance program (\$24 million first tranche of the bank's \$120 million Medium Term Note (MTN) program) in alignment with BRD's strategy and Rwanda's sustainable development goals.
- Minimize the overall lending cost to the final beneficiaries.
- Contribute to domestic capital market development.



BRD's inaugural sustainability-linked bond launch at Rwanda's stock exchange. Photo: BRD

### Financial Solution

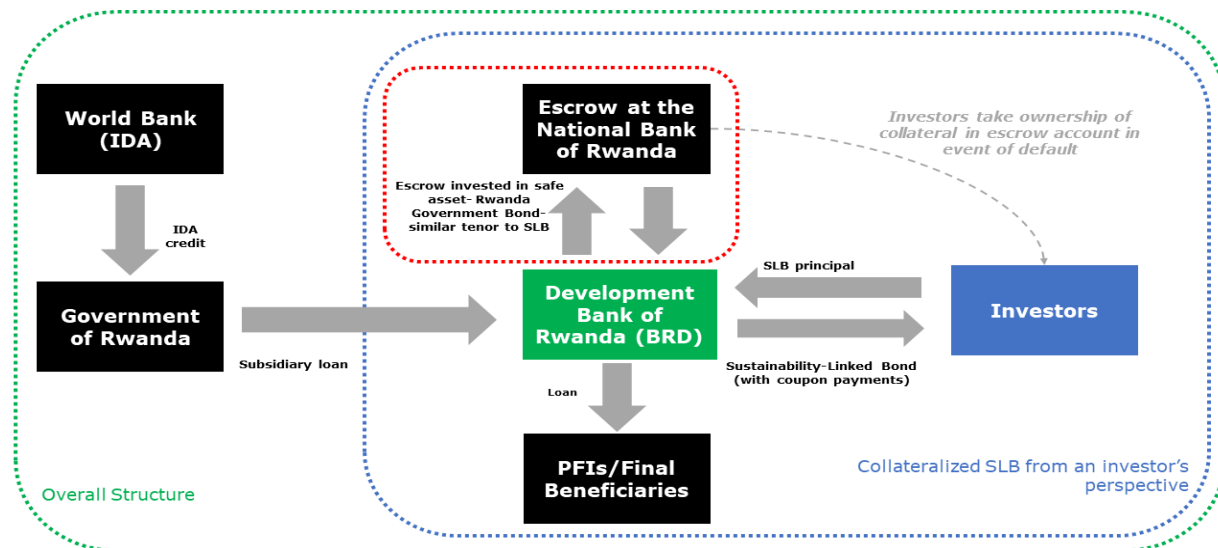
The World Bank supported BRD with the issuance of the first-ever Sustainability-Linked Bond in East Africa.

Unlike other types of sustainable bonds (green, social, or sustainability bonds), the proceeds of sustainability-linked bonds are not earmarked for particular projects. Instead, SLBs reward borrowers with lower interest repayments for meeting specific key performance indicators (KPIs) related to sustainable development.

For BRD's SLB, the key performance indicators include (i) improving environmental, social, and governance (ESG) systems and practices of Participating Financial Institutions from 0 to 75 percent, (ii) increasing funding to women-led projects from 15 to 30 percent of the bank's portfolio, and (iii) financing 13,000 affordable housing units by 2028. Depending on the number of targets BRD meets, the coupon payments will decrease between 0 and 40 basis points.

One of the most innovative features of BRD's sustainability-linked bond is the credit enhancement mechanism to decrease the cost of borrowing. To enhance BRD's credibility in the market, BRD funded an escrow account (\$10 million for the initial issuance), set up at the National Bank of Rwanda to be used as collateral in the event of a default by BRD, and to be invested into risk-free government of Rwanda bonds to reduce the overall cost of the structure. This account is funded via a loan from the Government of Rwanda—which was financed by the World Bank [lending operation](#).

## Bond Structure and Transaction Details



## Outcome

The bond allowed BRD to diversify its funding away from government resources. The bond was oversubscribed drawing demand from 100+ different investors. The credit enhancement and the SLB features were well received by the investors, allowing BRD to provide end borrowers with new lending at a rate that is half - through the credit-enhancement, the reinvestment yield and the coupon step-down - of what it would have been if BRD passed through the 14 percent terms from a plain vanilla issuance.

Issued in Rwandan Franc, the bond also reduces risks due to foreign exchange fluctuations. As this is the first sustainability-linked bond issuance in Rwanda, it contributes to domestic market development, paving the way for other potential issuers, including the government itself, and corporations.

The approach used in Rwanda has the potential to be scaled up and replicated in other low-income countries, pushing the World Bank and other Multilateral Development Banks towards more innovative impactful financing solutions.

## World Bank's Role

The World Bank's Finance, Competitiveness & Innovation Global Practice and Treasury worked together to:

- Structure and fund the innovative credit enhancement mechanism,
- Provide technical assistance for defining and calibrating the key performance indicators,
- Support preparation of the SLB framework,
- Support the selection of financial and legal advisors
- Review key transaction documents, including the investor presentation, pricing supplement, and collateral agreement.
- Reach out to potential international investors for interest

## SLB Key Facts

<b>Issue date</b>	October 27, 2023
<b>Amount</b>	RWF 30bn (\$24 million equivalent)
<b>Tenor</b>	7 years
<b>Coupon/Yield</b>	12.85%

<b>Scenarios</b>	<b>Step-down</b>
1 KPI achieved	0 bps
2 KPIs achieved	20 bps
3 KPIs achieved	40 bps

### Project Team

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