Kigali International Financial Centre

Rwanda Sustainable Finance Roadmap

KIFC initiative

UNDP

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- Rwanda Environment Management Authority, REMA
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- Rwanda Green Fund, FONERWA
- Development Bank of Rwanda, BRD
- National Bank of Rwanda, BNR
- Capital Markets Authority, CMA
- Rwanda Development Board, RDB
- Rwanda Revenue Authority, RRA
- Rwanda Social Security Board, RSSB
- Rwanda Stock Exchange, RSE
- Rwanda Bankers Association, RBA
- Rwanda Insurers Association, ASSAR
- Bank of Kigali, BK
- Bank of Kigali General Insurance, BKGI
- I&M Bank Rwanda
- UAP Insurance Rwanda
- Association of Microfinance Institutions in Rwanda, AMIR
- Institute of Certified Public Accountants of Rwanda, ICPAR
- Financial Centres for Sustainability network, FC4S
- Centre for Financial Regulation and Inclusion, Cenfri

02 Acronyms & Abbreviations

AFI	Alliance for Financial Inclusion
AMIR	Rwanda Microfinance Association
ASSAR	Rwanda Insurers Association
BNR	National Bank of Rwanda
BRD	Development Bank of Rwanda
CISI	Chartered Institute for Securities and Investment
CMA	Capital Markets Authority
COP	Conference of the Parties (UN Climate Change Conference)
DCM	Debt Capital Markets
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EAC	East African Community
EAX	East Africa Exchange
ECC	Environment and Climate Change
E&S	Environmental & Social
ESG	Environmental, Social and Governance
ESRM	Environmental and Social Risk Management
ETF	Exchange Traded Funds
GOR	Government of Rwanda
GRI	Global Reporting Initiative
ICPAR	Institute of Certified Public Accountants Rwanda
IDA	International Development Association
IFAC	International Federation of Accountants
IFC	International Finance Corporation or International Finance Center
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
ISAR	International Standards of Accounting and Reporting
IT	Information Technology
KIFC	Kigali International Finance Center
KSI	Key Strategic Initiative
KSO	Key Strategic Objective
LDC	Least Developed Country
LEED	Leadership in Energy and Environmental Design
MINAGRI	Ministry of Agriculture
MINECOFIN	Ministry of Finance and Economic Planning
MFI	Microfinance Institution
MOE	Ministry of Environment
MRV	Monitoring, Reporting, and Verification
MSCI	Morgan Stanley Capital International
NAIS	National Agriculture Insurance Scheme
NDC	Nationally Determined Contribution
NGFS	Network for Greening the Financial System
NST	National Strategy for Transformation
ODA	Official Development Assistance
PE	Private Equity
PESTLE	Political, Economic, Social, Technological, Legal and Environmental
PFM	Public Finance Management

PR	Public Relations
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
PSDI	Principles of Sustainable Insurance
RAF	Rwanda Academy of Finance
RBA	Rwanda Bankers Association
RDB	Rwanda Development Board
REMA	Rwanda Environment Management Authority
RFL	Rwanda Finance Limited
RNIT	Rwanda National Investment Trust
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RSE	Rwanda Stock Exchange
RSSB	Rwanda Social Security Board
RWF	Rwandan Franc
SBFN	Sustainable Banking and Finance Network
SLLP	Sustainability Linked Loan Principles
SMEs	Small and Medium Enterprises
SPV	Special Purposed Vehicle
SSA	Sub-Saharan Africa
SSE	Sustainable Stock Exchanges
SWOT	Strengths, Weaknesses, Opportunities, Threats
TCFD	Task Force on Climate-Related Finance Disclosures
UNDP	United Nations Development Programme
UNEP-FI	United Nations Environment Programme Finance Initiative
UNPRI	UN Principles for Responsible Investment
USD	United States Dollar
VC	Venture Capital
WFE	World Federation of Exchanges

03 Executive Summary

Like many other countries, Rwanda is well aware of the challenges related to climate change and has already taken steps to transition to an increasingly sustainable economy. It has embedded its UN Sustainable Development Goal (SDG) ambitions and Nationally Determined Contribution (NDC) commitments into "Vision 2050", Rwanda's overarching long-term national strategy. Rwanda's green development vision is also codified in its national Green Growth and Climate Resilience Strategy (GGCRS) extending out to 2050.

Rwanda is a partner of the Global Green Growth Institute (GGGI) with an active country programme, an NDC partnership country and has applied for membership in the Partnership for a Green Economy (PAGE).

Rwanda's financial centre, also known as The Kigali International Financial Centre (KIFC) recognizes the role that the financial sector needs to play in driving the country's sustainable growth through capital mobilization and allocation of economic resources, as well as by recognizing and managing risks related to climate change. In line with this, the Kigali International Financial Centre, (KIFC), aims to become a sustainable finance hub, attracting international capital to finance local and regional green and sustainable finance activities/projects.

KIFC's vision for sustainable finance is that

> ***"Rwanda will be a leading pan-African hub for local, regional, and international sustainable finance based on its strategic location, efficient and cost-effective financial system, and first-class human capital."***

The Sustainable Finance Roadmap is instrumental in guiding this development. Sustainable finance can be defined by its two key facets: **'scaling sustainable finance'** and **'making finance sustainable'.**

These two proposed sustainable finance outcomes reflect – and aim to consolidate – the multifaceted role of the financial system within a clear and commonly understood framework. Making finance sustainable means that the financial sector (capital providers, financial institutions, service providers) is aware of the transition, physical and liability risks that they may face as a result of climate change and other environmental risks and seeks to actively manage and reduce these risks.

Scaling sustainable finance, on the other hand, means that products, instruments, financing models and structures needed to allocate the levels of capital required to meet climate, environmental and social goals are available to all Rwandan households, companies, investors, and financial institutions, and to Pan-African as well as international investors, at an appropriate risk-adjusted cost. This capital is invested in projects and activities that deliver sustainable development (balancing financial, economic, social & environmental goals).

[1] *Rwanda was the first African country to submit its revised NDCs and committed to reduce its GHG emissions by 38% compared to the business as usual.*

The Key Strategic Objectives (KSO) of the Sustainable Finance Roadmap are as follows:

KSO 1

Kigali International Financial Centre, KIFC will have the Financial Instruments to Support its Ambition to be a Sustainable Finance Hub

KSO 3

Kigali International Financial Centre, KIFC will Cultivate the First-class Human Capital Needed to Build and Underpin this Sustainable Finance Infrastructure

KSO 2

Kigali International Financial Centre, KIFC will Develop the Necessary Financial Sector Infrastructure to Support Sustainable Finance Instruments

The Key Strategic Objectives translate into more actionable Key Strategic Activities (KSI)

KSI 1 Attracting Sustainable Venture Capital/ Private Equity (VC/ PE)

This addresses KIFC's initial priority in the attraction of equity investment to Kigali to finance private ventures for the sustainable economic development of Rwanda, in addition to positioning Rwanda as an attractive jurisdiction for the incorporation of sustainable venture capital/ private equity investment vehicles focused on the region.

1 Rwanda was the first African country to submit its revised NDCs and committed to reduce its GHG emissions by 38% compared to the business as usual.

KSI 2 Building a Sustainable Stock Market

As the Rwanda Stock Exchange matures, it will be important to position it to be a destination for sustainable finance flows. Therefore, this KSI focuses on early efforts to build sustainability into the exchange, so that issuers can effectively access the large sustainable finance flows attached to international listed equity asset managers.

KSI 3 Transitioning to Sustainable Lending

Whilst stimulation of sustainable equity investments, both private and public, will be a priority for KIFC, the banking sector is by far the largest source of finance in Rwanda and is likely to be so for the foreseeable future. It means scaling sustainable finance in two key ways:

- Improve access to loan finance for Rwandan enterprise to fund their sustainable development journey;
- Reduce the costs of equity and debt capital for local commercial banks and improve access to wholesale credit lines especially from development financiers.

KSI 4 Developing Sustainable Debt Capital Markets

This KSI aims to underpin and differentiate a future debt capital market in Rwanda with sustainability characteristics.

KSI 5 Expanding the Sustainable Insurance Sector

Insurance will be an important adaptation product for low-income and rural Rwandans coping with the impact of climate change. It is also often a critical ingredient in unlocking credit for borrowers, especially those exposed to catastrophic risks.

KSI 6 Enhancing Rwanda's Financial Sector ESG Risk Management

It is essential to ensure that the necessary financial sector infrastructure is in place to enable the organic creation of these structures and instruments. By sustainable financial services infrastructure the Roadmap is referring to the Rwandan financial sectors' intellectual capital in the form of the following:

- National Sustainable Finance Policies developed at a regulatory level to guide the development of the wider financial sector towards integration with global standards, whilst also being contextualized to local circumstances.

- Practical and Implementable Guidelines for market-facing institutions.

- Financial institutions may need considerable adjustments to their business models by incorporating sustainable finance into corporate strategy. Some may require support in translating sector guidelines into organizational Policies, Processes, Products, Tools, and Models.

KSI 7 Improving Rwanda's Corporate ESG Disclosure and Reporting

In parallel, there will be a need to Rwanda's real economy (i.e., the clients of financial institutions) to show to financial institutions how they are adapting their business models towards sustainable development, through the adoption of suitable sustainability standards that allow the Monitoring, Reporting, and Verification of this process.

In addition, internationally there are emerging reporting and disclosure standards that relate to climate and embedding sustainability in accounting practice which will need to be assimilated over time.

KSI 8 Capacity Building in Sustainable Finance.

This KSI will focus on upgrading the human capital of KIFC in sustainable finance through integration of the topic into undergraduate and post-graduate curriculums, professional qualifications, vocational and on-the-job training, and continuous professional development.

04 Background to the Roadmap

It is clear that global capital is increasingly being allocated towards sustainable financial strategies. At the close of 2020, sustainable equity Assets Under Management (AUM) were estimated to be close to 60 trillion USD, classified by a range of ESG investment strategies.

Currently very few Rwandan companies would qualify for investment under any of these strategies, let alone the challenges presented by the relatively small size and low liquidity of the Rwanda Stock Exchange.

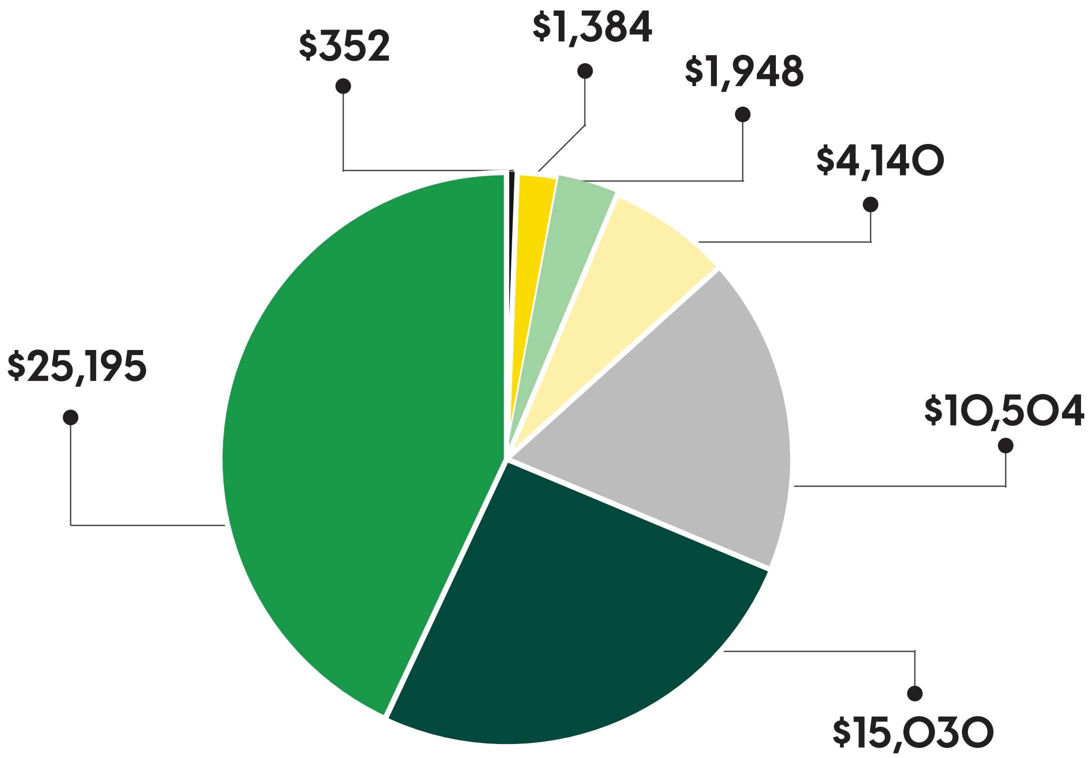
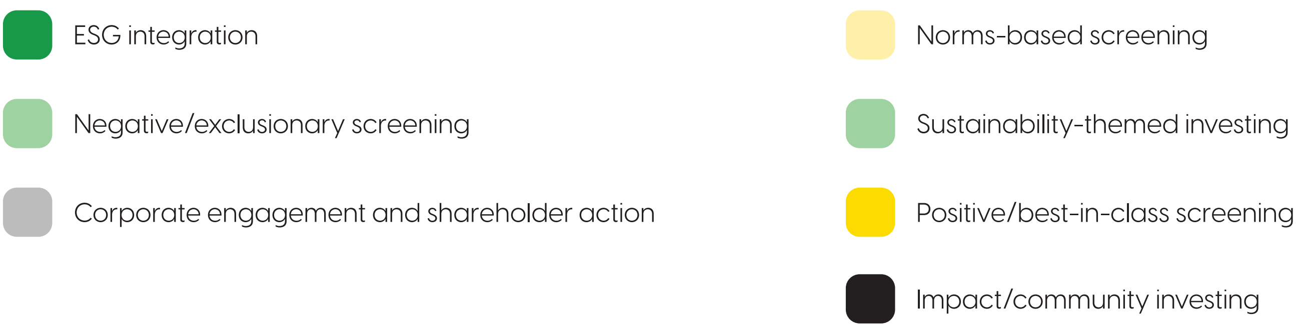


Fig. 1: *2020 Global Equity AUM (billion USD) by investment strategy* [2]



[2]*Source: Global Sustainable Investment Review 2020*

While the global sustainable debt and credit markets are smaller, they are growing rapidly. Issuance and borrowing exceed 1.6 trillion USD in 2021.

At Rwanda's stage of financial sector and economic development, some of the instruments in the chart below may be feasible in the foreseeable future.

However, the financial sector and its clients are still broadly unprepared to access the huge pools of international finance that are flowing to sustainable assets globally.

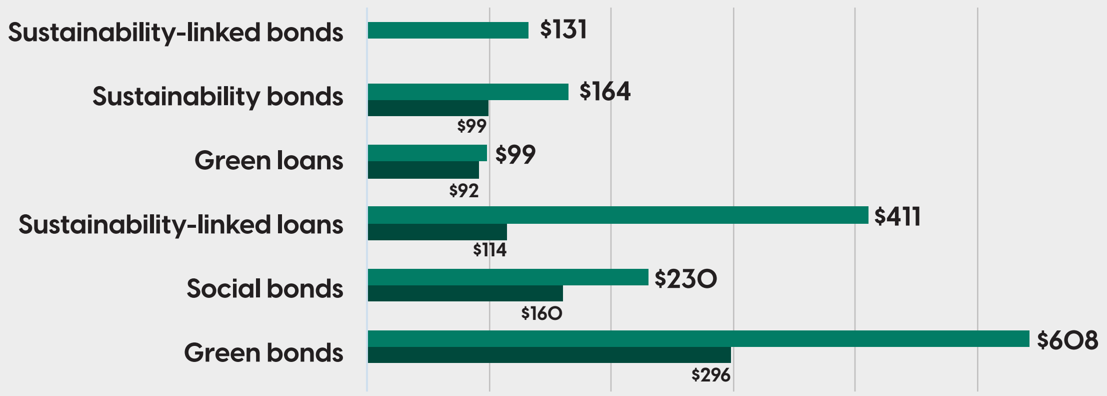


***Fig. 2:** 2021 Global Sustainable Debt and Loan Instrument Issuance (billion USD)* [3]

> ***Kigali International Financial Centre is an International Financial Centre (IFC) dedicated to transforming Rwanda into a destination for local and international investors seeking opportunities across the African continent.***

KIFC aims to embed sustainability at the heart of its financial sector proposition and to differentiate itself from peer jurisdictions through the meaningful adoption of a holistic sustainable finance framework.

The development of this Roadmap is KIFC's promise to investors that it has embarked on this journey and has set itself a challenging and tangible action plan for the implementation of change.

The focus of the Roadmap is to ensure that KIFC offers the full range of financial instruments that might be expected by investors and lenders. These products have been grouped under three key themes to support the alignment of Key Strategic Objectives (KSOs), Key Strategic Initiatives (KSIs), and the Action Plan.

In the shorter-term, Theme 1 hopes to catalyze change that will attract the more flexible, albeit smaller, niche investors that make up the venture capital and private equity industry. Therefore, there is an emphasis on the enabling environment for attracting sustainable alternative investment vehicles. However, as the Rwanda Stock Exchange develops, it will need to consider how it can "green" itself by adopting enhance ESG reporting and disclosure standards and green products such as indices for example.

This will be essential in ensuring that Rwanda captures its fair share of the massive international sustainable investment market in listed equities.

[3]*Source: Bloomberg*

However, the banking sector will remain by far the largest pool of domestic capital for the foreseeable future, and this will be addressed through Theme 2. It will be important that credit institutions integrate ESG risk management practices into their business and operating models and develop products such as sustainable and sustainability-linked lending.

In addition, the availability of suitable insurance products for value chains particularly exposed to catastrophic risk is vital. Insurance has been grouped with lending because the former is usually critical in unlocking access to the latter.

> ***Theme 3 has a longer horizon while the Rwandan economy develops a cohort of suitable issuers in terms of size and sustainability.***

Note that some of the most likely issuers may be banks seeking to (re)finance their sustainable loan portfolios. All themes will require substantial changes in the business and operating models of actors in the real economy and continued economic growth. The latter will also deepen the pool of domestic savings and investments available to invest in debt and equity instruments.

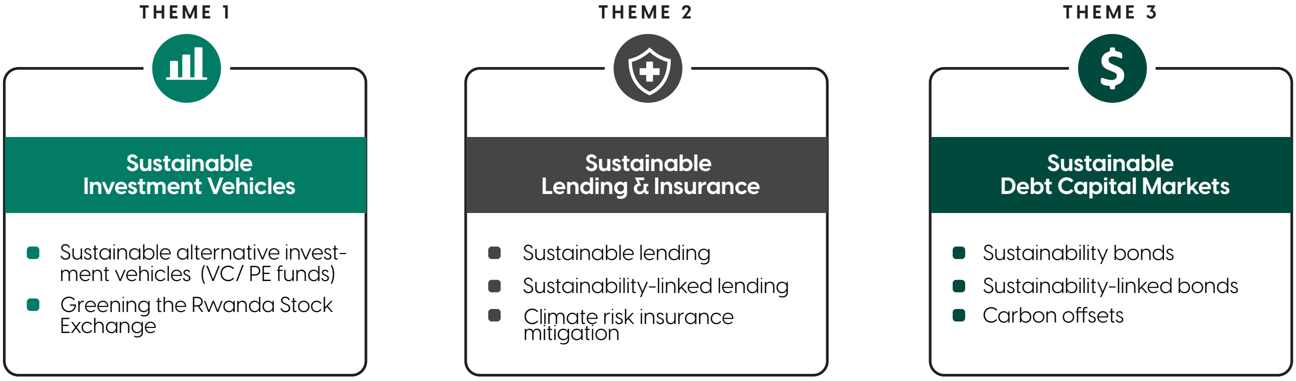


Fig. 3: The three Roadmap themes [4]

The Roadmap explores sustainable finance by its two key perspectives: **'scaling sustainable finance'** and **'making finance sustainable'.** These two perspectives reflect – and aim to integrate like two sides of the same coin – the bi-faceted role of a sustainable finance framework.

Scaling sustainable finance

means that the products, instruments, financing models and structures needed to allocate the levels of capital required to meet climate, environmental and social goals are available. They will be available to all Rwandan households, companies, investors, and financial institutions, and to **Pan-African as well as international investors,** at an appropriate risk-adjusted cost. This additional capital will be invested in projects and activities that deliver sustainable development (balancing financial, economic, social, and environmental goals).

Making finance sustainable

on the other hand, means that the financial sector (capital providers, financial institutions, service providers) is aware of the transition, physical and liability risks that they may face because of climate change and other environmental risks and seeks to actively manage and reduce these risks.

Fig. 4: The two perspectives of sustainable finance [5]

In developing the Roadmap, RFL recognizes the over-arching nature of the Rwanda Financial Sector Strategy 2018 – 2024. There are also sub-sector specific plans either extant or expired which have areas such as capital market, development, microfinance and financial inclusion, and payments. These refer extensively to measures to develop fintech (or digital finance) and enhance financial inclusion – increasingly interdependent topics.

Suffice to say, **the future of sustainable finance is also deeply interconnected with digital finance and financial inclusion.** Indeed, financial inclusion is considered a core feature of sustainability. However, as cross-cutting topic that have their own highly developed implementation plan and complexities, it was felt unwise for the Roadmap to attempt to link tasks and activities too explicitly to these topics.

Rather, it assumed and reinforced in this paragraph that in implementing the Roadmap, consideration of the opportunities to apply digital finance and obligations to widen financial inclusion would be considered at all stages by all stakeholders.

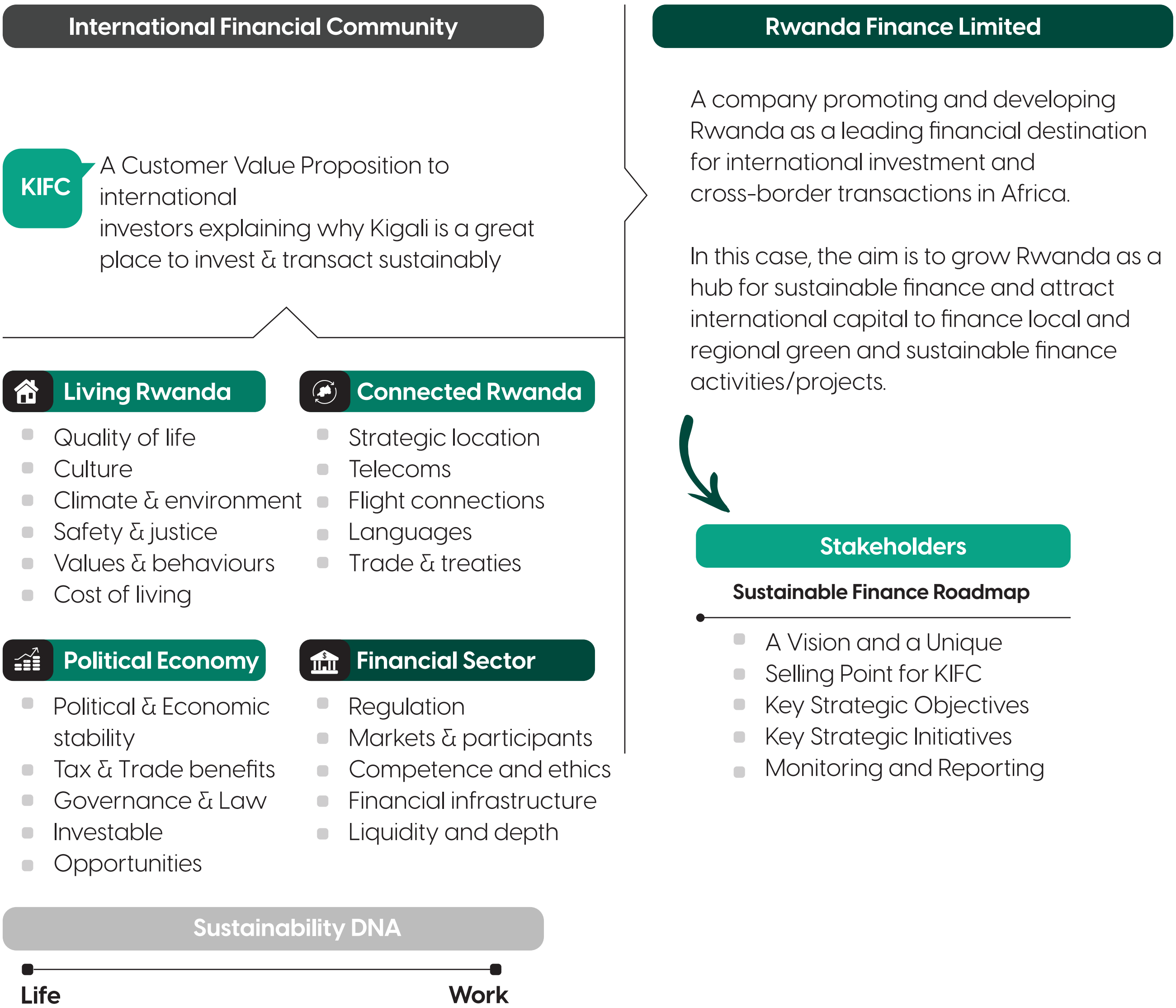


Fig. 5: *Visualizing the KIFC sustainable finance proposition*

05 Diagnostic Review

The development of the Roadmap took an orthodox approach to strategic development, consisting of a thorough diagnostic review before proceeding to develop the strategic options. This section will cover the key findings of the diagnostic review.

External Perspective

Market/ Competitor Analysis

An exploration of the dynamics of the environment in which the strategy will be executed, particularly in regard to investor values and behaviours, competitor positioning, and product lifecycles.

Stakeholder Analysis

An understanding of the key individuals and institutions with an interest or concern in the organisation and its strategy, especially those with influence over its success or failure.

Situation Analysis

An evaluation of the context in which the strategy will be executed which applies to all participants - typically tackled through a PESTLE analysis or similar approach.

Internal Perspective

Mission, Vision, and Values

Developing a clear consensus on organisational mission, vision, and values has become an increasingly popular component of developing a cohesive strategic plan. It is NOT a hard prerequisite with some intuition however, and is exceptionally hard to achieve with a new institution.

Internal Assessment

Much more critical is the earnest and critical evaluation by an organisation of its own Strengths, Weaknesses, Opportunities, and Threats - through a thorough audit of institutional competences, resources, values, and behaviours.

SWOT

Fig. 6: *The diagnostic phase of the Roadmap development*

5.1 Stakeholder Analysis

For convenience, the Stakeholder Analysis was organized around three key financial sub-sectors – banking, capital markets and insurance. While recognizing the overlap and interdependence between these definitions, the distinction is more than arbitrary. Typically, these sub-sectors are subject to quite discrete regulatory frameworks and often independent regulators. Given the fundamental importance of regulation in financial services, the breakdown described is usually the default approach to disaggregating the financial sector for purposes of analysis. The ubiquity of this approach also aids considerably in compare exercises with other studies, frameworks, or jurisdictions.

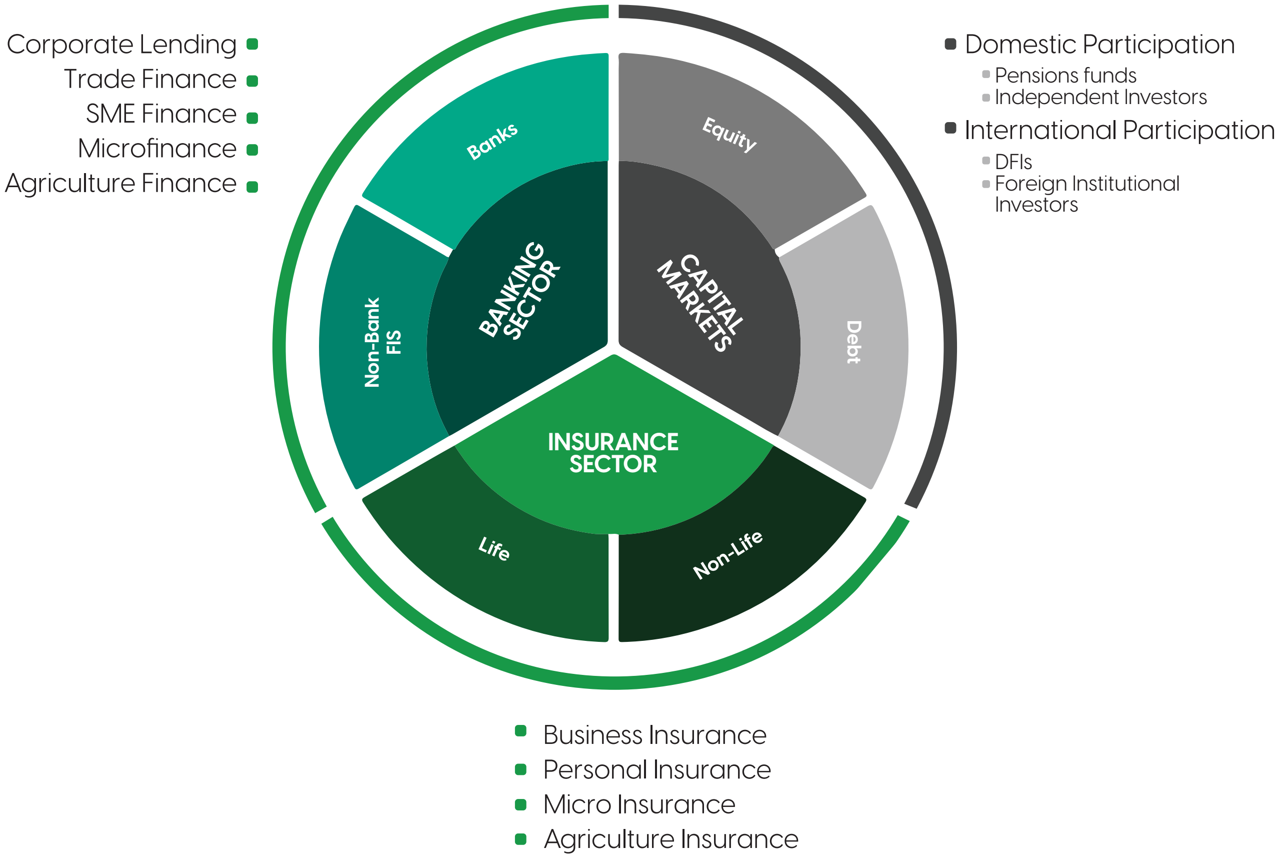


Fig. 7: *The three financial sub-sectors*

The Stakeholder Analysis applies a further overlay in the form of a macro-, meso-, and micro- classification of stakeholders based on their role in the financial system. This aids in subsequent programming by ensuring that tasks and activities are allocated to the most suitable actor.

Macro-level	**Structural components of the financial system** Government policy, financial sector regulation, rules and standards, and public sector coordination	Central Banks, Financial Regulators, Parliamentary Committees, Investment Commissions, Ministries, Task Forces
Meso-level	**Coordinating role within the system** Includes awareness raising, capacity building, supporting infrastructure (data, markets)	Industry associations, universities, think tanks, centres of excellence, trade unions, professional academies, data providers, rating agencies, exchanges
Micro-level	**Economic agents** Includes institutional development, investment vehicles, product development, financial literacy	Financial institutions, microfinance institutions, MSMEs, retail, consumers, investors, insurers households, cooperatives

Fig. 8: *Macro-, meso-, micro- classification of stakeholders*

RFL Rwanda Finance Limited, change agent
MOE Macro level stakeholders
RDB Meso level stakeholders and projects
MEIS Micro level stakeholders

Fig. 9: *Key to Stakeholder Maps*

BNR Regulator in the sector
IFIs International and Domestic Financial
BRD Institutions
Other specific stakeholders, such as BRD, ICPAR, FONERWA
RAF Training and development
Regulation and oversight
Other type of relationship

5.1.1 Banking Sector

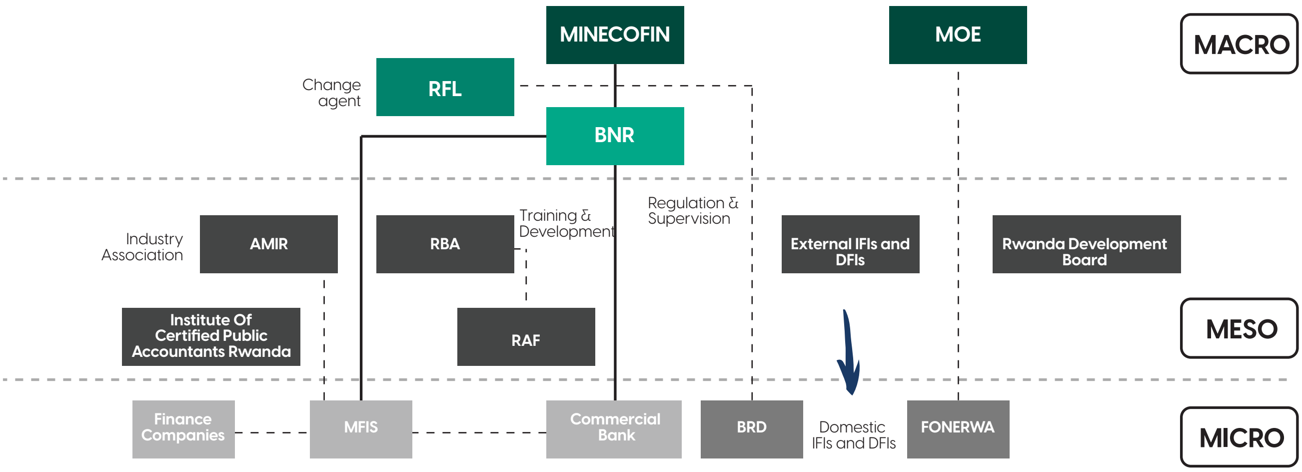


Fig. 10: *Banking sector stakeholder map*

5.1.2 Capital Markets

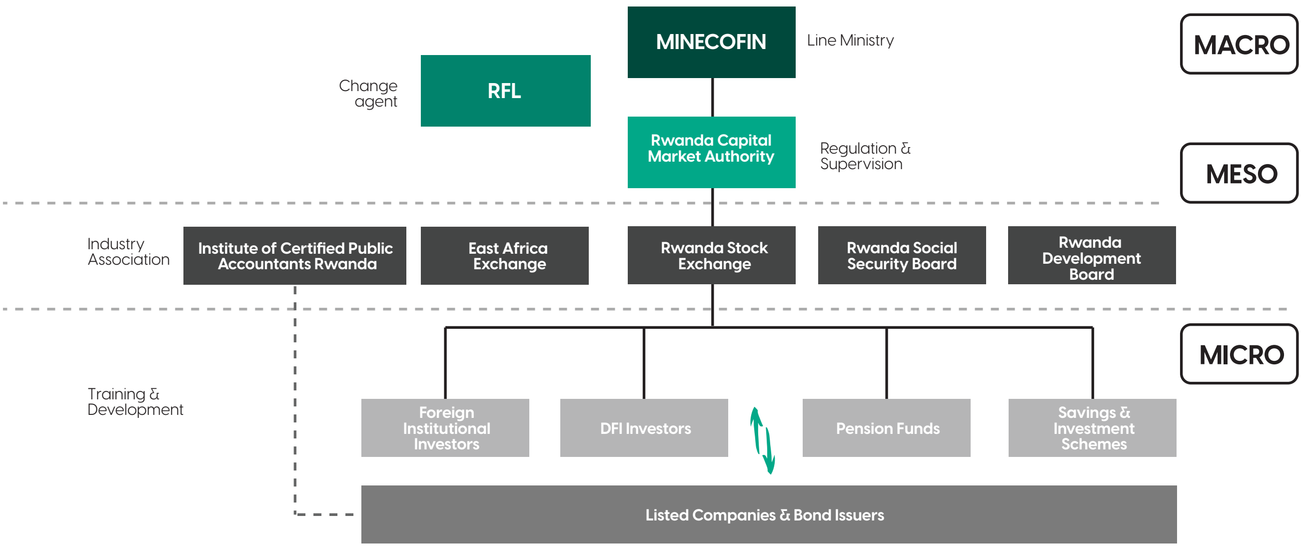


Fig. 11: *Capital market sector takeholder map*

5.1.3 Insurance

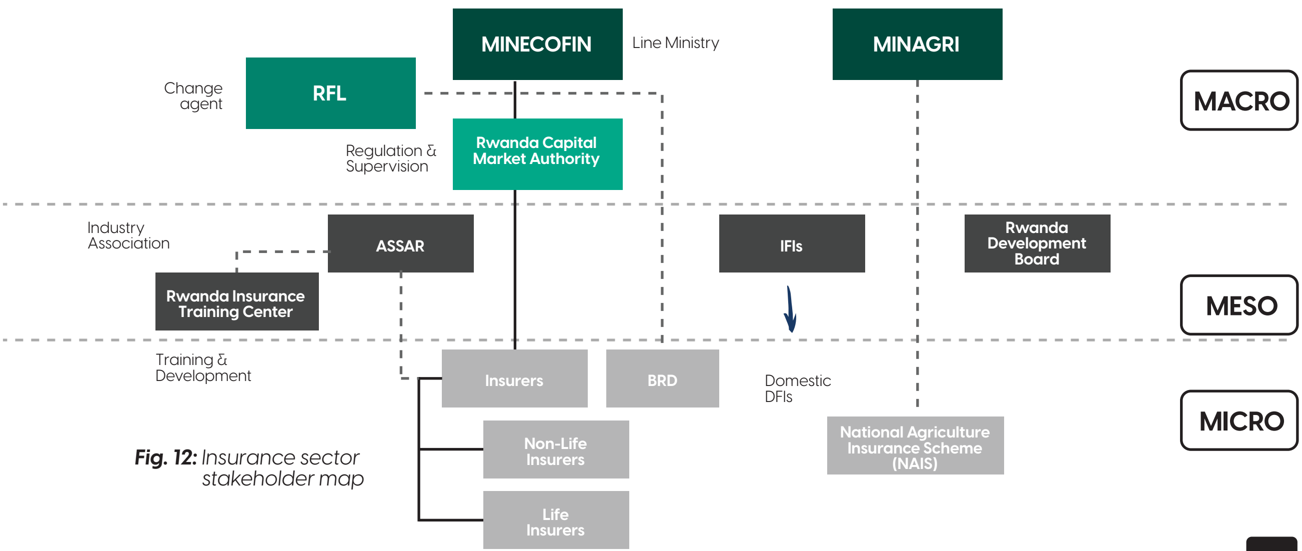


Fig. 12: *Insurance sector stakeholder map*

5.2 Situation Analysis

In undertaking the Situation Analysis, an analytical tool from the Sustainable Banking and Finance Network's Progression Matrix was applied.

This is not only a useful aide memoire in fully exploring the nuances of a sustainable finance ecosystem, but it also assisted in the benchmarking exercise by supporting an ad-hoc compare and contrast exercise against SBFN members, several of whom are jurisdictions that may be regarded as peers.

This framework assesses the maturity of financial centers against seven sustainable finance criteria or pillars:

1 **International Engagement:** Membership of regulatory bodies, government agencies, industry associations and corporates with international sustainability initiatives (SSE, SBFN, AFI, UN Global Compact, NGFS). This is important in order to access knowledge, expertise, and support on sustainable finance.

2 **National Strategies and Regulations:** Sustainable finance sub-sector policies, prudential regulations fit for purpose and an adoption plan for international best practices for sustainable investment and finance. This means that the actors can play on a regulatory ground that is well defined, clear, and well communicated around sustainable finance.

3 **Definitions, Taxonomy and Standards:** Sustainable bond standards, ESG definitions, and other guidance. This is important in order to foster market competition and address asymmetries of information.

4 **ESG Risk Management and Reporting:** This pillar includes the use of ESG factors and criteria in credit risk assessment and evaluation across all investment classes, as well as implementation of Environmental and Social Risk Management (ESRM) frameworks by banking, finance, and insurance institutions. Reporting standards need to reflect the nature of sustainable investing and financing such as climate related disclosures, ESG, green taxonomies and an efficient flow of "sustainable-related" information and data need to happen between agencies, financial institutions, and financial markets through an ESG reporting framework. This all contributes to clear recognition, reporting and management of ESG risks.

5 **Greening DFIs:** DFIs priorities should be harmonized with NDCs and financing instruments for sustainable projects should be fostered. This increases the pool of capital available for financing sustainability.

6 **Incentive Programs:** Active support of sustainable financing through fiscal incentives (i.e., financial subsidies or tax breaks), mitigation of financial risk in new sustainability endeavors by government support programs (i.e., risk guarantees) and favorable regulatory treatment of sustainable assets compared to "brown" assets (i.e., regulatory capital). This might be less crucial for KIFC in the early stages of Roadmap.

7 **Product and Market Innovation:** Sustainability overlay to mainstream financial products e.g., sustainable lending principles, sustainability bonds, sustainable investment funds etc., as well as ensuring competence of financial service providers in provision of sustainable products through regular inspection of institutions, protection for traders and clients, and a system for investigating and prosecuting misconduct. This is crucial in order to have a vibrant sustainable finance investment hub.

International Engagement	■ BNR is a member of the Alliance for Financial Inclusion (AFI) ■ RSE is a member of the Sustainable Stock Exchange Initiative (SSE) ■ The sector overall lacks memberships in other key organizations and networks ■ KIFC is a member of the International Network of Financial Centres for Sustainability (FC4S)
National Strategies and Regulations	■ Rwanda has an over-arching financial sector development strategy, and one dedicated to capital markets. However, neither reference sustainable finance ■ Rwanda has taken steps to adopt the IMF's Green Public Financial Management (PFM) approach and plans to release an Environment and Climate Change (ECC) Monitoring Statement prioritizing climate-resilient initiatives in the FY 2022/2023 budget. The country is also currently conducting a comprehensive climate diagnostic with the World Bank[4]
Definitions/Taxonomy /Standards	■ Rwanda has not yet developed any standards related to sustainable finance ■ BNR is thinking about developing a climate risk framework which should include taxonomy
ESG Risk Management	■ Current IFRS standards are in force, however ESG considerations/risks are not being reported or are anecdotally reported in annual reports. ESG reporting is not a requirement for listing ■ However, BNR has extended the requirement for financial services sector players such as banks and insurance companies to prepare integrated annual reports covering social, environmental, and economic impacts ■ There is progress in Governance but limited Environment and Social Risk Management (ESRM) outside DFI engagements or reporting to parent companies
Greening DFIs	■ BRD has some credit lines for green projects and the country has established a national green fund, FONERWA
Incentive Programs	■ No specific incentives for sustainable finance
Product & Market Innovation	■ No specific sustainable or green banking or insurance products, except for a few MFIs involved in DFI projects on climate-smart agriculture ■ Expertise in sustainable loan principles is low and banking culture is conservative. Carbon off-set opportunities are being explored ■ No themed funds exist yet ■ Very early exploration of green bond to be issued by BRD

Table 1: *Situation analysis summary*

[4] *Rwanda: 2021 Article IV Consultation and Fifth Review Under the Policy Coordination Instrument, IMF, January 2022*

5.3 Peer Group Benchmarking

Based on the Situation Analysis previously, it was possible to benchmark several peer jurisdictions on the same criteria. Much of the judgement on the status of the peer jurisdictions was based on their individual SBFN Sustainable Finance Progress Reports.

Benchmarking Criteria

	International Engagement	National Strategies and Regulations	Definitions/ Taxonomy/ Standards	ESG Risk Management and Reporting	Greening DFIs	Incentive Programs	Product & Market Innovation
Kenya							
Nigeria							
South Africa							
Morocco							
Mauritius							
Rwanda	BNR is a member of the Alliance for Financial Inclusion (AFI) and RSE a member of the Sustainable Stock Exchange Initiative	Being addressed somewhat with the development of Roadmap	Currently absent	Current IFRS standards are in force, however ESG considerations/risks are not being reported or are anecdotally reported in annual reports.	BRD has some credit lines for green projects and the country has established a national green fund, FONERWA	No specific incentives for sustainable finance	No specific sustainable or green banking or insurance products, except for some MFIs involved in DFI projects on climate-smart agriculture.

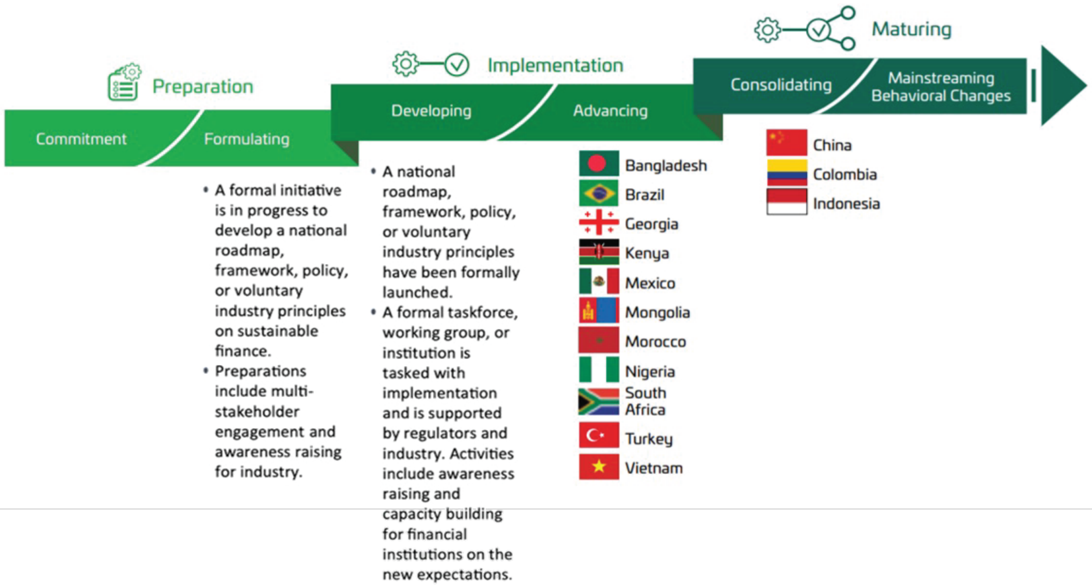
Evidence of material progress **Evidence of some progress** **Little/ no evidence of progress**

Fig. 13: *Peer group benchmarking*

Based on the SBFN benchmarking criteria and progression indicators, it is subjectively proposed that Rwanda is currently positioned at the beginning of its sustainable finance journey. Key features and progress indicators of jurisdictions in the planning to mature stages of sustainable finance are reflected in the diagram and table below, with the latter showing indicators for advancing and mature markets, under *Table 2* and 3.

The SBFN lays out some concrete actions which can be applied to advance Rwanda as a sustainable finance hub, and many of these have been reflected in the forthcoming strategy.

Typical Tasks & Activities to Advance as a Sustainable Finance Hub



Rwanda currently falling between formulating and developing

Fig. 14: *Rwanda's sustainable finance progression*

1 Strategic Alignment

Progress measured by:

- Alignment with global E&S standards and best market practices
- Alignment to NDEs and witn national/ regional climate change targets
- Multi-stakeholder collaboration

2 Scaling Sustainable Finance

Progress measured by:

- Defining sustainable assets and financial products
- Green finance product guidelines
- Tracking and disclosure or climate & green finance
- Calculation of environmental benifits
- Climate risk exposure assessment
- Financial and non-financial incentives

3 Scaling Sustainable Finance

Progress measured by

- The role of governing bodies on E&S
- E&S policy
- Risk Assessment
- E&S covenants
- Enforcement
- Project supervision & portrollo review
- External communication mechanism
- Training
- E&S reporting

5.4 Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

Strengths

General

- Highly experienced and well rated national DFI (BRD)
- BNR, well regarded and respected regulator

Banking

- Competitive banking sector with respectable ROAA and ROAE compared with regional peers

Capital Markets

- Existence of an adequate legal framework
- On-going institutional restructuring and governance reviews of local companies
- Willingness to engage internationally, such as participation in SSE and IFC capacity building programs
- Stable source of revenues and financial independence of social security fund

Insurance

- Recently launched national Rwanda Agricultural Insurance Scheme

Weaknesses

General

- Low penetration of financial services in rural areas and low domestic savings culture which limits the pool of capital available
- Lack of frameworks for new green financial services in banking, asset management & insurance
- Lack of technical screening criteria for economic activities with contribution to ESG and SDG goals impact

Banking

- Lack of experience in credit assessment of green projects
- Underestimation of potential risks to portfolios of climate-related weather events

Capital Markets

- Limited investment expertise in ESG topics
- Lack of a modern trading, clearing and settlement IT platform for RSE
- Small pipeline of material sustainable investment opportunities
- Lack of issuers on debt capital markets
- Strategic/priority sectors for sustainable investment not well identified

Insurance

- Data environment requiring significant improvement in terms of scope, timeliness, reliability, and availability, particularly related to weather, climate, agriculture, and land-use

Opportunities

General

- Stable political environment and economic growth for foreign investors

Banking

- More exposure to the MOE NDC Implementation Framework
- Immersion programme for lending bankers into sustainable credit risk can simultaneously develop credit culture while integrating sustainability into the process
- Development of a national blended finance solution
- RAF curriculum to include sustainable finance topics

Capital Markets

- Potential for RSSB to offer sustainability linked products for members
- Pilot green investment projects and programs underway
- Diaspora willingness to invest

Insurance

- Increased capital requirements for insurers encouraging foreign investment
- Adoption of digital distribution models
- Improved ESG reporting standards required by foreign owners

Threats

General

- Development finance drifting away from Rwanda to jurisdictions more conducive to the ESG standards required
- Increasing inflation and interest rates
- Improper sequencing of financial sector reforms

Banking

- Unduly onerous or potentially obsolete ESG standards that inhibit access to finance – especially for SMEs

Capital Markets

- Large, growing informal sectors not conducive for equity or bond investment
- Delays in enactment of ESG regulations for the capital markets

Insurance

- Low penetration rate of insurance sector
- Liquidity issues and overdue premium receivables in insurance sector
- Insurance sector failing to solicit or generate the new required minimum capital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06 Sustainable Finance Strategy

The sustainable finance vision for KIFC is as follows:

> *Rwanda will be a leading pan-African hub for mobilizing local, regional, and international sustainable finance based on its strategic location, efficient and cost-effective financial system, and first-class human capital*

The key elements of its proposition to international investors and its approach to differentiation can be succinctly described by applying the 7 Ps of marketing.

Product	KIFC will be a locus for domestic, regional, and international sustainable finance capital intermediation through lending, and debt and equity capital markets.
Promotion	KIFC will promote Rwanda as a holistic sustainable finance hub with a focus on development financiers, impact, and emerging and frontier market investors.
Price	Transaction and other operating costs will be highly competitive with other regional sustainable finance hubs.
Place	KIFC is a great location to access the sustainable development potential of the Grand Lacs and Congo Basin, with a great quality of life.
People	KIFC's human capital will exhibit first class skills, competences, values, and behaviours in sustainable finance.
Process	Executing sustainable finance transactions and creating sustainable finance vehicles in Rwanda will be safe and efficient.
Physical Evidence	The commitment to sustainable finance will be reflected in all hard and soft strategy and marketing collateral belonging to the Rwanda financial sector.

Fig. 15: *The 7 Ps of marketing applied to KIFC sustainable roadmap*

Based on the findings of the Diagnostic Review and the SWOT Analysis, the aim is to derive a set of Key Strategic Objectives (KSOs): high-level descriptions of Rwanda's sustainable finance ambition. From the KSOs it becomes feasible to describe more tangible and detailed Key Strategic Initiatives (KSIs) that broadly describes the key workstreams that will deliver the desired change.

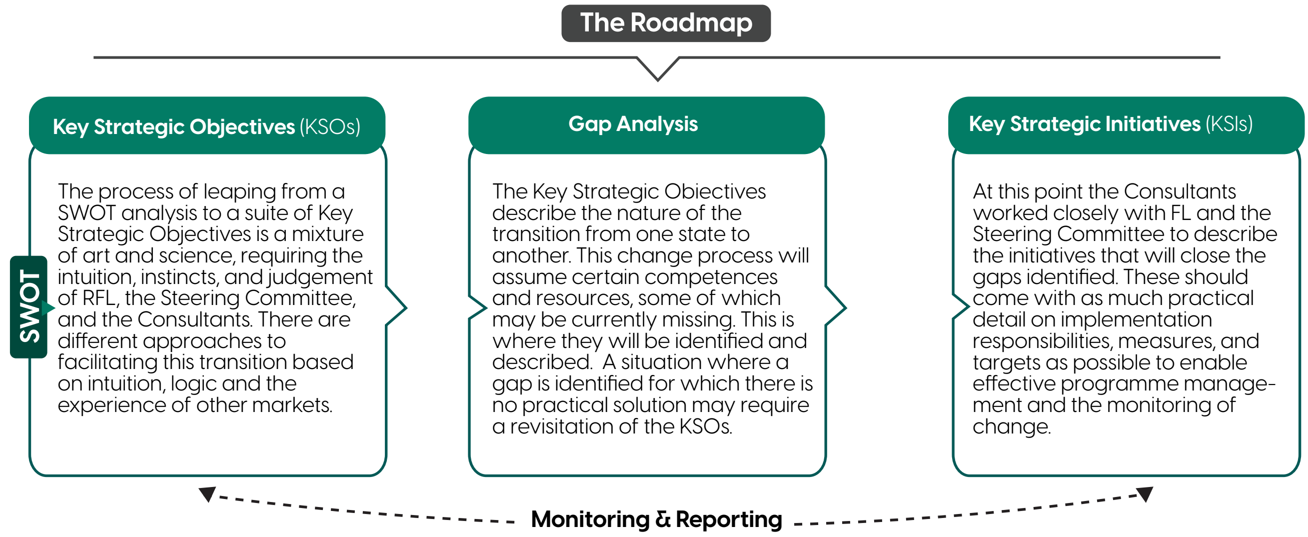


Fig. 16: *The development of KSOs and KSI*

The Key Strategic Objectives for KIFC Sustainable Roadmap are as follows:

> **KIFC will have the financial instruments to support its ambition to be a sustainable finance hub**

RFL's principal role is to catalyze the development of the financial instruments and structures that will facilitate sustainable finance flows from both domestic and international pools of capital. It will focus on using its convening power to organize stakeholders for change, to advocate for enabling reforms in the financial sector and the broader business environment, to sensitize domestic market participants to the opportunities of sustainable finance and promote Rwanda as a sustainable finance hub to the wider global investment community.

> **KIFC will develop the necessary financial sector infrastructure to support sustainable finance instruments**

If KIFC is to achieve its ambition as a sustainable finance hub, significant enhancements will be required in both the financial sector infrastructure as well as the approach to sustainability in the real economy. The former will require adoption of a holistic approach to ESG risk management and sustainable finance by financial sector actors. The latter will require the integration of sustainability into business and operating models, and the adoption of the required reporting and disclosure standards. RFL will facilitate this process by identifying, prioritizing, and sequencing the change, and working across the financial sector to organize stakeholders accordingly.

> **KIFC will cultivate the first-class human capital needed to build and underpin this sustainable finance infrastructure**

Implementing effective change to the financial system and the capacity to deliver on the instruments needed to develop KIFC as a sustainable finance hub will require a fundamental upgrading of human capital across both the financial sector, their clients, and the professional services which support these relationships. RFL sees its role as to work with stakeholders to advance knowledge, competence, values and behaviors in both sustainable finance and sustainability best practice for both locals, as well as attracting international talent. This will include development of academic education, professional qualifications, vocational training, and facilitating the informal networks and connections which will support Rwanda in becoming a true centre of excellence in sustainability and sustainable finance.

07 Gap Analysis

Having defined its Key Strategic Objectives, it is important for KIFC to describe the key gaps that need to be closed to realize the new desired state.

Many of these gaps are similar to those weaknesses and disparities identified in the Situation Analysis and Peer Benchmarking exercises.

However, in this case the gaps are being clearly mapped against the Roadmap's specific Key Strategic Objectives. In many, but not all cases, there has been an attempt to address these gaps in the definition of the Key Strategic Initiatives in the following section. Note that only gaps quite specifically related to sustainable finance have been included. Other weaknesses or gaps in mainstream financial sector development have been comprehensively addressed in other national strategies and plans.

KIFC will have the financial instruments to support its ambition to be a sustainable finance hub

- There is a clear need for BRD and FONERWA to substantially scale up green finance and adopt blended finance models to apply public and development finance in the leverage of domestic and international private capital.
- There is only a small pipeline of well-prepared investees and borrowers with businesses or projects with sustainable business and operating models.
- There does not appear to be sufficient issuers of debt or equity capital with sufficiently high international credit rating looking to tap sources of sustainable finance.
- There are no sustainability "labels" and related certification standards for listed Rwandan companies, and no "sustainable" index-linked products.
- There are no specific fiscal or prudential incentives in place tailored to scale-up sustainable finance.
- It is not clear that the private equity market is sufficiently vibrant to give confidence to venture capital funds that there will be sufficient buyer interest to give confidence to exit strategies.
- The local Monitoring, Reporting, and Verification sector is small and does not provide the suite of MRV services and use of proceeds audit required to support either the financial sector or their clients in the application and validation of key international sustainability standards.
- The domestic ESG data environment is inadequate, and there are insufficient data producers, processors, and vendors developing the ESG data products required to facilitate sustainable finance.

- It does not appear that the Rwandan real economy is adopting sustainability standards with sufficient enthusiasm.
- Local asset managers do not seem to have the necessary demand for local sustainable investments and assets.
- There is a significant lack of scope, timeliness, reliability, and availability of quantitative data points (particularly related to weather, climate, agriculture, and land-use) with which insurers can develop the actuarial models required for innovative sustainable insurance products.

KIFC will develop the necessary financial sector infrastructure to support sustainable finance instruments

- There is no National Sustainable Finance Taxonomy on which the Rwandan financial sector and its clients can begin to consistently classify sustainable economic activities and related assets.
- There is a lack of regulation or guidance to the banking sector or asset managers on the reporting and disclosure sustainable finance assets, or the physical and transition risks attached to their portfolios.
- It does not appear that the banks have sufficient expertise in the development of stress-testing and scenario analysis models for ESG risks, and particularly climate change.
- Most banks have only made superficial progress towards embedding sustainability within their business and operating models.
- There is an absence of sustainable and sustainability-linked loan principles with which to underpin scaling up sustainable loan finance.
- There is a lack of sustainable and sustainability-linked bond principles to support the issuance of sustainable debt capital.
- Little progress appears to have been made by Rwandan companies and their accountants in the adoption of international climate and/ or nature-based reporting and disclosure guidance.
- Similarly, there has only been modest headway in the implementation of sustainability-related accounting standards by Rwandan companies and their accountants.
- There does not appear to be robust engagement with and endorsement by industry associations of key international sustainability standards and support for members to adopt these.
- Rwanda asset managers do not seem to have implemented sustainable investment strategies.
- The RSE does not have a sufficiently robust ESG listing criteria, or annual ESG reporting and disclosure standards.

KIFC will cultivate the first-class human capital needed to build and underpin this sustaiinable finance infrastructure

- There is a relative absence of engagement by the wider financial sector with major international standard-setters and peer learning networks related to sustainable finance (e.g., ASSAR might consider the Principles of Sustainable Insurance, RFL the Sustainable Banking and Finance Network, and RBA the Principles of Responsible Banking).

- There is lack of awareness amongst Rwandan entrepreneurs, business leaders, and project sponsors of the opportunities represented by access to finance by adopting sustainable business and operating models.

- There is insufficient expertise in the Rwandan professional services sector of sustainability standards and how to apply them.

- There is inadequate knowledge and competence in the application of ESG risk management and the practice of sustainable finance in the wider Rwandan financial sector.

- There is a lack of thought leadership in the topic of sustainable finance that will distinguish Rwanda from other competing financial centers.

08 Recommended Key Strategic Initiatives

On the basis of the Gap Analysis and the Sector Diagnostic Review, that were both informed by key local stakeholders through a consultative process, the Roadmap envisages eight Key Strategic Initiatives mapped against each of the Key Strategic Objectives previously described.

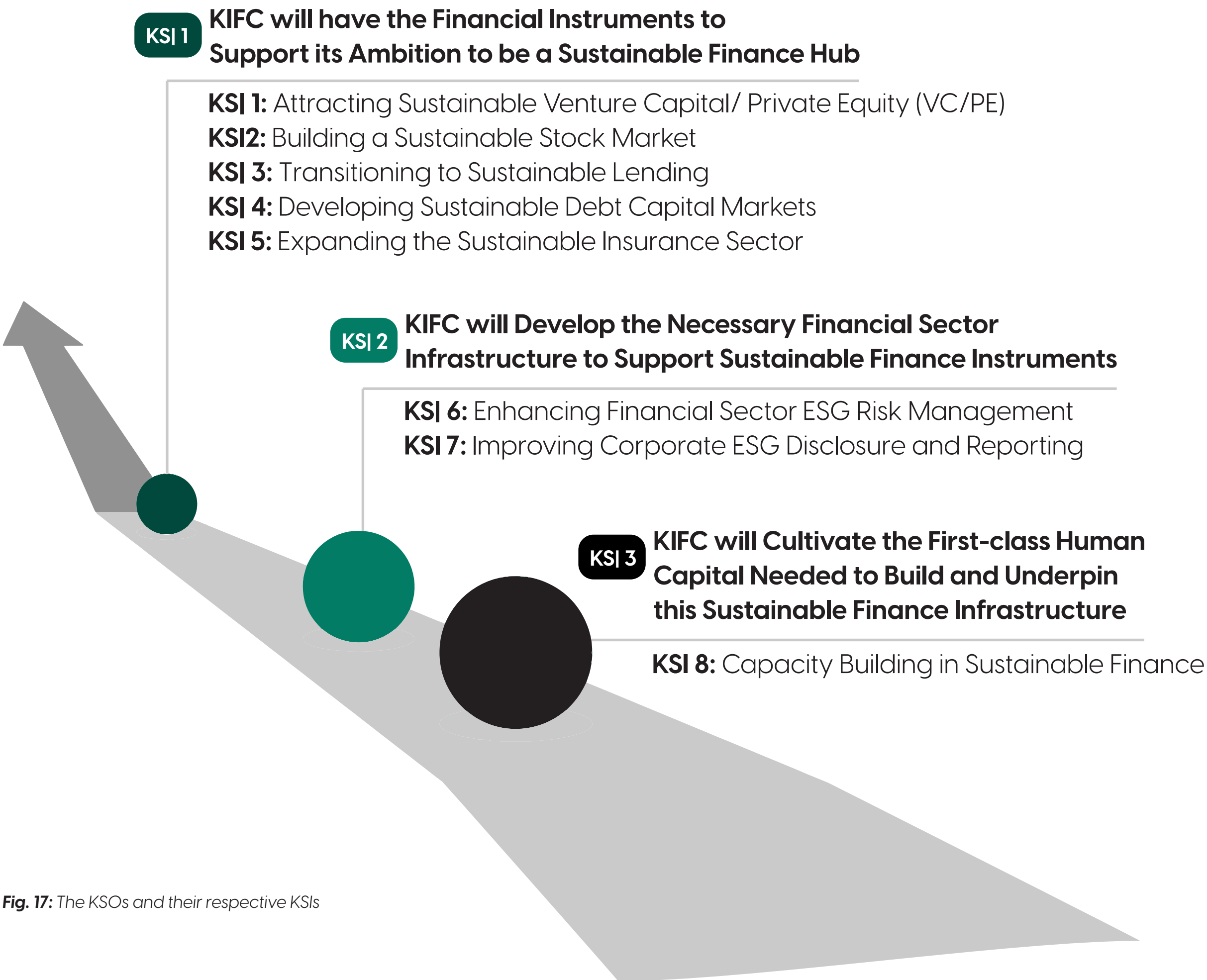


Fig. 17: *The KSOs and their respective KSIs*

8.1 KSO 1 KIFC will have the Financial Instruments to Support its Ambition to be a Sustainable Finance Hub

KSI 1 Attracting Sustainable Venture Capital/ Private Equity

Addresses KIFC's initial priority in the attraction of equity investment to Kigali to finance private ventures for the sustainable economic development of Rwanda, in addition to positioning Rwanda as an attractive jurisdiction for the incorporation of sustainable venture capital/ private equity investment vehicles focused on the region.

However, as the Rwanda Stock Exchange matures, it will be important to position it to be a destination for sustainable finance flows.

KSI 2 Building a Sustainable Stock Market

Focuses on early efforts to build sustainability into the exchange, so that issuers can effectively access the large sustainable finance flows attached to international listed equity asset managers.

Whilst stimulation of sustainable equity investments, both private and public, will be a priority for KIFC, the banking sector is by far the largest source of finance in Rwanda and is likely to be so for the foreseeable future.

KSI 3 Transitioning to Sustainable Lending

Means scaling sustainable finance in **two key ways:**

- Improve access to loan finance for Rwandan enterprise to fund their sustainable development journey; and
- Reduce the costs of equity and debt capital for local commercial banks and improve access to wholesale credit lines especially from development financiers.

KSI 4 Developing Sustainable Debt Capital Markets

Aims to underpin and differentiate a future debt capital market in Rwanda with sustainability characteristics. Finally, the development of Rwanda's nascent sustainable insurance sector has been covered by

KSI 5 Expanding the Sustainable Insurance Sector

Insurance will be an important adaptation product for low-income and rural Rwandan's coping with the impact of climate change. It is also often a critical ingredient in unlocking credit for borrowers, especially those exposed to catastrophic risks.

There are, however, other general insurance products that can be used to stimulate sustainable development which will also be covered.

8.1.1 KSI 1 Attracting Sustainable Venture Capital/ Private Equity (VC/ PE)

Definition

Equity investment funds are simply limited companies that have a clearly defined mandate in their constitution to focus on particular types of equities (and sometimes other types of financial instrument in the case of hedge funds, for example). They can be capitalized by domestic and international investors who share an investment strategy and a complementary appetite for risk and reward. They are also perfectly capable of leveraging through loan or debt finance if it fits their constitution and financial projections.

Venture capital usually refers to equity investors with a strategy focused on smaller-scale investments in early-stage companies. Private equity in its original definition referred to equity investments specializing in acquiring listed companies and delisting them ("taking them private"), however is now commonly used to describe an investment strategy focused on more mature (albeit still unlisted) companies.

Both strategies rely more-or-less on an active management approach, injecting their influence into the governance of the investee. Also, in the case of sustainable finance, these funds are focused either on investments which demonstrate a sustainable business and operating model, or the potential to transition in that direction.

Potential Sources of Capital

- International investors seeking robust returns on their investment would be attracted to potentially attractive returns on capital, as well as meeting their sector sustainable investment targets and/ or regional portfolio objectives

- Impact investors, whether philanthropic or development financed, are likely to be the most significant sources of investment in the near term

- Domestic and regional commercial capital might also be a good match for Rwandan investees

Potential Application of Capital

KIFC aims to mobilize international finance to capitalize regional VC and PE firms incorporated in Rwanda. Rwanda will meet several prerequisites by having:

- An easy, cost-effective, and flexible approach to company and partnership formation
- Strong rule of law, and swift, cost-effective, and enforceable judgements
- A favorable tax regime that will be explored further in KSI 1.5
- A robust banking system that allows firms to hold accounts in a variety of major foreign currencies and transact in spot and forward contracts
- A professional and competitive pool of financial and professional advisors to support transactions

KIFC will differentiate itself from other financial services hubs by ensuring VC/PE investors have access to the full range of sustainable financial services. The Roadmap includes:

- The ability for VC/PE firms to exit successful investments through listing on a thriving sustainable stock exchange (see KSI 2)
- The ability for **sustainability-oriented** VC/E firms and their investees to benefit from the ability to leverage improved sustainable loan products and pricing (see KSI 3)
- The ability for **sustainability-oriented** VC/E firms and their investees to benefit from the ability to leverage through improved sustainable bond pricing (see KSI 4)

A key element proposed by the Roadmap is the development of sustainability labelling standards for investment firms and funds. This labelling will be designed to assure international investors (especially those in second round plus fund raising) that a Rwandan domiciled VC/PE proffering a sustainable finance proposition can be confident of the firm's sustainability credentials. Rwandan firms will be incentivized to seek certification as it will open access to new investment opportunities and improved cost of capital.

The precise nature of the labelling regime will be explored in KSI 6, but as well as a general sustainability certification, it might include thematic brands such as climate, gender, sustainable tourism, forestry, or others to appeal to niche investors or those looking to fill specific portfolio limits. Further nuance could possibly be added by developing tiers of certification. For example, higher ratings could be given to firms that subscribe to impact investing and active ownership techniques through to an entry-level rating for those that apply simple exclusionary screening. These can be harmonized with other global or regional standards.

Naturally, the application of sustainability standards for VC/PE firms depends on there being critical mass in the industry in the first place, that there are sufficient firms adopting sustainable investment strategies, and that enough see the benefit of a local certification standard.

The VC/PE sector is not generally covered by financial services regulators as it does not generally represent a financial stability or consumer protection risk. The creation of a regional VC/PE industry association seems the ideal body for the development of voluntary standards and RFL could play a key role in catalyzing the creation of this body and providing practical advice on ESG standards and labelling. The formation of a regional VC/PE Association would serve as a platform for the advocacy on issues relating to responsible cross-border investments and the free movement of capital.

Regardless, the effective realization of standards depends heavily on the adoption by the VC/PE industry of some of the ESG risk management standards described in detail in KSI 6, and of course the simultaneous adoption ESG reporting and disclose by potential investees covered in KSI 7.

Potential VC/PE investment strategies might include:

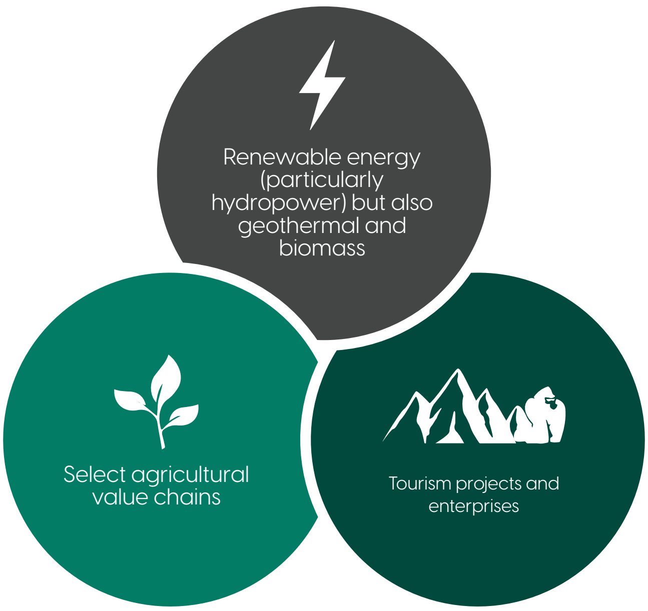
- **A Rwanda Renewable Energy Fund** focused on early and small-scale investments in innovative projects to build Rwanda's renewable energy capacity, particularly in hydropower, but also solar, geothermal, and biomass.
- **A Rwanda Sustainable Value Chain Fund** might concentrate on small-scale investments in innovative projects to embed sustainability in key value chains. The aim of the fund could be to simultaneously improve the productivity and competitiveness of local value chains while improving sustainability, particularly in agribusiness. This will reduce import dependency and potentially develop hard currency reserves through improved exports, particularly where Rwanda can differentiate its products through sustainability branding.

  Priority value chains mapped to the NDC project list include
  - Investments in dairy livestock productivity
  - Investments in poultry, pork, and aquaculture value chains
  - Investments in sustainable fertilizer production
  - Investments in energy efficient post-harvest and cold chain logistics
  - Energy efficiency investments in coffee and tea sectors
- **A Rwanda Sustainable Tourism Fund** could underpin the protection of the nation's immense ecological capital by investing in sustainable tourism projects based on cutting edge biodiversity criteria and metrics. Again, this has the potential to generate hard currency through tourist export receipts as part of a post-pandemic sustainable tourism recovery.
- Rwanda could also be a hub for regional funds such as those with a focus on the **Congo Basin or Grand Lacs.**

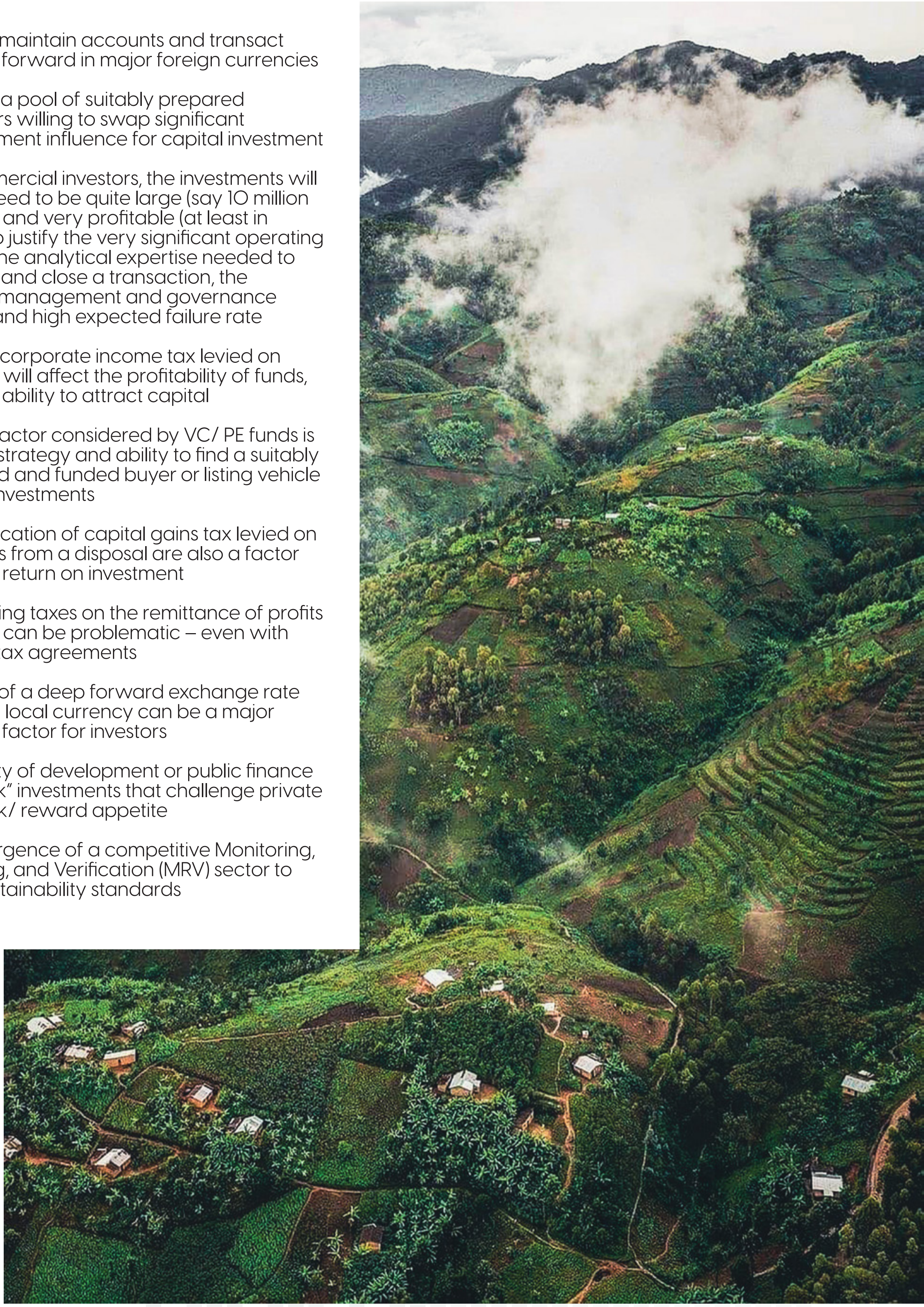
The above list is illustrative only, and options are only limited by the matching of available investment opportunities with investor appetite. Other topics might include investments in clean cooking technologies, low emissions transport, green construction etc.

Investor appetite for any fund can hypothetically be improved where development or public finance can be leveraged in a "blended" model to de-risk the investment for private sector capital.

Priority Sectors



- Ability to maintain accounts and transact spot and forward in major foreign currencies
- Need for a pool of suitably prepared borrowers willing to swap significant management influence for capital investment
- For commercial investors, the investments will usually need to be quite large (say 10 million USD plus) and very profitable (at least in theory) to justify the very significant operating costs of the analytical expertise needed to evaluate and close a transaction, the ongoing management and governance burden, and high expected failure rate
- Levels of corporate income tax levied on investees will affect the profitability of funds, and their ability to attract capital
- A major factor considered by VC/ PE funds is their exit strategy and ability to find a suitably motivated and funded buyer or listing vehicle for their investments
- The application of capital gains tax levied on the profits from a disposal are also a factor affecting return on investment
- Withholding taxes on the remittance of profits overseas can be problematic – even with bilateral tax agreements
- The lack of a deep forward exchange rate market in local currency can be a major inhibiting factor for investors
- Availability of development or public finance to "de-risk" investments that challenge private sector risk/ reward appetite
- The emergence of a competitive Monitoring, Reporting, and Verification (MRV) sector to verify sustainability standards



Key Tasks and Activities

1.1 Appoint a lead internal or external consultant to advise on development of the Rwanda domiciled cross border sustainability-oriented VC/PE fund industry (RFL) including:

- Recommendations on formation of a Rwandan VC/PE association in order to facilitate industry co-operation and advocacy
- Execution of a thorough supply and demand analysis for the cross-border VC/PE sector to identify policy recommendations that will enhance Rwanda's competitiveness as a jurisdiction
- Advice on best practices for ESG standards and sustainability labelling for the VC/PE industry

1.2 Establishment of pipeline of suitable investments in priority sectors (MINECOFIN/ MOE/ RFL)

1.3 Sensitization and support for potential investees in the opportunities to access sustainable investment flows by adopting sustainable business and operating model (RFL):

- Sensitization of potential investees to the implications of VC/ PE and preparing themselves to access finance through a series of workshops
- Consulting support to potential investees on adoption of sustainable business and operating models and sustainability standards

1.4 Engage with stakeholders to develop suitable "blended finance" solutions and promotion of these to private sector (RFL/ BRD/ FONERWA)

1.5 Development and implementation of PR and communications strategy to highlight Rwanda as a destination for sustainable VC/ PE funds (RFL/ RDB)

1.6 Launch of a consultative exercise focused on the identification and adoption of appropriate tax reforms regarding corporate income, capital gains, and withholding taxes in order to boost investor appetite (GOR/ RDB/ RFL/ MINECOFIN)

1.7 Support for regional and international VC/PE investors seeking opportunities in Rwanda and region (RFL):

- Consulting support to VC/ PE funds in locating suitable investees and networking with KIFC stakeholders
- Consulting support to VC/ PE funds in locating suitable buyers to finance exit strategies

8.1.2 KSI 2 Building a Sustainable Stock Market

Definition

While KSI 1 largely focuses on the enabling environment for equity investment in privately held enterprises, KSI 2 explores the options for listed companies. Currently the Rwanda Stock Exchange is quite small and illiquid, but with the potential to grow quickly. Dedicating some early thought to facilitating access to domestic and international capital seeking sustainable equity and debt markets may yield dividends.

Potential Sources of Capital

- International asset managers seeking robust returns on their investment would be attracted to potentially attractive returns on capital, as well as meeting their sector sustainable investment targets and/ or regional portfolio objectives
- Domestic and regional asset managers similarly may seek to diversify their portfolio into sustainable Rwandan listed companies or debt instruments
- Asset managers (domestic or international) may be able to develop new niche sustainable investment products with a Rwandan or regional (Congo Basin/ Grand Lacs) mutual fund to raise finance from retail investors seeking to incorporate these assets into their portfolios
- Domestic or international retail investors may choose to invest directly in the market on the basis of sustainable equity or debt exposures in the Rwandan market

Potential Application Of Capital

Potential products might include:

- **A Rwanda Sustainable Development Mutual Fund** that solicits retail and institutional investments for a portfolio focused on listed companies that exhibit strong sustainability or sustainability-linked characteristics. In the first instance these are likely to be portfolio products of major domestic asset managers, but as the market develops it may be possible to offer Exchange Traded Funds (ETFs).
- The CMA and/ or RSE may like to consider offering or mandating some type of Sustainability Labelling either for individual stocks or mutual funds that wish to market themselves under sustainability branding to retail investors. Ideally these would be compatible or based along similar lines to the approaches described in KSI 1. Similarly, they would also be subject to the adoption of relevant measures described in KSIs 6 and 7.
- **A Rwanda Stock Exchange Green Index** would be a basket of equities and/ or debt instrument exhibiting financial and sustainability characteristics that are attractive to both retail and institutional investors – and particularly helpful in developing ETFs. This is not technically a vehicle for financial intermediation, rather a data tool to assist investors make better decisions in line with their strategies more quickly and at lower cost. In the case of Rwanda, the Roadmap is proposing this initiative be led by the Rwanda Stock Exchange, but technically any ESG data vendor could develop and offer this product. Indeed, some competition in the ESG data market is a sign of health.

In addition, Rwandan asset managers may consider improving their sustainability credentials with regional and international retail and institutional investors by endorsing and adopting the UNEP-FI Principles of Responsible Investment. This relies on them having a sufficient pool of qualifying equities with which to build sustainable investment portfolios.

All of the above, of course, depends on listed companies adopting or moving towards sustainable business and operating models, and improving ESG reporting and disclosure. This is very much the focus of KSI 7: Improving Rwanda's Corporate ESG Disclosure and Reporting.

Priority Sectors

Any listed company in any sector could potentially qualify for investors depending on their compliance with ESG listing and annual reporting and disclosure criteria. However, based on the early stage of the stock exchange, typically early equity fund-raisers tend to be:

- Financial Institutions (especially commercial banks)
- Telecoms
- Other major industrial conglomerates

Dependencies and Assumptions

- Similar to KSI 1, corporation, income, capital gains, and withholding taxes should not repel investors
- Very significant increases in the number and size of listings, ideally sufficient to qualify for the MCSI Frontier Markets Index
- Major increases in the volume of trading on the RSE to support liquidity facilitated by the implementation of a real-time trading and prompt settlement system
- Continual cross-border integration of stock markets to boost cross-listings, liquidity and reduce regulatory, liquidity or tax arbitrage issues
- Ability to hedge Rwandan Franc in a price competitive forward market
- The emergence of a competitive MRV sector to verify sustainability standards
- The emergence of a competitive ESG data market to promote product innovation

Key Tasks and Activities

2.1 Put in place framework for Green Stock Exchange including both debt and equity instruments (CMA/ RSE/ RFL)

2.2 Establish sustainability labelling standards and verification framework for equities, bonds, mutual funds, and ETFs (CMA/ RSE/ RFL)

2.3 Sensitization and support for potential investees in the opportunities to access sustainable investment flows by adopting sustainable business and operating model (RFL/ CMA/ RSE):

- Sensitization of potential investees to the implications of listing and preparing themselves to access finance through a series of workshops
- Consulting support to potential investees on adoption of sustainable business and operating models and sustainability standards

2.4 Launch of a consultative exercise focused on the identification and adoption of appropriate tax reforms regarding corporate income, capital gains, and withholding taxes in order to boost investor appetite (GOR/ RDB/ RFL/ MINECOFIN, see also KSI 1.5)

2.5 Development and implementation of PR and communication strategy designed to promote RSE as a destination for international retail and institutional investors in sustainable listed equities (RFL/ RDB/ RSE)

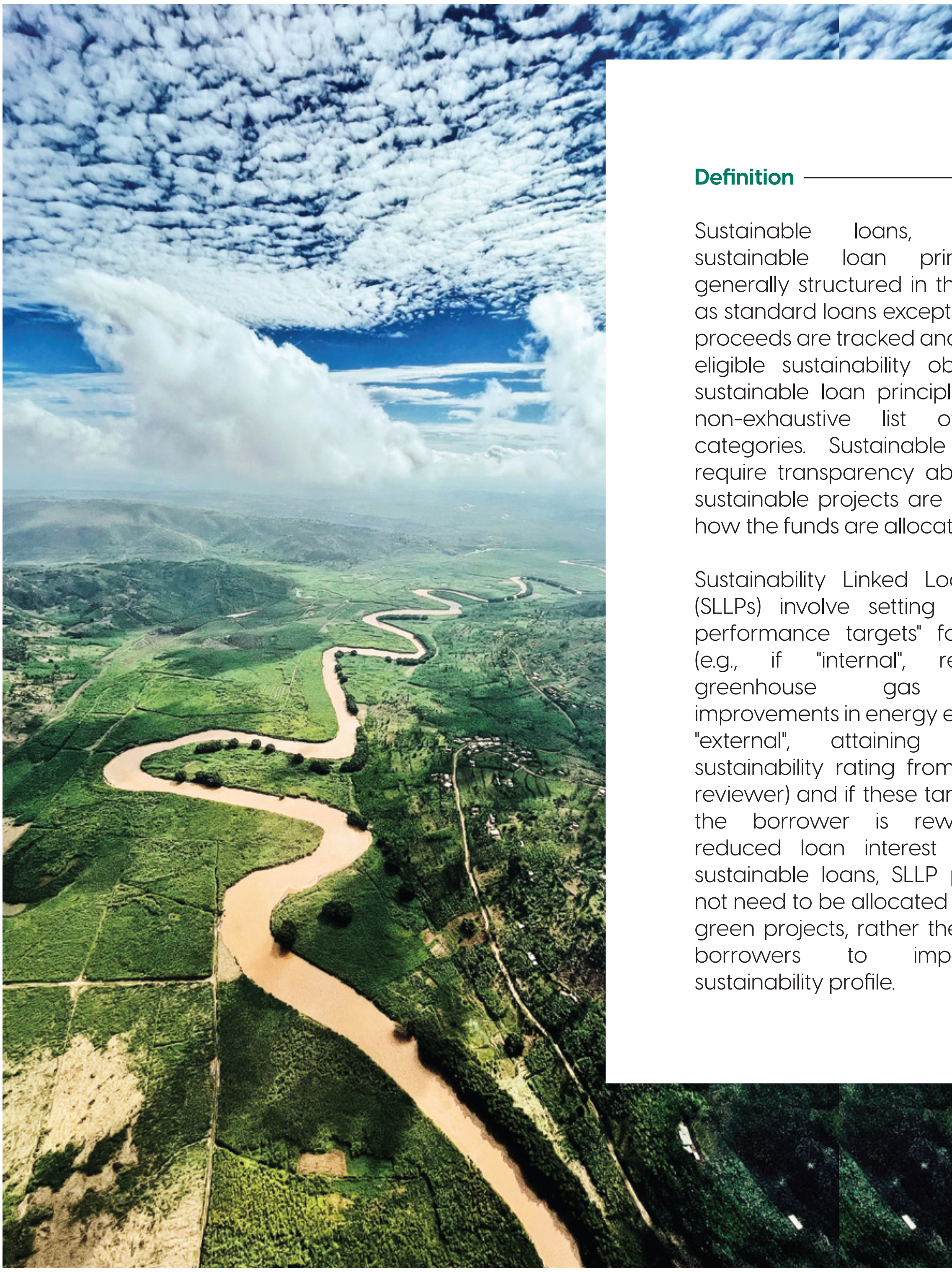
2.6 Ad-hoc consulting support and advice to international asset managers seeking suitable local fund managers (RFL)

2.7 Modernization of Rwanda Stock Exchange trading platform through implementation of a real-time trading and prompt settlement system (RSE/ CMA)

Critical supporting tasks and activities covered by other KSIs:

- Development of sustainability labelling standards for both individual equities as well as mutual funds and indices (RSE/ CMA, see KSI 6)
- Development of issuer friendly and investor compliant ESG listing standards (RSE/ CMA, see KSI 7)
- Advocacy for enhanced ESG reporting and disclosure standards for listed companies (RSE/ CMA, see KSI 7)
- Support to listed companies' adoption of sustainable business and operating models and sustainability standards (RFL, see KSI 8)
- Encouragement Rwandan asset management sector to adopt PRI through sensitization, training, and capacity building (RFL, see KSI 8)

8.1.3 KSI 3 Transitioning to Sustainable Lending



Definition

Sustainable loans, based on sustainable loan principles, are generally structured in the same way as standard loans except that the loan proceeds are tracked and allocated to eligible sustainability objectives. The sustainable loan principles contain a non-exhaustive list of indicative categories. Sustainable loans also require transparency about how the sustainable projects are selected and how the funds are allocated.

Sustainability Linked Loan Principles (SLLPs) involve setting "sustainability performance targets" for borrowers (e.g., if "internal", reduction in greenhouse gas emissions; improvements in energy efficiency; or if "external", attaining a certain sustainability rating from an external reviewer) and if these targets are met, the borrower is rewarded with reduced loan interest rates. Unlike sustainable loans, SLLP proceeds do not need to be allocated exclusively to green projects, rather they incentivize borrowers to improve their sustainability profile.

Potential Sources of Capital

- The principal sources of capital for sustainable lending will be the balance sheets of the commercial banking sector and other credit institutions.

- Adoption of sustainable lending practices will be viewed as an asset by development financiers and local banks will have competitive access to further capital and wholesale credit lines.

- International sustainable investors may view local banks as investable opportunities enabling banks to further expand their balance sheets in a sustainable direction.

- Local banks may become targets for acquisition by international banks, further deepening access to capital, as well as enhancing their business and operating model.

- Portfolio caps can be released through securitization which may offer a potentially interesting investment option for RSSB.

Potential Application of Capital

Sustainable Loans could cover any number of credit products depending on the customer demand and the credit strategy of the bank. Examples include:

- Term loans for capital investment purposes (these are most relevant for sustainability-linked loans). Priority projects aligned with the NDC include:
    - Loans for dairy livestock productivity
    - Loans to poultry, pork, and aquaculture value chains
    - Loans for sustainable fertilizer production
    - Loans for energy efficient post-harvest and cold chain logistics
    - Construction loans for energy efficient building and development of pozzolana and activated and green cement production
    - Construction loans for high density housing
    - Loans for improving energy efficient of brick production
    - Lending for energy efficiency projects in coffee and tea sectors

- Buyer credit or supplier pre-financing for value chains, particularly for sustainable agricultural value chain inputs such as:
    - Environmentally friendly fertilizer, herbicides, or pesticides
    - Climate and disease resistant crop varieties and more productive livestock husbandry
    - Irrigation equipment
    - Farm enterprise solar or biogas installations

- Consumer loans for clean cooking, household solar, energy efficient home improvement, low emissions vehicles etc.

SLLPs open the sustainable loan market to companies in a wider variety of sectors (which may not naturally provide those projects as a funding requirement) and to smaller companies that have not been able to overcome barriers to entry to participating in a green loan or issuing a green bond. SMEs are a likely candidate for SLLPs since they may not be able to commit the entire proceeds of a loan to specific green projects.

Priority Sectors

Sustainable and sustainability-linked loans are suitable for enterprises in most sectors, but are most applicable to sectors that have clearly identifiable sustainability MRV standards such as:

- Energy
- Water
- Manufacturing
- Agriculture
- Forestry
- Transport
- Construction
- Tourism

Dependencies and Assumptions

- A National Sustainable Finance Taxonomy to be developed and implemented by the BNR and CMA
- Commercial banks will need to adopt an effective ESG Risk Management Framework
- The development and adoption of Sustainable Loan Principles by the banking sector, likely led by the RBA in consultation with BNR
- The development and adoption of Sustainability Linked Loan Principles by the banking sector, likely led by the RBA in consultation with BNR
- The adoption of sustainability standards by industry sectors
- The emergence of a competitive MRV sector to verify use of funds

Key Tasks and Activities

3.1 Exploration of the use of sustainable credit enhancements (such as Green Credit Risk Guarantee Schemes) and proposals for reforms to GoR (BNR/ RFL/ RBA/ BRD)

3.2 Sensitization and capacity building for banks to develop specific sustainable loan products that target SDG priority sectors, through project loans, corporate loans, SMEs financing, green mortgage loans, etc. through a series of workshops (BNR/ RBA/ RFL)

3.3 Development and implementation of a PR and communications strategy to promote the Rwandan banking sector as a model of sustainability lending (BNR/ RBA/ RFL/ RDB)

3.4 Liaison between international wholesale sustainable financiers (development and commercial) and Rwandan banks (BNR/ RBA/ RFL/ RDB)

3.5 Liaison between international banks and bank investors with a sustainability agenda, and the Rwandan banking sector (BNR/ RBA/ RFL/ RDB)

Critical supporting tasks and activities covered by other KSIs:

- Urgent development of a national sustainable finance taxonomy by BNR and CMA, suitable to the local context as well interoperable with major international frameworks (BNR/ CMA, see KSI 6)
- Development of sustainable lending principles by the RBA, and adoption by banking and other credit institutions (RBA, see KSI 6)
- Development of sustainability-linked lending principles by the RBA, and adoption by banking and other credit institutions (RBA, see KSI 6)
- Effective implementation of ESRM with the business and operating models of banking and other credit institutions (RBA, see KSI 6)
- Promotion of Kigali as a destination for establishing MRV firms (RDB/ RFL, see KSI 7)
- Adoption of incentive mechanism to promote sustainable lending, such as differentiated reserve requirements, differentiated risk weighting, interest subsidies, tax preferences, etc. (RFL/ RBA/ BNR, see KSI 7)
- Advocacy for key sectors of Rwandan economy to embrace mainstream sustainability standards (ICPAR/ RFL, see KSI 7)
- Training and development for industry and bankers in main sustainability standards applicable to Rwandan context (RBA/ RFL, see KSI 8)
- Sensitization and capacity building for Rwandan banking sector in order to adopt PRB (RBA/ RFL, see KSI 8)

8.1.4 KSI 4 Developing Sustainable Debt Capital Markets

Definition

A bond is a longer-term debt instrument obliging an issuer to pay the holder a regular coupon or interest payment on the face value, and often a part of the principal either in instalments or on maturity. The sale price as a proportion of the face value is usually negotiated or fixed during an auction process, meaning the issuers often feel more assured they are getting the best price for debt possible. They also have advantage of being more flexible than loans, without the loan terms and conditions that often apply to bank lending. However, the case is slightly different in the case of thematic bonds.

Currently green bonds (particularly climate bonds) are the largest asset class, though issuance of social bonds (e.g., gender finance) are beginning to gain traction. The identification of the optimal sustainability standards and the robust verification of use of proceeds is key to generating investor appetite. Like loans, bonds can either be sustainable (i.e., on the basis of the issuer's current ESG credentials or commitment to use of proceeds) or sustainability-linked (i.e., on the basis of an issuer's commitment to adopt improved ESG standards).

Similar to sustainability-linked loans, sustainability-linked (often term "transition") bonds are predicated on shifts towards improved sustainability standards by issuers. Likewise – the strict use of proceeds stipulations is relaxed as issuers reach the targets agreed with bondholders. They do require strict MRV standards, however, and opportunities to "claw back" financing costs are dependent on achieving these. Like any other bond, they can be applied to pure play corporates as well as structured finance solutions geared towards project financing.

Bonds can be issued in any currency and in the case of large issues, are often publicly auctioned and traded. Smaller bonds are less liquid and usually "privately-placed" with buyers with a particular interest in the issuer and often willing to hold the bond until maturity. Bonds can be issued by a corporation or by a new Special Purpose Vehicle (SPV) specifically created to finance a particular project. In almost all cases, the issuer would need to be rated by an international credit rating agency in order to attract sufficient buyer interest.

Also, within this KSI are included "carbon offsets" as they bear some features that are analogous to climate bonds, albeit they are much less formalized and have substantially less track record as a financial instrument. Companies and projects can issue carbon credits assuming they can have them validated under a standard that would generate interest from local and domestic buyers – who often use them to demonstrate their progression towards a "net zero" model.

Potential Sources Of Capital

Potential products might include:

- International commercial fixed-income investors (e.g., pension funds, asset managers) seeking to build a sustainability portfolio in SSA are the most likely pool of capital to be tapped.

- Domestic and international corporations seeking to emphasize "net-zero" progress through purchase of carbon offsets.

Potential Application Of Capital

A USD Private Placement Climate Bond might be an ideal product for financing a renewable energy project. For example, a major domestic energy concern that wished to sponsor a grid-connected, solar farm could agree a suitable off-take contract with a (government-owned) electricity transmission and distribution network. The future proceeds of this contract could be the basis for capitalizing an SPV which would be separately rated by an international ratings agency. The carbon mitigation effect of the project could be verified under the Climate Bonds Standard and qualify as a "climate bond" under the popular industry-standard Climate Bonds Initiative. In theory this should attract a "premium" to that of a regular bond but evidence for this is not currently compelling, especially given the significantly increased costs of MRV.

A USD Private Placement Transition Bond might be an ideal instrument for a Rwanda corporation to finance its "transition" to a lower carbon business and operating model. Best placed would be companies with high emissions that a substantial capital investment could materially reduce. Typically, the most carbon intensive sectors are:

- Electricity generation
- Transportation
- Manufacturing
- Commercial and residential construction
- Agricultural production
- Forestry

The issuer would need to establish clear ESG targets and a suitable MRV mechanism, such as those recommended by the Climate Bonds Initiative, for example. Even with the added expense of MRV it would be hoped that a suitable compensating premium might be achieved.

As Rwanda's fixed income market matures, an RWF bond public offering might be achievable. Whilst climate and green bonds are the most popular classes, it might be interesting to explore the concept of a major commercial bank issuing an RWF Gender Bond to the public, to be auctioned and traded on the RSE. A social bond of this type could dedicate its use of proceeds, for example, the financing of women-owned businesses in Rwanda. An issuance of this type also deepens local debt capital markets and provides fixed income asset management options for pensions, insurers, and fund managers.

Finally, RFL will investigate the options for raising finance through the issue of Voluntary Carbon Credit Offsets. The global voluntary carbon offset market is a complex and sometime controversial source of capital. It bears little relation to the highly structured cap-and-trade schemes in the EU and other developed market jurisdictions. There is a huge variety in the rigor of standards measuring carbon offset, which is reflected both in the expense of the MRV and the revenue potential of the carbon offset.

Carbon offsets can be generated through a range of mitigation projects in many sectors, however African countries are particularly interested in the potential of sustainable forestry and land recovery.

Priority Sectors

Sustainability and sustainability-linked bonds can be suitable to any sector, but usually require issuers with the size and sophistication to absorb large amounts of finance as well as the technical aspects of Monitoring, Reporting, and Verification. Priority sectors in Rwanda are likely to be:

- Energy
- Transport
- Manufacturing
- Construction
- Mining
- Agriculture
- Forestry
- Commercial banks are also likely issuers of sustainable debt capital and have the capacity to on-lend funds to reach smaller borrowers in more diverse sectors

Voluntary carbon offsets are applicable to any sector which can demonstrate carbon mitigation through the adoption a specific standard, and the applicable MRV process, however forestry is a sector with the largest carbon offset market and well developed MRV standards.

Dependencies and Assumptions

- Suitable issuers in the shape of a major corporate, financial institution or bankable project with sufficiently high international credit rating
- A National Sustainable Finance Taxonomy to be developed and implemented by the BNR and CMA
- Adoption of suitable sector sustainability standards within the business and operating model
- The development and adoption of Sustainable Bond Principles by the markets and its advisors, likely led by the CMA in consultation with RSE
- The development and adoption of Sustainability Linked Bond Principles by the markets and its advisors, likely led by the CMA in consultation with RSE
- Access to cost-effective MRV audit and use of proceeds verification consultancy
- Access to cost-effective credit rating agency services
- Sufficient appetite amongst local and international fixed income investors for Rwandan sustainability bonds and their issuers
- Pipeline of afforestation/ deforestation projects seeking to raise finance through offsets
- Availability of "carbon sinks" in the form of old growth tropical forests
- Industry adoption of suitable sustainable forestry standards and carbon offset verification
- Appetite of buyers for Rwanda carbon offsets depending on price and standards

Key Tasks and Activities

4.1 **Development and implementation of a PR and communications strategy to promote Rwandan carbon offsets to local and international buyers (RDB/ RFL)**

4.2 **Sensitization of Rwandan corporates and project sponsors to raising finance through sustainable bond issues through series of workshops (RFL/ RSE/ CMA)**

4.3 **Development and implementation of a PR and communications strategy to promote RSE as preferred destination to issue and trade public sustainability bonds (RSE/ CMA/ RDB/ RFL)**

4.4 **Development and implementation of a PR and communications strategy to promote Rwanda to international wholesale sustainable fixed income investors (development and commercial) (RSE/ CMA/ RDB/ RFL)**

Critical supporting tasks and activities covered by other KSIs:

- Urgent development of a national sustainable finance taxonomy by BNR and CMA, suitable to the local context as well interoperable with major international frameworks (BNR/ CMA, **see KSI 6)**
- Development of or subscription to sustainable bond principles by the CMA, and adoption by issuers (CMA, **see KSI 6)**
- Development of or subscription to sustainable-linked bond principles by the CMA, and adoption by issuers (CMA, **see KSI 6)**
- Promotion of Kigali as a destination for establishing MRV firms (RDB/ RFL **see KSI 7)**
- Training and development for industry and bankers in main sustainability standards applicable to Rwandan context (RBA/ RFL, **see KSI 8)**

8.1.5 KSI 5 Expanding the Sustainable Insurance Sector

Definition

Insurance differs from the previous products as it is actually a risk management tool most suitable for climate change adaptation. Rwandan small-holder agriculture is particularly exposed to the weather and weather-event related risks of climate change – including increased drought, flooding, storm, fire, disease, and pestilence.

The nascent Rwandan insurance sector already offers a small range of products which would be described as falling under the sustainability umbrella such as crop or livestock insurance. Access to the products and adoption by farmers needs to be greatly encouraged. Often, uptake of suitable products is a condition of access to credit.

Potential Sources of Capital

The principal sources of capital for expanding s sustainable insurance sector in Rwanda might include:

- The publicly funded Rwanda Agricultural Insurance Scheme which will subsidize premiums
- The balance sheets of market participants in the Rwanda insurance industry
- Potential domestic and international investors into the sector, whether commercial or development-oriented

Potential Application Of Capital

RFL will assist the sector explore the opportunity for further expansion into parametric insurance. Parametric is cost effective insurance that pays out benefits on the basis of a predetermined index (e.g., rainfall level, wind speed, etc.) for loss resulting from weather events. Unlike traditional insurance, parametric insurance uses a model to calculate the pay-out of the insurance policy.

The pay-out model aims to closely mirror the actual damage on the ground and enables a much more rapid payment as no loss adjusters are required after the event to assess the actual damage that the policy covers crops for a pre-determined sum per acre in case of loss or damage arising from unforeseen events. The perils – or covered causes can include aspects like droughts or rainfall deficits. If crops are damaged or lost due to any pre-defined event, pay-out will occur. This way, farmers are getting assurance that their yields are protected.

There are other **green general insurance products** that incentivize sustainable practices or cover losses related to climate change or social upheaval. They operate in much the same way as traditional insurance, however a certain understanding of desired environmental or social benefits needs to be determined. Examples include:

- Green insurance incentives for motor vehicles (discounts for fuel efficiency)
- Green insurance for buildings (discounts for energy efficiency)
- Environmental Liability insurance for business (coverage for industrial accidents)

Priority Sectors

- Climate risk insurance is available to small business and low-income individuals that mitigate the financial loss effects of climate change.
- Businesses and individuals can procure a wide range of insurance policies that either hedge against the risk of financial loss as a result of environmental damage to industrial activity or incentivize policy holders to improve mitigation efforts.

Dependencies and Assumptions

- Precise data on floods, temperatures, event occurrences, losses, and exposures (Actuarial services)
- Institution set up for management of funds, verification of triggers, oversight (Government and Private Insurer partnership)
- Framework for monitoring sustainability risks, including those related to climate change (Insurance Provider)
- Energy efficiency ratings system (e.g., LEED) and other ESG standards

Key Tasks and Activities

5.1 **Recommendation of a framework for monitoring sustainability risks, including those related to climate change by ASSAR, supported by BNR (BNR/ ASSAR)**

5.2 **Sensitization and capacity building for Rwandan insurance sector on opportunities of sustainable insurance products through a series of workshops (BNR/ RFL/ ASSAR)**

5.3 **Encouragement of links and knowledge exchange between Rwandan insurers and international reinsurers (BNR/ RFL/ RDB)**

5.4 **Creation of a data improvement project led by ASSAR, advocating for, and effectively working on widening and improvement of the timeliness, reliability, and availability of quantitative meteorological and other environmental and agricultural data points (BNR/ RFL/ ASSAR)**

5.5 **Development and implementation of a PR and communications strategy to promote Rwandan insurance sector amongst international commercial and development investors (BNR/ RFL/ RDB/ ASSAR)**

5.6 **Promotion of Rwanda as a suitable jurisdiction for international reinsurers to situate their regional hub (BNR/ RFL/ RDB/ ASSAR)**

Critical supporting tasks and activities covered by other KSIs

- Urgent development of a national sustainable finance taxonomy by BNR and CMA, suitable to the local context as well interoperable with major international frameworks (BNR/ CMA, **see KSI 6)**

- Encouragement of Rwandan insurance sector to adopt PSI (BNR/ ASSAR/ RFL, **see KSI 6)**

8.2 KSO 2 KIFC will have the Financial Instruments to Support its Ambition to be a Sustainable Finance Hub

Whilst KIFC's focus is on scaling sustainable finance through the development of the new financial structures and instruments described under KSO 1 above, it is also essential to ensure that the necessary financial sector infrastructure is in place to enable the organic creation of these structures and instruments.

By sustainable financial services infrastructure the Roadmap is referring to the Rwandan financial sectors intellectual capital in the form of the following:

- National Sustainable Finance Policies developed at a regulatory level to guide the development of the wider financial sector towards integration with global standards, whilst also being contextualized to local circumstances.

- **Guidelines:** As global standards of sustainable finance evolve, these need to be transposed into practical and implementable guidelines for market-facing institutions (i.e., micro-level) to follow. Clearly, decisions will need to be made about which standards are most applicable to Rwanda's sustainable finance objectives and how these are to be prioritized. The variety and complexity of emerging global standards is large so there is no way to tackle them simultaneously. A relevant, incremental, and achievable approach will need to be adopted by macro- and meso-level policymakers to make global standards work in Rwanda's benefit rather than a burden.

- **Policies, Processes, Products, Tools, and Models:** Aside from human capital, financial institutions may need considerable adjustments to their business and operating models by incorporating sustainable finance into corporate strategy, or through compliance with emerging domestic guidelines. Depending on the financial institution, some may require support or assistance in translating sector guidelines into organizational policies, process, products, tools, and models. Consideration should be given to the scale, scope and source of consultancy, technical assistance, and capacity building that may be required to effectively realize sustainable finance in the day-to-day values and behaviors of financial services professionals.

These elements are covered in **KSI 6: Enhancing Rwanda's Financial Sector ESG Risk Management.** However, in parallel, there will be a need to Rwanda's real economy (i.e., the clients of financial institutions) to prepare themselves to access sustainable finance. They will need to show to financial institutions how they are adapting their business and operating models towards sustainable development, most tangibly through the adoption of suitable sustainability standards that allow the Monitoring, Reporting, and Verification of this process. In addition, internationally there are emerging reporting and disclosure standards that relate to climate and embedding sustainability in accounting practice which will need to be assimilated over time. These aspects are covered in KSI 7: Improving Rwanda's Corporate ESG Disclosure and Reporting.

8.2.1 KSI 6 Enhancing Rwanda's Financial Sector ESG Risk Management

Definition

This KSI will focus on improving the understanding of ESG risks (including climate change) by Rwanda financial institutions, underpinning financial stability through improved ESG reporting and disclosure, and improving access to finance for sustainable development.
This is necessary for several reasons:

- Rwanda needs to continue to attract cost-effective capital and finance in order grow the financial sector and fund its sustainable economic development plans. If the financial sector is not well aligned with global expectations in terms of their ESG risk management, then this additional finance will be that much harder to attract.

- Linking effective return on capital with financial stability is the need for financial institutions to understand the ESG risks they face on a portfolio and transactional basis. This will become increasingly essential as physical and transition risks increase. Financial institutions will need to optimize their credit and investment strategies around this new reality and adopt effective risk-based approaches to pricing. On a transaction basis, financial institutions will be vital in cascading the ESG risk management culture to their investees or borrowers. This will happen through pricing signals, but also practical assistance and good advice to clients.

- Finally, at a macro-level, regulators are obliged to consider effective ESG risk management as a financial stability issue. Therefore, including the topic within prudential reporting and disclosure is necessary, as is support to their respective franchises in adopting best practice in the topic.

There are no tried and tested approaches, or hard and fast rules for developing an effective ESG risk management framework. Mature financial centers see regulators working with a highly engaged and knowledgeable industry to proactively develop shared solutions. The topic is very much an evolving one and it is not necessarily ideal for an emerging market like Rwanda to be on the "bleeding edge".

The discipline of ESG risk management in the financial sector can be rolled out incrementally as consensus emerges between major financial centers on crystallizing best practice. Many of these best practices are being described in the sustainable finance principles referred to below. There are emerging international standards that may emerge as best practice in time, and these can be used as template in the interim.

Gradually, Rwandan financial institutions will increasingly subscribe to these principles. However, perhaps the process can be facilitated by the development of a National Finance Taxonomy to assist financial institutions and their clients in the classification of economic activities and financial assets. Taxonomies vary widely in complexity, so it is important that an approach is chosen that is suitable to the Rwandan context whilst being broadly instructive to international stakeholders.

The development of an effective national taxonomy must be a collaborative exercise between the financial sector, the real economy, and the public sector. It will involve market participants, industry associations, regulators, line ministries, NGOs and development agencies, and other public agencies. It is potentially a major and complex exercise that potentially has far-reaching implications. With the right approach, however, it can be tackled incrementally, simultaneously leading to less stressful and more timely adoption.

Potential Sources of Funding

The principal resources for supporting the measures that may need to be addressed in this KSI are:

- Self-organization from market participants and industry bodies or associations
- Funding for consulting support from market participants and industry bodies or associations
- Public expenditure by government agencies for consulting services
- Grant funding from development partners for consulting services
- Complimentary consulting support from international agencies or peer-to-peer learning networks

Key Tasks and Activities

6.1 Urgent development of a national sustainable finance taxonomy by BNR and CMA, suitable to the local context as well interoperable with major international frameworks (BNR/ CMA/ wider private and public stakeholders)

6.2 Development of stress-testing and scenario analysis guidance, and reporting and disclosure regulations covering physical and transition risk (BNR/ CMA)

6.3 Development of portfolio and asset allocation reporting regulations built around National Sustainable Finance Taxonomy for measuring sustainable finance flows and impact (BNR/ CMA)

6.4 Development of sustainable lending principles by the RBA, and adoption by banking and other credit institutions (RBA)

6.5 Development of or subscription to sustainable bond principles by the CMA, and adoption by issuers (CMA)

6.6 Development of or subscription to sustainable-linked bond principles by the CMA, and adoption by issuers (CMA)

6.7 Development of or subscription to sustainable insurance principles by BNR/ ASSAR, and adoption by members (BNR/ ASSAR)

8.2.2 KSI 7 Improving Rwanda's Corporate ESG Disclosure and Reporting

Definition

If sustainable finance is to scale up significantly, then it will require suitably qualified counterparts in the form of investees or borrowers. So, it is also necessary to consider the effective adoption of sustainability standards within the Rwandan real economy.

Many of these international standards have been developed for large and multi-national corporates and will need to be tailored for the Rwandan context. Even in the most developed markets, stimulating the effective adoption of sustainable business and operating models amongst SMEs (let alone micro-enterprise) is proving a vexing challenge. Major corporates can afford and realize the benefits of sustainability, but it is a challenge for SMEs. In addition, it would be unhappy outcome if SMEs found yet more barriers erected in order for them to access finance.

Nevertheless, this KSI aims to improve access to competitive capital by transforming the ESG data architecture in Rwanda and building deep pools of timely, relevant, and reliable ESG data which will enable both domestic and international financial institutions to confidently allocate capital to Rwandan enterprise.

Potential Sources of Funding

The principal resources for supporting the measures that may need to be addressed in this KSI are:

- Self-organization from market participants and industry bodies or associations
- Funding for consulting support from market participants and industry bodies or associations
- Public expenditure by government agencies for consulting services
- Grant funding from development partners for consulting services
- Complimentary consulting support from international agencies or peer-to-peer learning networks

Key Tasks and Activities

7.1 Establishment of liaison with MOE and ICPAR on adapting NDC MRV infrastructure to support mainstream corporate climate reporting (RFL/ MOE/ ICPAR)

7.2 Gradual adoption of ESG reporting and disclosure guidance based on leading international standards (RFL/ ICPAR)

7.3 Phased implementation of sustainability-related accounting standards based on international guidance (RFL/ ICPAR)

7.4 Adoption by industry of well-established and practical MRV standards (ICPAR/ RFL)

7.5 Enhancement of ESG listing criteria by RSE based on peer review of similar guidance (RSE/ CMA)

7.6 Enhancement of regular sustainability reports as part of annual reporting requirements for listed companies (RSE/ CMA)

8.3 KSO 3 KIFC will Cultivate the First-class Human Capital Needed to Build and Underpin this Sustainable Finance Infrastructure

In order to deliver the Action Plan, it is likely that KIFC may require external input in form of knowledge and expertise. Typical interventions might include the following:

- The frameworks and mechanisms of change, of which this Roadmap is amongst the earliest steps. Sustainable Finance Roadmap
- Co-operation and the management of change: Close collaboration between financial sector stakeholders will be required to successfully deliver change. The mechanisms are yet to be established and decisions on the modalities and membership rest squarely with RFL and the Steering Committee. Nevertheless, the Roadmap will reflect on best practice in governing and managing large and complex programmes of change.
- Sensitization to sustainable finance: There appears to be a strong need to simply raise awareness of the topic amongst senior financial sector leaders and decision-makers (whether shareholders, board members, management, policymakers, and regulators) with a particular emphasis on the direction of global finance, and the opportunities that it represents.
- Training and development: Knowledge and skills will need to be upgraded in sustainable finance topics and in the application of these within mainstream financial sector disciplines (e.g., strategy and planning, finance, compliance, risk management, transaction origination and execution etc.). This training and development will need to be tailored to executive, management, and practitioner levels and approaches to delivery could range from pure academic, through professional qualification, vocational and on-the-job training, as well as ad-hoc workshops, seminars etc.

However, effective knowledge management is much more than simply the development and delivery of a curriculum. Mature centers of excellence in finance have a wide range of formal and informal structures that curate and generate the knowledge, expertise, and culture required to be truly innovative.

8.3.1 KSI 3 Capacity Building in Sustainable Finance

Definition

This KSI will focus on upgrading the human capital of KIFC in sustainable finance through integration of the topic into undergraduate and post-graduate curriculums, professional qualifications, vocational and on-the-job training, and continuous professional development.
It will have the following outcomes:

- Enhancement of the status of KIFC's human capital in terms of skills, competences, values, and behaviors
- Improved employment and advancement prospects for KIFC financial services professionals

The KSI will also build the intangible elements of positioning Rwanda as a centre of excellence in sustainable finance. This KSI will adopt best practice in knowledge management to ensure Rwanda will independently and organically continue to build its human capital in sustainable finance. This will include:

- Thought leadership in sustainable finance
- Development of innovative products and services
- Attraction of intellectual capital to Rwanda

Potential Sources of Funding

The principal resources for supporting the measures that may need to be addressed in this KSI are:

- Self-organization from market participants and industry bodies or associations
- Funding for consulting support from market participants and industry bodies or associations
- Public expenditure by government agencies for consulting services
- Grant funding from development partners for consulting services
- Complimentary consulting support from international agencies or peer-to-peer learning networks

Key Tasks and Activities

8.1 Specific market research with the Rwandan financial sector on demand for training and development and capacity building (RFL)

8.2 Adhesion of RFL to the Sustainable Banking and Finance Network to access knowledge, expertise, and support (RFL)

8.3 Liaison between RFL and development agencies on coordinating training and development, and other capacity building programmes (RFL)

8.4 Adoption of a sustainable finance curriculum into sub-sector curriculums:

- Into the banking curriculum through Rwanda Academy of Finance (RFL/ RAF/ RBA)
- Into the Rwanda Insurance Center Curriculum (RFL/ ASSAR)

8.5 Organization of major regional conferences:

- Organization of major regional conference on sustainable investment (RFL)
- Organization of major regional conference on sustainable lending and insurance (RFL)
- Organization of major regional conference on debt capital markets (RFL)

8.6 Establish and facilitate various academic programmes on sustainable finance:

- Establishment of a scholarship programme for a Rwandan student to pursue post-graduate studies in sustainable finance (RFL)
- Establishment of a department of sustainable finance at a major university in Kigali (RFL)

09 Roadmap Action Plan

9.1 Short-Term Action Plan

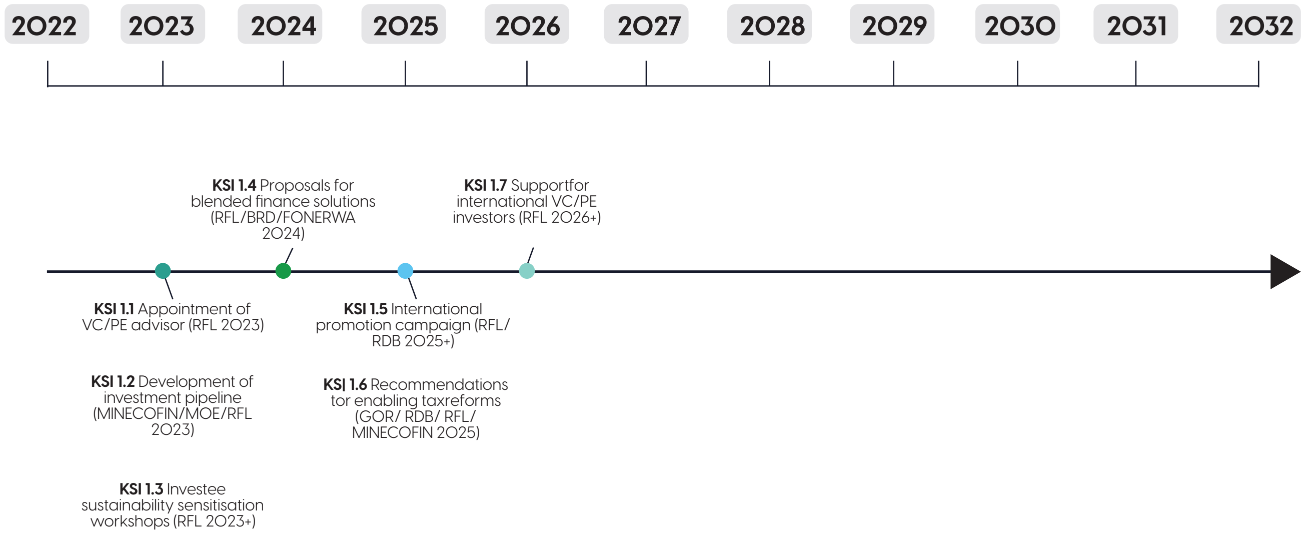
		end-2023	end-2024	end-2025
KSO 1	**KSI 1:** Attracting Sustainable Venture Capital/ Private Equity	■ KSI 1.1 Appointment of VC/PE advisor (RFL 2023) ■ KSI 1.2 Development of investment pipeline (MINECOFIN/ MOE/ RFL 2023) ■ KSI 1.3 Investee sustainability sensitization workshops (RFL 2023)	■ KSI 1.4 Proposals for blended finance solutions (RFL/ BRD/ FONERWA 2024	■ KSI 1.5 International promotion campaign (RFL/ RDB 2025+) ■ KSI 1.6 Recommendations for enabling tax reforms (GOR/ RDB/ RFL/ MINECOFIN 2025)
	KSI 2: Building a Sustainable Stock Market	■ KSI 2.1: Put in place framework for Green Stock Exchange (CMA/ RSE/ RFL 2023) ■ KSI 2.2: Establish sustainability labelling standards and verification framework (CMA/ RSE/ RFL 2023)	■ KSI 2.3 Sensitization/ support to companies in sustainability (RFL/ CMA/ RSE 2024+)	■ KSI 2.4 Recommendations for enabling tax reforms (GOR/ RDB/ RFL/ MINECOFIN 2025)
	KSI 3: Transitioning to Sustainable Lending		■ KSI 3.1 Credit enhancement recommendations (BNR/ RFL/ RBA/ BRD 2024) ■ KSI 3.2 Bank sensitization workshops and capacity building (BNR/ RBA/RFL 2024+)	■ KSI 3.3 Banking sector PR and communications plan (BNR/ RBA/ RFL/ RDB 2025+)
	KSI 4: Developing Sustainable Debt Capital Markets			■ KSI 4.1 Carbon offset PR and communications plan (RDB/ RFL 2025+)
	KSI 5: Expanding the Sustainable Insurance Sector		■ KSI 5.1 Insurance sustainability risk framework (BNR/ ASSAR 2024)	■ KSI 5.2 Sustainable insurance sensitization workshops (BNR/ RFL/ ASSAR 2025)
KSO 2	**KSI 6:** Enhancing Rwanda's Financial Sector ESG Risk Management	■ KSI 6.1 National sustainable finance taxonomy (BNR/ CMA/ public and private stakeholders 2023)	■ KSI 6.2 Stress-testing and scenario analysis guidelines (BNR/ CMA 2024)	■ KSI 6.3 Portfolio & asset allocation reporting guidelines (BNR/ CMA 2025)
	KSI 7: Improving Rwanda's Corporate ESG Disclosure and Reporting		■ KSI 7.1 Proposals to enhance MRV business environment (RFL/ MOE/ ICPAR 2024)	■ KSI 7.2 Adoption of best practice ESG disclosures (RFL/ ICPAR 2025+)

9.2 Medium/ Long-Term Action Plan

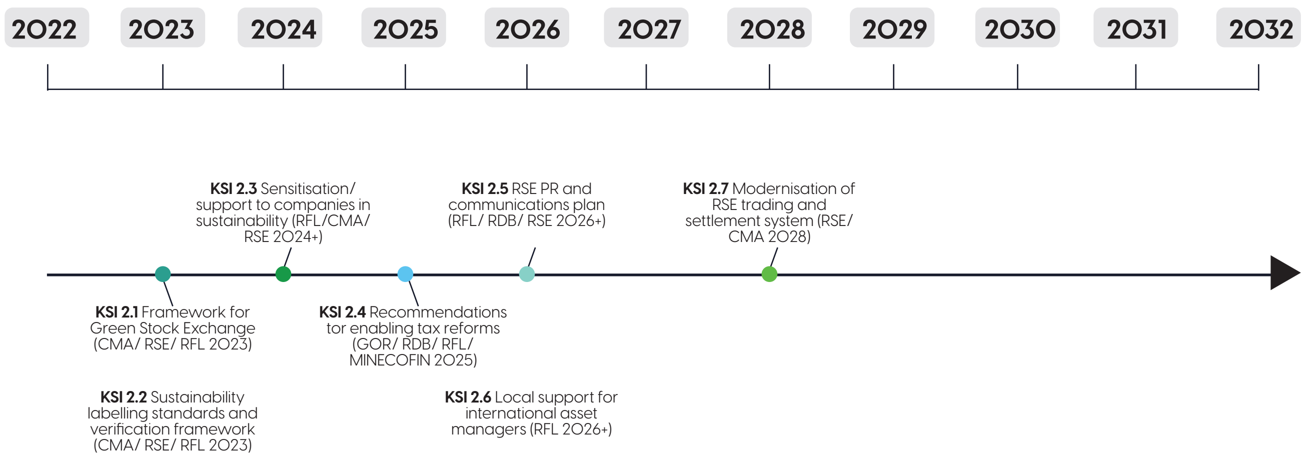
		end-2026	end-2027	end-2028	end-2029
KSO 1	**KSI 1:** Attracting Sustainable Venture Capital/ Private Equity	▪ KSI 1.7 Support for international VC/ PE investors (RFL 2026+)			
	KSI 2: Building a Sustainable Stock Market	▪ KSI 2.5 RSE PR and communications plan (RFL/ RDB/ RSE 2026+) ▪ KSI 2.6 Local support for international asset managers (RFL 2026+)		▪ KSI 2.7 Modernization of RSE trading and settlement system (RSE/ CMA 2028	
	KSI 3: Transitioning to Sustainable Lending	▪ KSI 3.4 Liaison with development investors (BNR/ RBA/ RFL/ RDB 2026+)	▪ KSI 3.5 Liaison with commercial international investors (BNR/ RBA/ RFL/ RDB 2027+)		
	KSI 4: Developing Sustainable Debt Capital Markets	▪ KSI 4.2 Sustainable bond sensitization workshops (RFL/ RSE/ CMA 2026)	▪ KSI 4.3 RSE DCM listing PR and communications plan (RSE/ CMA/ RDB/ RFL 2027+)	▪ KSI 4.4 International fixed income investor PR plan (RSE/ CMA/ RDB/ RFL2028+)	
	KSI 5: Expanding the Sustainable Insurance Sector	▪ KSI 5.3 Liaison with international (re)insurers (BNR/ RFL/ RDB 2026+)	▪ KSI 5.4 Development and implementation of data improvement project (BNR/ RFL/ ASSAR 2027+)	▪ KSI 5.5 Insurance sector PR and communications plan (BNR/ RSE/ RDB/ ASSAR 2028+)	▪ KSI 5.6 Promotion plan for preferred reinsurance jurisdiction (BNR/ RFL/ RDB/ ASSAR 2029+)
KSO 2	**KSI 6:** Enhancing Rwanda's Financial Sector ESG Risk Management	▪ KSI 6.4 Sustainable lending guidelines (RBA 2026)	▪ KSI 6.5 Sustainable bond guidelines (CMA 2027)	▪ KSI 6.6 Sustainability-linked lending guidelines (RBA 2028)	▪ KSI 6.7 Sustainability-linked bond guidelines (CMA 2029) ▪ KSI 6.8 Sustainable insurance principles (BNR/ ASSAR 2029)
	KSI 7: Improving Rwanda's Corporate ESG Disclosure and Reporting	▪ KSI 7.3 Adoption of best practice sustainability accounting standards (RFL/ ICPAR 2026+)	▪ KSI 7.4 Adoption of sustainability standards by Rwandan companies (ICPAR/ RFL 2027+)	▪ KSI 7.5 Enhanced ESG listing standards (RSE/ CMA 2028)	▪ KSI 7.6 Enhanced RSE ESG reporting and disclosure (RSE/ CMA 2029)
	KSI 8: Capacity Building in Sustainable Finance	▪ KSI 8.5 Organisation of conferences and other event management (RFL 2026+)	▪ KSI 8.6 Liaison with academia to establish sustainable finance departments (RFL 2027+)		

9.3 KSO 1: KIFC will have the Financial Instruments to Support its Ambition to be a Sustainable Finance Hub

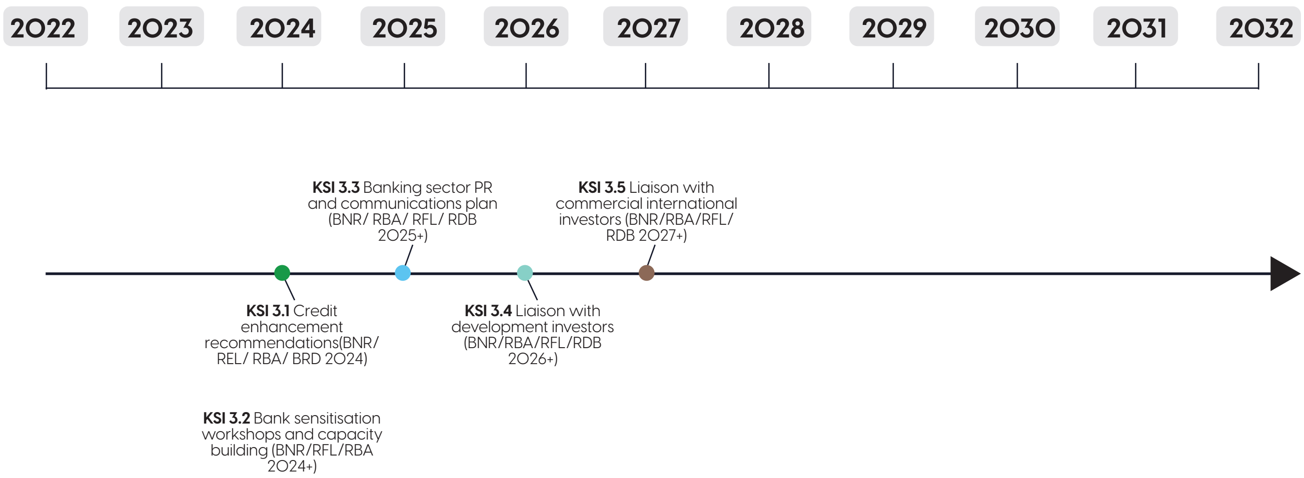
9.3.1 KSI 1: Attracting Sustainable Venture Capital/ Private Equity (VC/ PE)



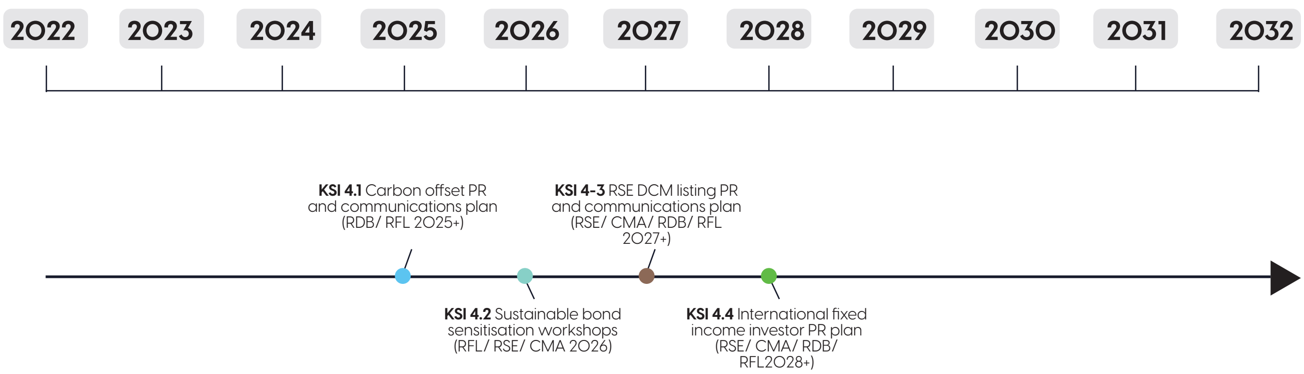
9.3.2 KSI 2: Building a Sustainable Stock Market



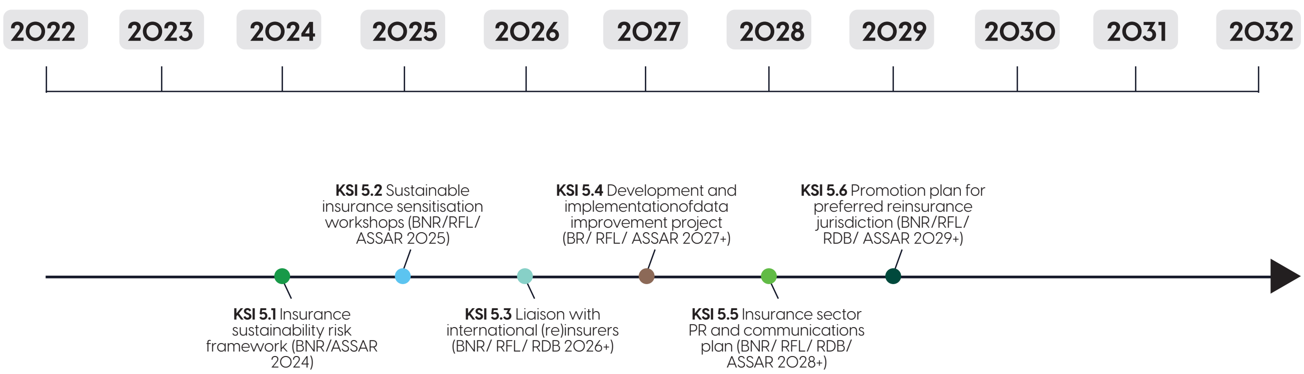
9.3.3 KSI 3: Transitioning to Sustainable Lending



9.3.4 KSI 4: Developing Sustainable Debt Capital Markets

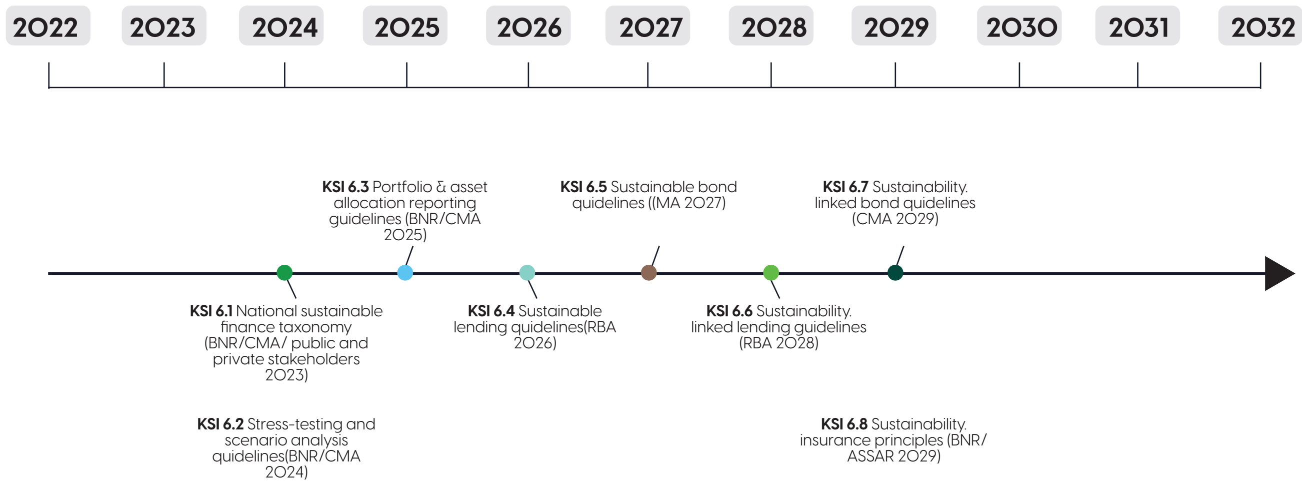


9.3.5 KSI 5: Expanding the Sustainable Insurance Sector

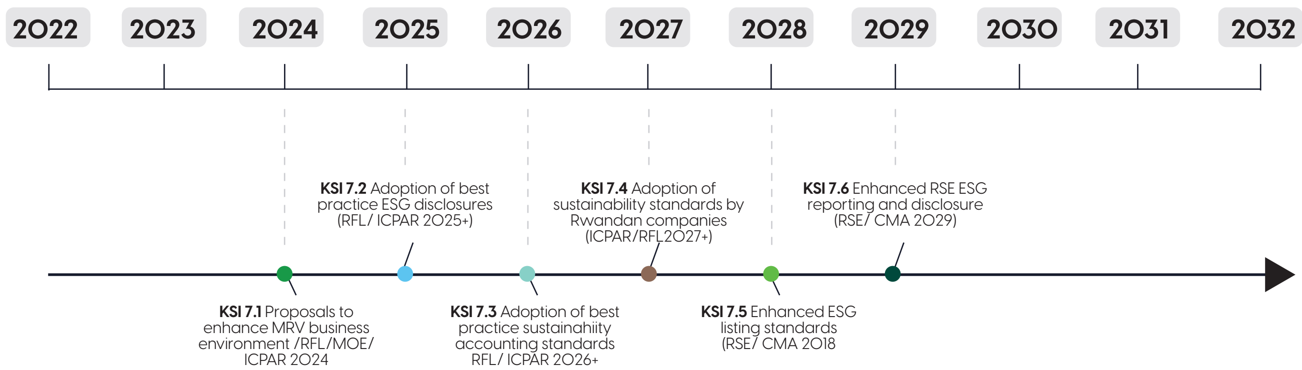


9.4 KSO 2: KIFC will Develop the Necessary Financial Sector Infrastructure to Support Sustainable Finance Instruments

9.4.1 KSI 6: Enhancing Rwanda's Financial Sector ESG Risk Management

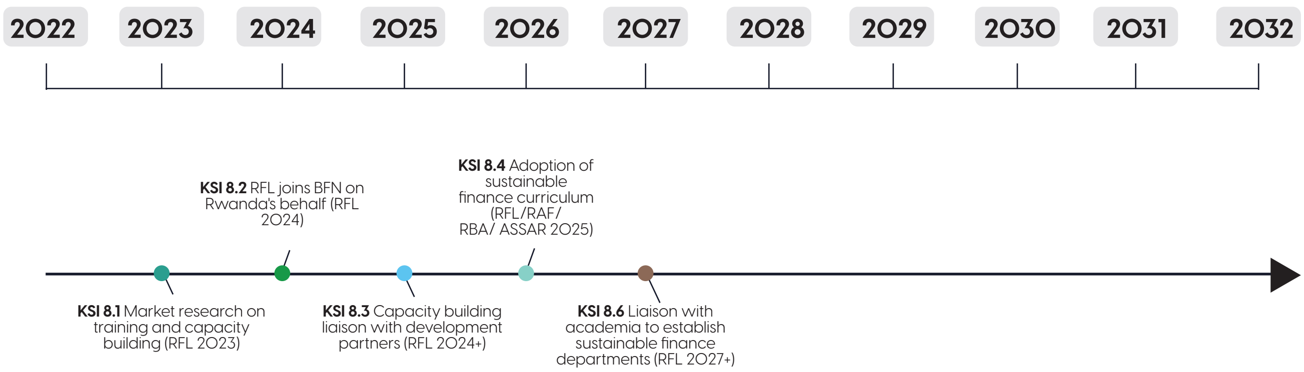


9.4.2 KSI 7: Improving Rwanda's Corporate ESG Disclosure and Reporting



9.5 KSO 2: KIFC will Cultivate the First-class Human Capital Needed to Build and Underpin this Sustainable Finance Infrastructure

9.5.1 KSI 8: Capacity Building in Sustainable Finance



10 Conclusion and Next Steps

It is hoped that readers find the Roadmap logical, well-argued, and comprehensive. Through its three Key Strategic Objectives (KSOs) and eight Key Strategic Initiatives (KSIs), the Roadmap suggests what KIFC as an entire ecosystem, supported by RFL, needs to do to encourage the development of new sustainable financial structures and instruments and soliciting international investor interest in these.

Just to mention a few, some illustrative product concepts proposed by the Roadmap are as follows:

- The establishment of a **Rwanda Renewable Energy Fund** focused on early and small-scale investments in innovative projects in hydropower, but also perhaps solar, geothermal, and biomass.
- A **Rwanda Sustainable Value Chain Fund** that might concentrate on small-scale investments in innovative projects to embed sustainability in key value chains.
- A **Rwanda Sustainable Tourism Fund** that could underpin the protection of the nation's immense ecological capital by investing in sustainable tourism projects.
- A **Rwanda Sustainable Development Mutual Fund** that solicits retail and institutional investments for a portfolio focused on listed companies that exhibit strong sustainability or sustainability-linked characteristics.
- The establishment by Rwanda Stock Exchange of a **Green Index,** consisting of a basket of equities exhibiting financial and sustainability characteristics that are attractive to both retail and institutional investors.
- The issue by a major commercial bank of an **RWF Gender Bond** to the public, to be auctioned and traded on the RSE.
- The issue of **Voluntary Carbon Credit Offsets** to raise finance for a major forestry project or carbon sink.
- The expansion of the insurance sector into **parametric insurance,** a cost-effective product that pays out benefits on the basis of a predetermined index (e.g., rainfall level, wind speed, etc.).

As the Roadmap outlines, substantial development of Rwanda's financial sector infrastructure and human capital is a precondition for many of these products or services to be realized. Notable interventions proposed include:

- Development of a **pipeline of suitable investments** in priority sectors that can be shared with international investors and support in liaison with local stakeholders.
- The **capacity building of potential investees** in the opportunities to access sustainable investment and lending flows by adopting sustainable business and operating models.
- Consultations on appropriate **tax reforms** to create an investor friendly tax regime.
  Exploration of the use of **sustainable credit enhancements** (such as Green Credit Risk Guarantee Schemes).
- Sensitization and capacity building for banks to develop specific **sustainable loan products** that target SDG priority sectors, through project loans, corporate loans, SMEs financing, green mortgage loans, etc.
- Creation of a **data improvement project** aimed at widening and improving the timeliness, reliability, and availability of quantitative meteorological and other environmental and agricultural data points.
  Sustainable Finance Roadmap
- Development of a **national sustainable finance taxonomy** suitable to the local context as well interoperable with major international frameworks.
- Major upgrading of **vocational training and development** for the financial sector in sustainable finance.

As the Roadmap has emerged, it has become clear that there are other dependencies. For example, there is a clear need for Rwandan companies (listed companies and larger private ones in the first instance) to fully embrace sustainable business and operating models and adopt the standards that allow the validation and reporting of sustainability. Without this enthusiasm, the demand for sustainable finance products will remain anemic and the opportunities for foreign capital limited. The Rwandan economy must also continue to grow rapidly, particularly on a GDP per capita basis, which is positively correlated with financial sector depth. Accumulation of domestic pools of capital is essential for the growth of debt and equity markets, and the attraction of international capital. Continued improvement in fiscal and monetary stability are also likely to be necessary.

RFL wishes to make sustainability a key differentiator in advancing Rwanda's attractiveness as a destination for international finance. However, it is also important to understand sustainable finance as an existential issue for the Rwandan financial system. Without adoption of some of the key features of the Roadmap, it is likely that Rwanda will increasingly be marginalized from global finance.

The responsibility for avoiding this outcome is not RFL's alone, as the institution will work closely with newly established Steering Committee to refine a practical programme of change that will address the sustainable finance framework on a holistic basis.

Kigali International Financial Centre

UNDP