



Development Bank of Rwanda

Renewable Energy Fund Project

Banks Operations Manual

The World Bank/ Development Bank of Rwanda

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ABBREVIATIONS AND ACRONYMS

BRD	Development Bank of Rwanda
BNR	National Bank of Rwanda
EnDev	Energizing Development
ESMF	Environmental and Social Management Framework
E4I	Energy for Impact
FRW	Rwandan Francs
GoR	Government of Rwanda
IFR	Interim Financial Reports
IFRS	International Financial Reporting Standards
IPF	Investment Project Financing
MGD	Mini-Grid Developer
M&E	Monitoring and Evaluation
MINECOFIN	Ministry of Finance and Economic Planning
MININFRA	Ministry of Infrastructure
OM	Operations Manual
OSC	Off-grid Solar Company
BANK	BANKs
PIU	Project Implementation Unit
RBF	Results-Based Financing
RDB	Rwanda Development Board
REF	Rwanda Renewable Energy Fund
REG	Rwanda Energy Group
REMA	Rwanda Environment Management Authority
RPF	Resettlement Policy Framework
RURA	Rwanda Utilities Regulatory Authority
SACCO	Savings and Credit Cooperatives
SHS	Solar Home System
SLA	Service Level Agreement
SME	Small and Medium-sized Enterprise
SREP	Scaling-up Renewable Energy Program
TA	Technical Assistance
US\$	United States Dollars
WB	World Bank

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RENEWABLE ENERGY FUND PROJECT

Operating Guidelines

Project Life	Six (6) years [2017 – 2023]
Loan amount and financing Source	US\$ 27.5 million - SREP/World Bank
Grant amount and financing Source	US\$ 21.44 million – SREP/World Bank
Borrower	Government of Rwanda (GoR)
Implementing Agency	Development Bank of Rwanda (BRD)
Service Charge: World Bank to GoR	0.1% p.a. on Loan Amount (US\$ 27.5 million)
Interest Rate: GoR to BRD	Based on Subsidiary Financing Agreement
Interest Rate: BRD to BANKs	Based on Subsidiary Financing Agreement
Interest Rate: BANKs to Beneficiaries	Market Based
Maturity: World Bank to GoR	40 Years including 10 years' grace period
Maturity: GoR to BRD	Based on Subsidiary Financing Agreement
Maturity: BRD to Banks	Up to 72 months with up to 3 months' grace period
Repayment: GoR to World Bank	Based on Financing Agreement
Repayment: Banks to BRD	Based on Subsidiary Financing Agreement
Repayment: Beneficiaries to Banks	Based on Loan Agreement
Exchange Risk	GoR will bear all foreign exchange risk
Compliance with BNR Prudential Regulations	All participating SACCOs and Banks will have to comply with BNR regulations.
Consumer Education & Protection	MININFRA in partnership with BRD, BANKs and OSCs will educate consumers and promote the REF Project.

Operations Manual

The "**Operations Manual**" (OM) presented here is designed specifically for use by Development Bank of Rwanda (BRD), Participating Financial Intermediaries (BANKs)¹, locally-registered Off-grid Solar Companies (OSCs), and Mini-Grid Developers (MGDs). The purpose of the OM is to define the processes needed for effective implementation of the Renewable Energy Fund (REF) project².

I. Project Development Objectives and Expected Benefits

a. Project Development Objectives (PDO)

The Project Development Objective is to increase electricity access in Rwanda through off-grid technologies and facilitate private-sector participation in renewable off-grid electrification. The PDO will be achieved by providing a financial intermediary financing to the Government of Rwanda (GoR) as the borrower. GoR on-lends the funds to the BRD, which administers the facility. BRD is the Project Implementing Entity (PIE) and which functions as a wholesale institution for BANKs as well as lend directly to MGDs and locally registered OSCs.

Targeted beneficiaries are Rwandan households and businesses which will gain access to off-grid electricity services through solar systems or mini-grids and whose use of electricity will replace consumption of diesel, kerosene, and dry cell batteries as well as other alternative fuels. The direct project beneficiaries include (i) participating SACCOs and banks, which will gain knowledge and experience in lending in a new sector; (ii) mini-grid developers who will gain access to finance to build mini-grids; and (iii) private companies engaged in off-grid electrification (mini-grid developers and potentially locally-registered off-grid solar companies), which will get access to financing for expanding their businesses in Rwanda as well as gain experience of working with local financial institutions. BRD will also benefit from capacity building in energy lending.

b. PDO Indicators

The achievement of the Project objectives will be measured through the following PDO results indicators:

- a. People provided with new or improved electricity service (number) (Corporate Results Indicator);
- b. Enterprises provided with access to electricity as a result of project interventions (number);
- c. Increased private sector investment in renewable energy electrification (US\$); and
- d. Annual electricity output from project renewable energy interventions (MWh per year) (SREP).

¹ The term "PFI" refers to the participating commercial and development banks, Saving and Credit Cooperative Societies (SACCOs), Microfinance Institutions (MFIs) and other financial intermediately organizations.

² The OM can be adjusted, if and when necessary, to reflect actual needs and experience in REF implementation. The request could be made by BRD, the World Bank or a group of participants – who should discuss and approve it.

II. Project Components

The project is structured in two components: (1) Line of credit and direct financing for off-grid electrification; and (2) Technical assistance, capacity building and project implementation support.

Component One - Line of credit and direct financing for off-grid electrification (US\$ 45.94 million SREP funds) - has set up and operationalizes a Renewable Energy Fund (REF), a local-currency line of credit and direct financing facility that helps address access to finance and affordability constraints to accelerate growth of the off-grid electrification market in Rwanda. The REF provides lines of credit to eligible local financial institutions for sub-loans to households and micro, small and medium enterprises, as well as direct loans to private companies engaged in off-grid electrification (mini-grid developers and potentially locally-registered off-grid solar companies) on ‘first-come-first-serve basis’. The REF uses existing country systems to facilitate access to finance for households and businesses, improve affordability of solar electricity services, and maximize geographic coverage. The REF provides access to local-currency financing through four financing windows. This allows the facilitation of off-grid market development through mobilization of all the key market enablers at the same time: SACCOs, banks (commercial and microfinance), and private companies (mini-grid developers and potentially locally-registered off-grid solar companies).

- a. *Window 1 – On-lending through SACCOs to households and micro-enterprises:* The window provides a wholesale line of credit to BRD for on-lending to SACCOs that comply with established eligibility criteria. SACCOs will on-lend the funds to eligible households and micro enterprises³ for purchasing qualified solar systems of Tier 1 and above access level.
- b. *Window 2 – On-lending through banks (commercial and microfinance) to households and small and medium enterprises (SMEs):* This window provides a wholesale line of credit to BRD for on-lending to eligible commercial and microfinance banks, which extend sub-loans to households, and SMEs for the purchase (and possibly, in the case of SMEs, distribution) of qualified solar systems of Tier 1 and above access level. Eligible SMEs will have to make contribution equivalent to 20 percent of the total cost toward the purchase of the system.
- c. *Window 3 – Direct financing of mini-grid developers:* This window provides direct financing to eligible mini-grid developers to finance up to 70 percent of construction of renewable-energy based mini-grid systems. The REF may provide ‘bridge loan’ financing until grant funding from existing RBF programs becomes available, as well as long-term financing beyond commissioning. REF loans are used to bring a mini-grid project to commissioning, when RBF becomes available from other donor-funded programs. Selection of projects will adopt a technology neutral approach. Hybrid systems, including diesel back-up, will be eligible for support under the condition that the diesel component is financed from sources other than the SREP.
- d. *Window 4 – Direct financing of locally-registered off-grid solar companies supporting Tier 1 and above solar systems:* This window provides direct financing to eligible, locally-registered off-grid solar companies offering qualified Tier 1 and above solar-home systems and ongoing maintenance services to its clients through delayed payment options, including for sales that benefit from

³ Enterprises with (i) less than FRW0.5Million Net Capital Investments, (ii) less than FRW0.3Million Annual Turnover, and (iii) 1 to 3 employees. *SME Development Policy, Ministry of Trade and Industry, http://www.minicom.gov.rw/fileadmin/minicom_publications/policies/SME_Dent_policy_V180610.pdf*

other government programs such as results-based financing. Eligible companies will have to leverage REF financing no less than 7:3—i.e., REF can finance no more than US\$ 7 for each US\$ 3 invested by the borrower from other sources including equity, to be determined on a case-by case basis—with a view to achieve a average leverage ratio of 2:1 or higher.

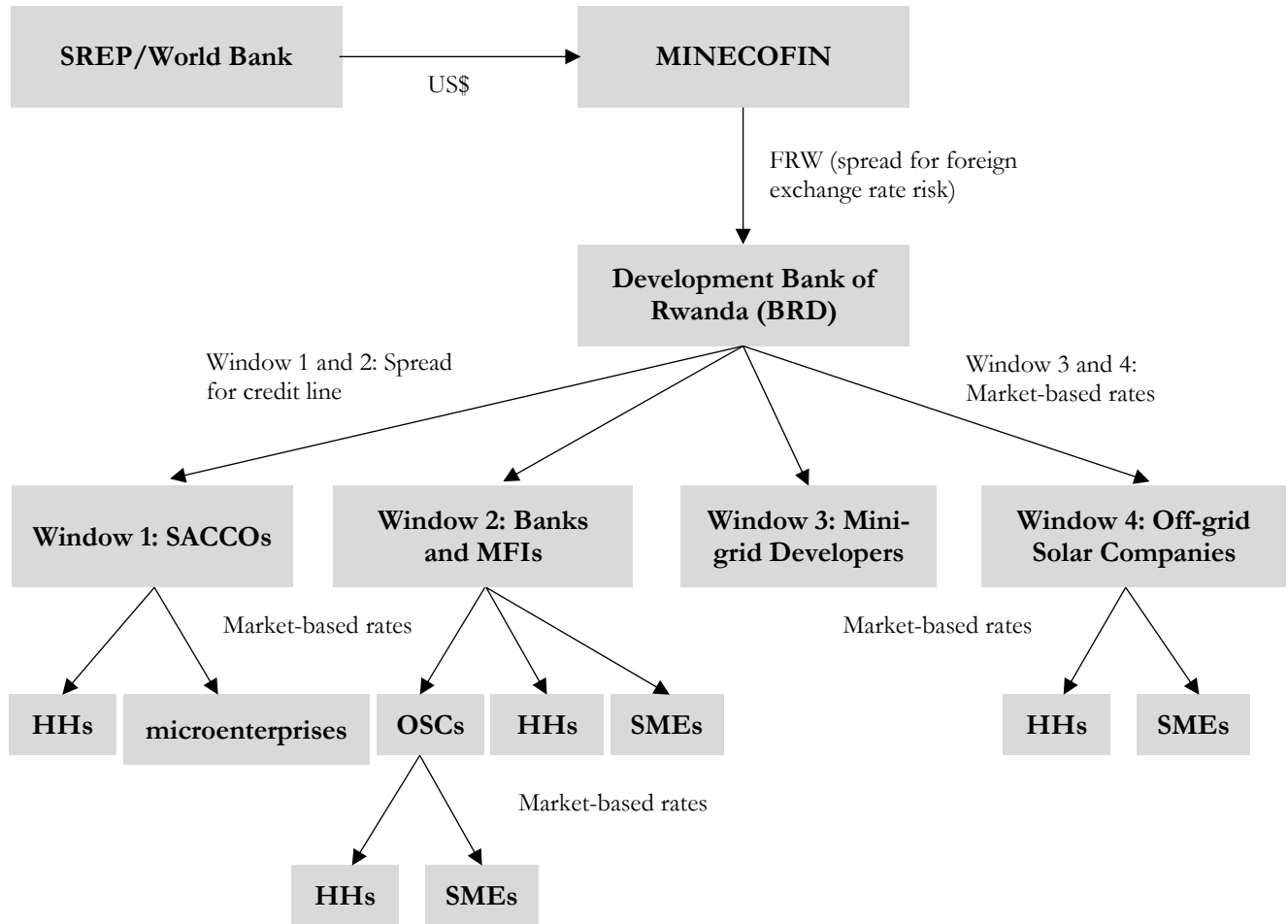
Qualified solar systems. All supported systems are required to meet the Lighting Global Quality Standards or equivalent national quality standards, if those are acceptable to the World Bank, subject to regular independent verifications to ensure alignment with International Electrotechnical Commission (IEC) Technical Specifications.

Component Two - Technical assistance, capacity building and project implementation support (US\$ 3.00 million SREP funds) - provides necessary technical assistance and capacity building to BRD and participating entities (SACCOs, banks, and private companies engaged in off-grid electrification), as well as provide project implementation support to BRD as host of the REF. Technical assistance and capacity building include, among others: (i) capacity building and awareness workshops for SACCOs, banks, and private companies engaged in off-grid electrification to facilitate partnerships between SACCOs, banks, and the private sector; (ii) technical assistance and capacity building for participating SACCOs and banks to ensure their successful partnerships with the private sector; (iii) capacity building of participating SACCOs and banks to manage energy credit lines (including management, operational, and monitoring and evaluation capacities); (iv) capacity building of the Energy Department of BRD to manage direct energy lending; (v) technical assistance to BRD to develop pipeline of mini-grids projects; and (vi) technical assistance and capacity building for BRD and participating entities on quality assurance and enforcement of technical standards for off-grid solar systems; and (vii) public awareness campaigns to educate consumers on the benefits and opportunities of off-grid electrification.

Technical assistance activities will also cover gender aspects, including (i) monitoring Window 1 and Window 2 for the appearance of gender gaps in access to financial services for male and female applicants and enterprises for purchase and retailing of off-grid technologies to enhance development outcomes and economic opportunities; (ii) identification of data sources and information to further understand the issues and barriers to financial services for off-grid technologies by gender, income level (with a focus on low-income households), rural or urban location, household headship, and other social dimensions; and (c) implementation of approaches and methods that off-grid market enablers (for example, BRD, SACCOs, and banks) could adopt and integrate to close gender gaps (for example, gender-sensitivity training for credit officers) related to access to financial services for the purchase of energy technologies in household or enterprise activities.

Project implementation support includes, among others, (i) establishment of the Project Implementation Unit (PIU) and provision of operational support to the PIU in the areas of project management, supervision, and monitoring; (ii) outreach to off-grid market enablers and final project beneficiaries; (iii) knowledge-sharing events between participating project entities; (iv) sector-wide knowledge sharing and project results dissemination workshops; (v) preparation of required studies related to the project, including impact assessment and annual citizen/consumer feedback analysis through focus group discussions to better understand the market; (vi) preparation of consolidated annual project audits; and (vii) financing of incremental operating costs.

Figure 1: Project Design and Flow of Funds



III. Financing Arrangements

a. World Bank to MINECOFIN and BRD

The World Bank provided US\$ 48.94 million SREP funds denominated in US\$ to MINECOFIN. MINECOFIN as the borrower and takes the currency risk and on-lend funds in local currency (Rwandan Francs - FRW) to BRD. BRD provides access to funding through four on-lending windows. The financing arrangement is governed by the following formal agreements: (i) **Financing Agreement between World Bank and MINECOFIN**, and (ii) **Subsidiary Agreement between MINECOFIN and BRD**.

a. Participating Banks (commercial and microfinance)

Banks will on-lend funds to eligible households and SMEs. Banks will be free to select final beneficiaries on which they are willing to take the credit risk without any interference. The BRD may provide required technical facilitation to the eligible banks, especially microfinance institutions. Each Bank shall maintain, with terms of reference satisfactory to BRD and the World Bank:

- **Technical unit** responsible for the appraisal of credit applications for solar-based systems. The technical unit shall be staffed with qualified personnel in adequate numbers and provide, promptly as needed, loans, services and other resources required for effective Project implementation.
- **Credit Committee** responsible for evaluation and approval of loan applications for solar-based systems.
- **Adequate policies and procedures** to enable it to appraise and manage the credit risk and to monitor and evaluate, in accordance with indicators acceptable to BRD and the World Bank, the progress in Project implementation and the achievement of Project objectives.

Specific banks' responsibilities include:

- Review of loan applications from both recruited and walk-in households and SMEs for on-lending;
- Appraisal of eligibility of applicants;
- Appraisal of the financial condition/creditworthiness for each applicant;
- Approval of loans by the bank's Credit Committee;
- Signing of appropriate loan agreements with households and SME clients; service level agreement with service companies; as well as Subsidiary Financing Agreement with BRD;
- Ensuring that disbursements/payments to clients and service companies are made in a timely manner against appropriate documents (to evidence the use of funds);
- Ensuring that the bank's borrowers follow environmental practices in line with the Environmental Code of Practice both during the approval process and during implementation;
- Enable BRD and the World Bank to inspect the Sub-projects, as needed, as well as any relevant records and documents;
- Ensure that payments of interest and principal are timely made. On due-dates of interest and principal, the bank shall also provide to BRD a written report on the bank's sub-loan performance, deviation of payments from agreed terms, and an updated credit history of the final beneficiaries;
- Provide monthly report to BRD with each final beneficiary level details on solar-system installation and progress towards sub-loan repayment. The report template is presented in Annex 7.
- Prepare all Project implementation reports specified in this OM on time and with good quality information. Submit to BRD and the World Bank on agreed reporting dates;
- Keep all necessary records and payment evidence, as required in legal documents and the OM;
- At BRD and/or World Bank's request, share the project-related financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards, and promptly furnish the externally audited project related statements to BRD and the World Bank;
- Submit annual external audits of the bank's financial statements (prepared by reputable external auditors and executed according to international auditing standards) to BRD no later than six months after the end of each financial year. BRD shall submit the external audits to the World Bank no later than seven days after it has received the external audits from a bank.
- Prepare and furnish to BRD and the World Bank all information as BRD or the World Bank shall reasonably request relating to Project implementation.

Banks Qualification and Eligibility Criteria

The success of any financial intermediation operation critically depends on the effectiveness and quality of the BANKs (BANKs). Strong and capable banks, which are in a stable financial condition with proper capacity to appraise and carry the credit risk, are more likely to deliver funds effectively and efficiently to final beneficiaries, which are consistent with Project objectives.

Access to participation shall be open to all interested banks (commercial and microfinance) which are able to satisfy the eligibility criteria. The written application letter shall be forwarded to BRD. Banks that are to be considered for participation are required to:

- Allow authorized BRD and World Bank’s representatives on a need-to-know basis access to privileged and confidential information necessary to appraise whether the bank meets and/or continues to meet the agreed qualification criteria;
- Agree to undertake annual external audits by reputable auditors and according to international auditing standards;
- Agree to devote adequate resources to the Project, to establish and maintain an adequately staffed credit appraisal/management group and credit risk committee, and to join any available Project-related training.

The BRD will appraise all interested banks in order to confirm whether they meet the agreed eligibility criteria. The final decision on the bank’s qualification for participation will be made by the BRD after no-objection from the World Bank. The BRD shall invite successful banks to sign the Subsidiary Financing Agreement.

The World Bank Policy requires an assurance that all BANKs in a World Bank financed credit line are viable financial institutions determined by: (a) adequate profitability, capital, and portfolio quality as confirmed by audited financial statements acceptable to World Bank; (b) acceptable level of loan collections; (c) adequate managerial autonomy and commercially oriented governance; and (d) appropriate prudential policies, administrative structure, and business procedures.

a. Banks’ Eligibility Criteria

Banks (commercial and microfinance) interested to participate in the Project will be obliged to comply with the eligibility criteria, which follow the guidance provided under the World Bank Policy. This means that an interested bank should be able to meet the established eligibility criteria in order to become a BANK. Once qualified, a bank should be expected to continue to meet the eligibility criteria at all times. Compliance will be reviewed annually.

The eligibility criteria include:

- **Compliance with prudential regulations issued by the National Bank of Rwanda (BNR)**—the bank must be in good standing with the BNR at all times and observe all other applicable laws and regulations.
- **Good governance** – “fit and proper” owners; adequate Board composition and practices; competent management with adequate managerial autonomy; adequate organization and institutional capacity for its specific risk profile.

- **Capital adequacy** – compliance with BNR regulations (i.e. minimum capital of 15 percent calculated as the ratio of total capital to total assets).
- **Adequate liquidity** – compliance with BNR regulations (i.e. liquid assets to total deposits at 20 percent), well diversified funding sources, well managed or no maturity gaps and regular stress testing.
- **Liquidity coverage ratio:** Compliance with BNR regulations (i.e The ratio of a bank’s stock of high quality liquid assets to its net cash outflows over the 30 day period must not be less than 100 percent at any time).
- **Net stable funding ratio:** Compliance with BNR regulation(I,e the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year)
- **Adequate profitability** – positive profitability, well diversified income structure and stable earnings trend. Well-managed cost structure.
- **Acceptable risk profile** – effective Asset and Liability Management Committee (ALCO), well-defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures).
- **Adequate asset structure and portfolio quality** – acceptable asset structure including concentration; lending to connected parties; effectiveness of loan underwriting; asset classification and provisioning⁴; non-performing loans ratio in compliance with BNR requirements and collection practices.
- **Adequate internal audit** – independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions and follow-up on issued raised in internal audit reports.
- **Adequate MIS system and well-organized IT support, with adequate internal controls and security policies** – the IT support should be based on relational database management system providing good accounting and bookkeeping, and adequate system-software support for transaction processing and all banking and risk management functions.
- **Appropriate Implementation Capacity** – for carrying out subproject appraisals and for supervising subproject implementation under the credit line.

b. Ongoing Bank Financial Performance Criteria

Each participating bank will be required to demonstrate ongoing compliance with the following financial performance indicators throughout its participation in the project. During supervision, the World Bank team jointly with BRD will closely monitor the performance and on-lending through the banks.

Table 1: Ongoing Bank's Financial Performance Criteria

Standard in Current Regulation	Limits
Capital Adequacy Ratio	>= 15 percent
Tier Capital	>= 12.5 percent
Leverage ratio	>= 6 percent
Liquidity Ratio	>=20 percent

⁴ The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions.

Standard in Current Regulation	Limits
Liquidity coverage ratio	>=100 percent
Net stable funding ratio	>=100 percent
Insider Loans/Net Worth	<=25 percent
Total Equity Investments/Equity	<=60 percent
Single Borrowing/Net Worth	<=25 percent
Loan Classification and Provisioning	Substandard 90 - 179 days – 20 percent; Doubtful 180 - 364 days - 50 percent; Loss >= 365 days - 100 percent

c. Appraisal of Banks Eligibility – Information Needed

Before the eligibility appraisal starts, the bank should provide information on its financial condition indicating that it is able to meet the eligibility criteria. This should include:

- Externally audited financial statements meeting IFRS standards for the previous two years, including external audit opinion and recommendations;
- Un-audited financial statements as of the last three months, or as late as they are available. These should specifically include balance sheet, income statement, asset classification and provisioning levels.

Once the appraisal starts, a bank should provide all necessary information for BRD to appraise whether the bank meets the eligibility criteria. This will normally include:

- A copy of the bank’s operating license;
- Names of its significant owners holding more than 10% of shares. Summary information for each significant owner including connected parties – individuals or other companies;
- Organizational chart and governance structure. Names of and brief CVs of key senior managers;
- Risk management related committees and bodies;
- Copy of policies, procedures and Operations Manuals related to lending and credit risk management;
- Detailed information on loan classification (all five categories). Details on loan loss provisions and collateral coverage for substandard, doubtful and loss categories;
- Dealing with substandard and doubtful loan clients. Collection on collateral;
- Internal audit manual. Internal audit schedule and samples of internal audit reports. Examples of follow-up to recommendations from internal audit reports and from external auditors. Examples of reporting to senior management;
- Organizational chart for the IT and data processing function. Summary list for IT hardware, database and application software and communication equipment.

d. Bank Eligibility Review Process

The eligibility review will be executed by the BRD. This shall include interviews with senior management of the bank and review of its financial condition and policies and procedures relevant for credit risk management and Project implementation. More specifically, it shall include:

- Interviews with senior management regarding the bank's organization, business strategy, ownership and governance structure;
- Interviews with senior management on the bank's financial condition and profitability, including a review of related policy documents;
- Review and discussion of externally audited financial statements for the last three years and unaudited financial statements from the last three months;
- Interviews with senior management on lending policies, procedures and practices. Discussion on details of credit risk assessment and management, collateral appraisal, loan classification and provisioning, collection on collateral;
- Interviews with senior management on internal controls and internal audit function. Review of IT systems and management reporting capacity.

Eligibility review findings shall be discussed with the bank's senior management. If the bank is able to meet all eligibility criteria, it will become a BANK. The bank is expected to continue to meet the eligibility criteria as long as it continues to participate in the Project. The responsibility for the check-up to confirm the on-going compliance lies with BRD. The confirmation check-up shall be done once the external audits are available, at least once per year.

Once the eligibility has been confirmed, a bank will sign a Subsidiary Financing Agreement. The Subsidiary Financing Agreement specifies details regarding the terms of access to Sub-financing, mutual responsibilities and terms and conditions of participation of the bank in the project. Once signed, it will allow eligible banks access to finance on specified terms for eligible final borrowers.

e. Implementation Requirements

An eligible bank shall carry out activities with qualified management and technical staff in adequate numbers for effective implementation of the Project. It shall conduct its operations in accordance with sound banking practices and in conformity with sound lending policies and procedures referred to in the OM and applicable BRD procedures. The banks shall:

- Make loans to eligible households and SMEs clients on terms and conditions set forth in the OM and comply with requirements specified in the Sub-Loan Agreement and other signed legal documents;
- Not assign, abrogate or waive any of its agreements providing for loans, or any provision thereof, without prior approval of BRD;
- Exercise its rights in relation to each such loan in such manner as to protect its interests and the interests of the BRD, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of the Project.

f. Suspension

If a bank fails to be compliant with eligibility criteria and all applicable policies and procedures specified in the OM, its access to Sub-financing shall be suspended. The suspension rules are the following:

- If a bank is found to breach the established eligibility rules for clients and projects, further disbursements and access to new funding will be suspended until the bank has fully refunded the sub-financing related to the ineligible bank loans;

a. Eligibility Criteria for Banks clients

Banks will use the financing to extend sub-loans to households and SMEs. **Eligibility criteria for households** include:

- National identity card for at least one household member asking for a sub-loan;
- For microfinance institution, has had an active account with the bank for the last 3 months;
- Good credit history – if the client has borrowed loan previously, should have been repaid on-time;
- Capacity to pay back the loan within a period of up to 36 months and up to 3 months' grace period.

Eligibility criteria for SMEs (for solar systems related investments) include:

- Licensed with adequate ownership structure – Companies should be duly licensed for at least 18 months (with identification number assigned by tax authorities) and in compliance with local tax authorities. The owners and managers of the enterprise must be “fit and proper”⁵. The company must be private (defined as more than 50 percent private ownership or private control);
- Operating experience – At least 18 months of operating experience including organization, management, staff and financial and other sources required for the efficient carrying out of its operations;
- Profitable and Creditworthy – In a sound financial condition. Financial viability of a company will be determined based on its financial history, and its business plan, which should provide current and projected financial position⁶;
- Can document the need for solar system to be financed, e.g., reduce cost of doing business, enable broadening of business scope or expansion to other areas and demonstrate potential for its efficient use;
- Good credit history – if the entrepreneur has previously borrowed loan, should have been repaid on-time;
- Maintains book-keeping records such as sales, purchases, receipts and payments, etc.
- For, the new micro-enterprises seeking loan for solar and solar-powered equipment, should produce the brief concept of the business acceptable to the bank.
- Capacity to pay back the loan within a period of up to 60 months

Eligibility criteria for SMEs (for working capital purposes for the importation of qualified solar systems) include:

- Quality standards – proof that the Pico or solar home system sold by the company meet Lighting Global Quality Standards or equivalent national quality standards, if those are acceptable to the World Bank subject to regular independent verifications to ensure alignment with the International Electro Technical Commission (IEC) Technical Specifications;

⁵ “Fit and proper” broadly means that the owners and managers are honest, experienced and qualified to operate the respective business.

⁶ The financial position should show that the enterprise is profitable, with adequate profit margins. The projected financial position should show that the enterprise will maintain its profitability and adequate liquidity once the bank sub-loan is extended, and that its leverage will remain reasonable.

- Commitment to quality and customer service – evidenced by an active customer service activity with metrics and staff to support service and returns. Clear knowledge of the current and historic issues faced in customer service and the level of returns will be required;
- Operational record – the company should have been operational in Rwanda or Sub-Saharan Africa for at least two (2) years;
- Installed base – an installed base of more than 500 pico or solar home systems which have been in place for at least 6 months and for which performance, customer service and returns information is available;
- Appropriate distribution and coverage – appropriate distribution and coverage through branches, agents and franchises for supporting SACCOs in a region or nationally both for distribution, customer support and repossessions;
- Adequate profitability – as a trading company to be profitable in two (2) of the last three (3) years, with an adequate explanation for any loss. If a PAYGO company, then a credible and robust plan to reach profitability or to be fully funded for the period of any service level agreement;
- Financial statements – must have audited financial statements for the immediate past two (2) years plus adequate accounting and management information, enabling financial reporting, cash planning, capital and loan structuring, tracking of key sales and customer support metrics;
- Adequately funded – to have access to funds to support the purchase of stock volumes necessary to meet their commitments under any service level agreement;
- Capacity to enter Service Level Agreement – covering shared sales processes, timely delivery, staggered payment, after sales support, repossession, problem resolution and reporting;
- Good governance – companies to provide a declaration form under their letter heads stating compliance with the World Bank fiduciary requirements; and demonstrate good governance with “fit and proper” owners with adequate organization and institutional capacity.

Banks Sub-Loan Terms and Conditions

Banks’ loans to final borrowers will be extended under the following criteria:

- The sub-loans will finance purchase of solar-based systems of Tier 1 and above access level by households and SMEs;
- The sub-loans will be denominated in Rwandan Franc (FRW). The sub-loan interest charges as well as all applicable fees will be denominated in FRW;
- Maturities of sub-loans would be up to 36 months with up to 3 months’ grace period for sub-loans to households; and up to 60 months with up to 6 months’ grace period for sub-loans to SMEs;
- There would be no sub-loan prepayment penalties, and interest could be charged on a declining balance formula.

a. Banks’ Sub-Loan Limits

- For banks, the wholesale finance amount will be equivalent to US\$ 500,000, extended for up to 72 months, with up to 3 months of grace period;
- Once 90% of the approved wholesale finance amount has been utilized, the bank may apply for an additional amount of Sub-financing. The application for additional tranche will include all required documentation including the full details on how the tranche has been used (e.g., name of final borrower, national identification card number, system cost, type of solar

equipment or capacity, loan amount, interest rate, loan tenure, outstanding loan, number of household members, number of female members in the house and number of children (below 16 years) benefited). The detailed tranche utilization reporting requirement is provided as Annex 7;

- Under the drawdown model, the maximum sub-loan amount is US\$ 1,000 equivalent for sub-loans to households; and US\$ 25,000 equivalent for sub-loans to SMEs for solar system related investments and working capital purposes for qualified solar systems;
- SME loans above US\$ 25,000 will be extended by BRD back-to-back to banks' loans to the SMEs with maturity of up to 72 months and up to 12 months grace period.
- Successful banks, which use the facility effectively and have a non-performing loan ratio in compliance with BNR requirements, will be able to receive a higher drawdown amount and a higher maximum amount as proposed by BRD and agreed with the World Bank;
- There will be no maximum financing amount available for one bank. Any changes in the maximum limit should be agreed between BRD and the World Bank.
- For banks to SACCOs, sub-loans in local-currency who meet the bank's lending criteria to purchase/install Tier 1 and above solar-based systems at final beneficiary's household. The SACCOs then should on-lend such loan to their member for up to 36 months and not exceeding US\$ 1,000 per member. For each micro-enterprise, the SACCOs shall extend up to US\$ 1,000 loan up to 60 months including up to 6 months grace period.
- For OSCs, sub-loans up to US\$ 500,000 in local-currency who meet the bank's lending criteria.
- Solar systems that have already been financed by a bank from its own funding sources, where both the beneficiaries and the systems meet the eligibility criteria, may be refinanced from the REF funds. Such refinancing facility shall be extended to those financing which have been extended after the REF effectiveness date.

b. Credit Risk Aspects

Banks will assume full credit risk for all sub-loans to households, SMEs, and OSCs.

c. Interest Rates

- BRD will on-lend funds to banks at interest rates that take into account at minimum BRD's cost of funds, operating costs and an appropriate credit risk margin. The on-lending margin shall in any case be no higher than 3.5% p.a.;
- .
- The banks will be able to freely set their interest rates on market terms. Interest rates are expected to cover at least the bank's cost of funding, operational costs and an appropriate credit risk premium based on the credit assessment of the final borrower;
- Interest and principal repayments on sub-loans for households would be due monthly;
- Interest and principal repayments on sub-loans for micro-enterprises, SMEs, SACCOs and OSCs would be due monthly after the expiry of grace period.
- The interest rate arrangements and the spread will be reviewed by BRD from time to time and may be adjusted to reflect the risks and the applicable market terms.

Subsidiary Financing

- The principal amount advanced to a BANK under its respective Subsidiary Financing Agreement shall be denominated in FRW, as well as all applicable fees and interest charges. It will be the equivalent to the aggregate amount of sub-loan extended to the Beneficiaries;
- The Subsidiary Lending Agreements will specify an on-lending margin adequately commensurate to the BRD's costs of these funds, enabling it to carry out its administrative and other obligations under the Project, which shall in any case be no higher than 3.5% p/a.;
- Interest and principal repayments for BANK Subsidiary financing would be due monthly, quarterly, or semiannually.

a. On-Lending Arrangements for Subsidiary Financing

Subsidiary financing for the BANK, OSC and MGD sub-loans will be extended on a first-come, first-served basis. The eligible BANKs, OSCs and MGDs have no obligations to ask for Subsidiary financing. Subsidiary financing will be extended only when the eligible BANK, OSC or MGD submits a Financing Request to BRD. The Subsidiary Financing Request format for banks and SACCOs is provided in Annex 11. Once the approved amount of Subsidiary financing has been utilized, the BANK, OSC or MGD can ask for additional financing. The maximum financing amount available will be agreed between BRD and the World Bank. A BANK, OSC or MGD may request that its maximum financing amount be increased. BANKs, OSCs and MGDs must comply with the applicable eligibility criteria during their participation in the REF project.

For SACCOs and banks, financing of smaller sub-loans or credits, the available subsidiary financing will be used based on a drawdown mechanism. Once BANKs become eligible and apply for financing, they will receive a drawdown facility of the approved amount with an agreed maturity (e.g. three years) which they can use to finance sub-loans or credits to final beneficiaries complying with the agreed eligibility requirements. Loans to final beneficiaries will be provided by BANKs from the drawdown facility up to the amount and maturity approved. The decision on whether to extend a loan or credit to final beneficiaries will be left to the BANKs.

Sub-financing for larger loans requiring prior review will be provided back-to-back to the BANK loans to Final Beneficiaries with the identical amounts, maturity and grace period.

The repayments will be collected in a revolving fund and will be used to provide funding for new BANK sub-loans. The terms and conditions under the revolving fund will be agreed between MINECOFIN and BRD.

b. On-Lending Arrangements for Drawdown BANK Sub-Loans

Drawdown BANK Sub-Loans. The BANK sub-loans in the drawdown category will not require prior review and approval of the BRD Credit Committee. For the drawdown BANK Sub-Loans, the approval process will have the following procedure:

- An application is made by a beneficiary to its BANK for a BANK sub-loan for solar-based systems;
- The BANK will appraise the eligibility and creditworthiness of the beneficiary;
- If the BANK is satisfied, that the beneficiary is creditworthy, and that all applicable eligibility criteria are met, the BANK shall submit the Sub-Loan for approval before the BANK Credit Committee, following its own applicable credit risk appraisal and management procedures;

- If the BANK Credit Committee approves the Sub-Loan, the BANK will sign the loan agreement with the beneficiary.

The BANK will collect and keep full documentation for the drawdown loans that it has approved. It will submit to BRD full details on how the tranche has been used (e.g., name of final borrower, national identification card number, system cost, type of solar equipment or capacity, loan amount, interest rate, loan tenure, outstanding loan, number of household members, number of female members in the house and number of children (below 16 years) benefited) at the point when the BANK makes an application for an additional tranche. BRD may ask to review the documentation and details on the BANK drawdown loans at any time, including all required documentation specified in this OM and BRD Credit Policies.

c. On-Lending Arrangements for Free-Limit BANK Sub-Loans

Free Limit BANK Sub-Loans. The BANK sub-loans under the free limit will not require prior review and approval of the BRD Credit Committee. A free limit will be established for experienced BANKs which have successfully passed the first two prior reviews by the World Bank and by the BRD Credit Committee. The free limit will be set by BRD for each BANK, as agreed with the World Bank. Free limits may be different, depending on the experience of individual BANKs and the type of lending product (i.e., retail loans or SME loans). Free limits may be changed in agreement with the World Bank.

Free Limit Approval Procedure. For the free limit BANK Sub-Loans, the approval process will be based on the following procedure:

- An application is made by a beneficiary to its BANK for a BANK sub-loan for solar-based systems;
- The BANK will appraise the eligibility and creditworthiness of the beneficiary;
- If the BANK is satisfied that the beneficiary is creditworthy, and that all applicable eligibility criteria are met, the BANK shall submit the Sub-Loan for approval before the BANK Credit Committee, following its own applicable credit risk appraisal and management procedures;
- If the BANK Credit Committee approves the Sub-Loan, the BANK will sign the loan agreement with the beneficiary;
- The BANK will submit a signed copy of the BANK Sub-Loan to BRD, including all required documentation specified in the OM and BRD Credit Policies.

d. On-Lending Arrangements for Prior Review BANK Sub-Loans

Prior review of BRD is required for the first two back-to-back sub-loans from each Bank and for all sub-loans with the amounts above the free limit. . The prior review and approval process will be as follows:

- An application is made by a beneficiary to its bank for a bank sub-loan for solar-based systems;
- The bank will appraise the eligibility and creditworthiness of the beneficiary;
- If the bank is satisfied that the beneficiary is creditworthy and that all applicable eligibility criteria are met, the bank shall submit the sub-loan for approval by the bank's Credit Committee, following its own applicable credit risk appraisal and management procedures;

- Once the bank Credit Committee approves the sub-loan, the bank will submit an application to BRD to confirm the eligibility of sub-financing for the bank sub-loan;
- A BRD Investment officer will review and confirm the eligibility of the beneficiary and that the bank's sub-loan appraisal conforms with the OM and with the principles of sound banking;
- If the review concludes that the bank's request meets all applicable eligibility criteria and the credit risk management aspects, the application will be presented to the BRD's Credit Committee for the formal approval of subsidiary financing for the respective bank's sub-loan;
- For the first two sub-loans from each bank and for all sub-loans above US\$ 100,000; the approval process will also require a prior review and a no-objection by the World Bank before the presentation to the BRD's Credit Committee. BRD will be informed, in writing, of the World Bank's acceptance of the bank application or of any remedial action required;
- If any remedial actions are required, for the two sub-loans above, BRD shall inform the bank to address the noted issues or deficiencies. Once the issues have been adequately addressed, the World Bank may be asked for the second review. Once the World Bank provides the no-objection, the bank sub-loan will be presented to the BRD's Credit Committee;
- Once the BRD Credit Committee approves the sub-financing for the bank sub-loan, the respective bank will be informed. The participating bank will have up to 15 days to sign the contract with the beneficiary;
- The bank will submit a signed copy of the loan agreement to BRD, including all required documentation specified in the OM and BRD Credit Policies.

e. Ex-Post Reviews

Subsidiary financing that is not subject to prior review shall be subject to ex-post reviews, as decided by BRD and/or the World Bank. Due diligence and ex-post reviews will be governed by the BRD's credit management framework which includes a credit policy, risk grading policy, risk appetite policy, arrear management policy, and bad debt recovery policy. These policies spell out the processes followed in evaluating and approving the applications, monitoring mechanisms on active loans, and reporting and further disbursing to the intermediaries. BRD's internal control related departments shall take a lead in ex-post reviews.

The BANK has the full responsibility vis-à-vis BRD and the World Bank to ensure that the terms of the sub-financing and all expenditures financed with the proceeds of the BANK sub-loan are in compliance with the requirements imposed by this OM and the applicable BRD Credit Policies.

For all BANK sub-loans not requiring prior review, the BANK will ensure satisfactory receipt of the sub-loan documentation package as specified in the BRD Credit Policies. Any BANK sub-loan could be subject to ex-post review of all sub-loan documentation by BRD and the World Bank for verification of compliance with all sub-borrower, and sub-loan terms and conditions. All underlying documentation pertaining to sub-loans should be maintained by the BANK for a period of 3 years from the date on which the sub-loan was disbursed and should be made available to BRD and/or the World Bank upon request.

XIV. Disbursement Arrangements

Designated Account - Upon the effectiveness of the Loan and Donor Financing Agreements signed between the World Bank and MINECOFIN, funds will flow from the World Bank into a US\$ denominated Designated Account (DA) maintained by BRD at the National Bank of Rwanda. The Designated Account will receive funds advanced by the World Bank as per the Disbursement Letter. BRD will disburse from this Designated Account the requested and approved subsidiary finance to the Dedicated Accounts of each BANK (SACCO or commercial bank), MGD or OSC that has signed the Subsidiary Financing Agreement; disbursements to BANKs, MGDs or OSCs will be done in FRW. Other eligible expenditures can be paid from the Designated Account to suppliers of services, goods, consulting, non-consultant services.

Disbursement methods - The project will use the Advance and Reimbursement method as per the World Bank Disbursement Letter.

By the Advance Disbursement method, withdrawals from the World Bank will be deposited in the BRD DA based on a projected cash flow forecast for payments to the BANKs, MGD or OSC under their Subsidiary Financing Agreements or other eligible expenditures. The Interim Financial Reports based method will be used. The BRD will forecast the cash flow need for the next six months and prepare the financial report that will support the request of funds. The World Bank will review the quality of the report and the soundness of the cash flow forecast before providing the approval of the funds release.

By the Reimbursement method, BRD finances in its own resources loans or eligible activities and request reimbursement. The reimbursed funds will flow from the World Bank to the BRD into an account provided by the BRD that shall be different from the Designated Account. Request of funds shall be in US\$ irrespective of the method used.

Subsequent disbursements will be replenished based on the same principle on a quarterly basis for estimated expenditures, taking into account the balance in the BRD DA and the expected sub-financing needs for the next period.

Based on the Subsidiary Financing Agreement signed between the BANK and BRD, specifying the amount and the specific terms and conditions of sub-financing, the BANK shall open a Dedicated Account related to the sub-financing of the BANK Sub-loans (i.e., the loans to the final beneficiaries), at the BANK, BRD or financial institution acceptable to BRD. The BANK shall nominate one unit, and inform BRD accordingly, to be responsible for transmitting the disbursement applications and monitoring disbursements. The BANK shall submit the name of an authorized representative that shall be a key contact point for the disbursements and authorised to sign the disbursement applications. The BANK shall promptly inform BRD about any changes in signature authority.

In order to realize a disbursement, the BANK shall furnish to BRD a Disbursement Request. A standard format for the Disbursement Requests is provided in Annex 10. The Disbursement requests in the form of Applications of Withdrawal duly signed by the authorized representative of the BANK should have the quarterly Interim Unaudited Financial Statements as supporting documentation for advance replenishments.

a. Documentation Requirements

For all expenditures with respect to which withdrawals from the BRD Designated Account were made on the basis of statements of expenditure, BANKs, MGDs and OSCs shall:

- Maintain records and accounts reflecting such expenditures, including evidence that the sub-loan proceeds were used exclusively for eligible expenditures;
- Retain until at least one year after the last withdrawal from BRD or payment out of the Designated Account was made, all records (service agreements, orders, invoices, receipts and other documents) evidencing such expenditures;
- Enable BRD and the World Bank's representatives to examine such records, as requested.

BRD will be responsible for collecting from the BANKs, MGDs and OSCs and for retaining the supporting documentation for statements of expenditures (SOE) and other payments and making them available during the World Bank supervision missions, as well as to the auditors, if and when requested.

If BRD (or the World Bank) shall determine at any time that any payment: (a) was not made for an eligible expenditure or was made in an amount not eligible; or (b) was not justified by the evidence furnished to BRD, the BANK, MGD, or OSC shall, promptly upon notice from BRD: (i) provide such additional evidence as BRD may request; or (ii) deposit into the Account specified by BRD an amount equal to the amount that was not eligible or not justified.

Retroactive Financing - In the event whereby the need arose to cover expenditures as defined per the Financing Agreement (Agreement) for expenditure payments made before the date of signing of the Agreement, such expenditures shall be made eligible under the Agreement as per an exception to the general condition of disbursement, by indicating a date prior to the date of signing from which such expenditures shall be eligible. The financing of such expenditures shall be claimed through the disbursement method of reimbursement once the Agreement has been made effective. As supporting documentation to this, the BRD shall submit together with the Application for Withdrawal, the appropriate Statement of Expenditures (SOE).

XV. Repayment Arrangements

BRD Repayments to MINECOFIN shall be guided by the Subsidiary Agreement between MINECOFIN and BRD.

BANKs, MGDs and OSCs Principal Repayments - The BANKs, OSCs and MGDs shall repay the principal amount of subsidiary financing due in accordance with the amortization tables set forth in the respective Annexes to the Subsidiary Financing Agreements.

The BANKs, OSCs and MGDs are required to make payments to BRD regardless of whether or not they have received payments from their borrowers. Each time a principle or interest due on a BANK loan to the final beneficiary is late, or the BANK has classified any loan or credit as substandard, doubtful or loss, the BANK shall provide to BRD a report on the performance of the said loan or credit, the reason for adverse classification and the subsequent developments, and the up-dated financial condition of the final beneficiary. The BANK or OSC shall agree to keep the credit history of the final beneficiaries on file until the Project has been implemented.

The BANK, MGD or OSC shall repay the Subsidiary financing or any portion thereof before the agreed due date upon demand being made by BRD:

- if the BANK, MGD or OSC fails on a due date to repay any part of the Subsidiary Financing, or to pay interest thereon, or to make any other payment due;
- if the BANK, MGD or OSC or a Beneficiary cease to exist;
- if the Agreement is terminated by BRD or by the BANK, MGD or OSC;
- if the BANK does not cause borrowers to follow procedures, as specified in the OM, the World Bank Anti-Corruption Guidelines and the World Bank Environmental and Social Operations Manual;
- if any information or document related to the Agreement concerning the BANK, MGD or OSC or the BANK Sub-loans or credits proves to have been untrue or incorrect; and/or if any given information concerning the Beneficiary proves to have been knowingly incorrect; or if the BANK in said cases did not make reasonable efforts to check the correctness of information.

BANK, MGD or OSC Interest Payments - The withdrawn and outstanding balance of Sub-financing shall bear interest at a rate specified in the agreements. The total interest due by the BANK, MGD or OSC to BRD shall be equal to the sum of interest on withdrawn and outstanding balances of Subsidiary Financing (for all sub-loan financing extended to the BANK, MGD or OSC).

XVI. Monitoring, Evaluation and Reporting

The achievement of the Project objectives will be measured through indicators summarized in Annex 12. Monitoring of project implementation progress and results indicators, as well as progress towards achievement of the PDO, will be the responsibility of BRD as well as participating entities: SACCOs, banks and private companies engaged in off-grid electrification (mini-grid developers and potentially locally-registered off-grid solar companies). The PIU will collect data and reports from participating entities and present progress in achieving the key and intermediate indicators to the World Bank quarterly. This will be carried in conjunction with the World Bank team implementation and support missions.

In addition to PDO indicators, regular BRD semi-annual reporting shall also include identification of implementation problems and risks, as well as recommendations for actions to be taken to ensure the Project is successfully implemented. The World Bank will review the updated results framework submitted semi-annually by BRD and discuss the progress and deviations with BRD to identify any areas where additional help from the World Bank is needed.

The reporting provided by BRD will be supplemented by the World Bank's supervision missions. Regular supervision missions will include a review of BRD portfolios; assessments of project progress against initial target; monitoring the performance of the portfolio with regard to interest service, principal repayment, disbursements, etc. These assessments and findings will also include follow-up with BANKs and the final beneficiaries, including field visits, interviews with final beneficiaries.

MGDs will monitor their project and will be responsible for progress reporting. Developers shall provide periodic reports to BRD which shall include:

- Status and stage of mini-grids in development, construction, and/or operation;
- Number of mini-grids financed (per mini-grid type);
- Number of connections (per type: households, businesses, institutional, etc.);
- Number of direct beneficiaries (of which female);
- Amount of capacity installed (in megawatt, by source);
- Amount of energy produced (in megawatt-hour per year, by source);
- Amount of GHG emission reductions (in tons of CO₂ per year);
- A list of challenges to implementation or operation and proposed solutions.

XVII. Financial Management

The project will follow the existing financial policies and procedures of BRD. The policies and procedures have been reviewed during the project preparation and found to be adequate.

Funds will be disbursed into a designated account maintained by BRD at the National Bank of Rwanda. The initial advance will be based on the forecast for six months. Subsequent disbursements will be based on the unaudited Interim financial reports (IFRs).

BRD will prepare unaudited Interim Financial Reports (IFRs) on a quarterly basis. BRD will submit the IFRs to the Bank within 45 days after the end of the calendar quarter (e.g., May 15, August 15, November 15, February 15) and shall include:

- Sources and Uses of Funds (Revenues and expenditures statement);
- Financial Position statement;
- Cash flow statement;
- Budget execution report;
- Notes on accounting policies;
- Designated account (DA) activity statement.

Financial statements shall be prepared in accordance with the International Financial Reporting Standards (IFRS) and will be consolidated also in the BRD Quarterly report submitted to the Board and the external auditor.

XVIII. External Audit Arrangements

The project annual financial statement will be audited in accordance with International Standards on Auditing (ISA). Audit reports would be produced on the financial statements for the project and would be submitted to the World Bank within 6 months following the end of the accounting year. The audit report should be inclusive of a management letter setting out any internal control strengths, weaknesses and external auditor recommendations.

The project's financial information shall be also consolidated into the BRD accounts audited by the external auditors. The arrangements for the external audit of the financial statements of the project should be agreed through agreed terms of reference. Appropriate terms of reference for the external auditor shall be developed and agreed with IDA before negotiations.

In line with the new access to information policy, the project will comply with the World Bank disclosure policy of audit reports (e.g. make publicly available, promptly after receipt of all final financial audit reports).

BANK, MGD and OSC External Audit Arrangements - The corporate borrowers shall maintain separate records and accounts for the project in accordance with sound accounting practices. The borrowers shall:

- Have their financial statements and Project related records and accounts audited each fiscal year, in accordance with IFRS or applicable national accounting and financial reporting standards, by independent auditors acceptable to BRD and the World Bank;
- Furnish to BRD and the World Bank as soon as available, but not later than six months after the end of each year, the external audit report, of such scope and in such detail as the World Bank and BRD shall have reasonably requested;
- Furnish to BRD and the World Bank other information concerning records and accounts and the audit thereof as BRD and the World Bank shall reasonably request.

XIX. Environmental and Social Management System

World Bank policy OP/BP 4.01 and OP/BP 4.12 are the only safeguard policies triggered by the project in light of environmental and social risks from proposed activities. To ensure proper assessment and mitigation of the potential adverse environmental and social impacts, an Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) will be used for guiding BRD on how to address any environmental and social impacts of project investments. Thus, Environmental and Social risks associated with Rwanda Renewable Energy Funds will be managed through the RPF, ESMF and BRD Environmental and Social Management System (ESMS).

Environmental safeguards

The main environmental, health and safety concerns are likely to be associated with collection, recycling and disposal of spent batteries at the end of their useful lives, which is usually 3-5 years after deployment. Rechargeable batteries for storing solar energy may run on nickel-cadmium (Ni-Cad), nickel metal hydride (NiMH), lithium-ion (Li-ion), lead-acid (Pb-A) or lead-gel (Pb-gel).

Window 3 will have more impacts associated with construction and installation of mini-grids systems. These impacts will be managed by preparation and implementation of site specific EIA/EMP as appropriate. During the feasibility study, the subproject developer will use the screening form provided in this operational manual to determine whether the Environmental and Social Impact Assessment (ESIA) is required. If the screening shows that ESIA is required, the developer shall request terms of reference in RDB and prepare an Environmental and Social Impact Assessment report using a certified EIA expert.

These instruments will be prepared by developer and will be included in loan application documents to be assessed by BRD together with other subproject appraisal documents. Annex 17 provides the subprojects screening form and generic terms of reference that will be shared by developer to guide them in the preparation of environmental safeguards instruments. BRD will hire/outsourcing an environmental safeguards specialist who will assist the Project Implementation Unit in assessment of environmental compliance during subprojects appraisal and coordinate the implementation and Monitoring Environmental safeguards instruments.

Social safeguards

The construction of mini-grid systems may lead to involuntary resettlement and acquisition of land. This triggers World Bank Policy OP 4.12 on involuntary resettlement and national laws on Expropriation for public interest. This would require preparation and implementation of social safeguards instruments. The management of involuntary resettlement risks will be managed through the Resettlement Policy Framework (RPF) prepared for the Rwanda Renewable Energy Fund (REF) and subprojects Resettlement Action Plan as well as national Expropriation law. The preparation of resettlement instruments will be done during feasibility studies and shall be submitted as part of sub projects application documents. The mini-grid developer will carry out initial social economic survey and use screen form to determine whether the Resettlement Action Plan (RAP) or Abbreviated Resettlement Plan (ARAP) is required. If the RAP/ARAP is required, the developer will prepare a Resettlement Action Plan to be submitted together with application documents. Annex 18 provides the screening form and generic terms of reference that will guide developers to prepare resettlement instruments.

BRD will hire/outsource a social safeguards specialist who will assist BRD in assessment of social safeguards compliance during subprojects appraisal and coordinate the implementation and Monitoring of involuntary resettlements activities.

Environmental and social safeguards implementation Procedures

This Operational manual sets out a structured set of environmental and social assessment requirements.

For direct lending,

- As a first step, an environmental and social screening is conducted according to the risk categorization set out in the RPF/ESMF. Screening forms, Generic terms of reference for EIA and RAPs preparation are provided in annexes;
- Credit appraisal is the second step, requiring mandatory documentation and certification (EIA certificate, land title, compensation agreement, etc) by the appropriate authorities (RDB, Land administration Authority, Rwanda Environmental Management Authority, etc.);
- The third step is approval of the sub-loan by the BRD Credit Committee after a final review of all environmental and social assessment documentation;
- After credit approval, negotiation of the credit agreement, and commencement of loan-financed activities, the final step is loan environmental and social risk monitoring, including reporting to the World Bank.

For indirect lending especially for window 1, 2 and 4 the key requirement is that the participating solar companies has an appropriate plan for collection, disposal and recycling of spent batteries approved by Rwanda Environment Management Authority(REMA).

Given that the World Bank loan proceeds will be used to finance sub-loans under the Financial Intermediation Project, a key element of the ESMS will be maintaining a database for review by the World Bank as part of its due diligence of the utilization of loan proceeds. Together with the formal monitoring reports that are to be submitted every six months using the template provided in Annex of the ESMS, each BANK that utilizes the World Bank loan proceeds on-lent by BRD will submit an annual environmental and social performance report to BRD.

The World Bank conducts supervision missions, and from an environmental and social perspective, the frequency of those missions may vary according to the degree of environmental and social impacts. However, it is expected that the World Bank will conduct supervisions every six months. During semi-annual missions, the World Bank will supervise subproject's environmental and social safeguard arrangements in the following ways:

- Review of BRD/ BANK lending documentation related to environmental and social issues in sub-projects financed from World Bank loan proceeds, including field reports from BRD's Environmental and Social safeguards officers, and relevant environmental reports from Environmental regulatory authority;
- Assess compliance with the BRD's ESMS and OM requirements.

The World Bank will also assess the adequacy of institutional arrangements, such as staffing of specialists, needed to implement the BRD ESMS effectively.

The database maintained by BRD should be readily available to the World Bank staff responsible for due diligence of the Project. Routine compliance with environmental and social indicators should be maintained in a database that is readily available to the World Bank for review during the implementation of the subproject.

For quality assurance, safeguards instruments prepared for subprojects considered for funding under the REF will be shared with the World Bank and will be disclosed locally and at World Bank Infoshop. Developer will also avail copies at district and sector office as well as at site.
APPLYING WORLD BANK PERFORMANCE STANDARDS

Eight Performance Standards that set out environmental and social screening procedures have been adopted by the World Bank in its OP/BP 4.03 *Performance Standards for Projects Supported by the Private Sector* for application to projects (or components thereof) financed by the World Bank that are designed, owned, constructed and/or operated by a Private Entity.⁷

The Performance Standards are the following:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts;
- Performance Standard 2: Labor and Working Conditions;
- Performance Standard 3: Resource Efficiency and Pollution Prevention;
- Performance Standard 4: Community Health, Safety, and Security;
- Performance Standard 5: Land Acquisition and Involuntary Resettlement;
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources;
- Performance Standard 7: Indigenous Peoples;
- Performance Standard 8: Cultural Heritage.

The Renewable Energy Fund Project is categorized as FI, and as such, each BANK, Mini-grid developer or solar company that utilizes the World Bank loan proceeds coursed through the BRD will be required to:

- follow the BRD ESMS commensurate with the level of social and environmental risks in its portfolio, and prospective business activities;
- apply relevant aspects of World Bank Performance Standard 2 to its employees;
- Ensure that all subprojects supported by the World Bank comply with applicable national and local laws and regulations and the World Bank Performance Standards.

BRD will review the existing portfolio and/or proposed business activities of the BANK, OSC, and MGD to identify risks and assess whether the ESMS developed by the BANK, OSC and MGD is appropriate for managing those risks. Projects will be categorized by the significance of their environmental and social/involuntary resettlement impacts. Significance will be determined by scrutinizing the type, location, scale, nature, and magnitude of a project's potential impacts. The

⁷ The Performance Standards can be found at www.ifc.org/enviro or on the Safeguards website of the World Bank, Further information is provided in the World Bank *Performance Standards for Private Sector Activities: Guidance Note*. Additional guidance may be sought in IFC's *Good Practice Notes*, and IFC's January 2012 *Interpretation Note on Financial Intermediaries*.

environmental and social safeguard categories that BRD, and then, BANKs, OSCs and MGDs will use are:

a. Environmental

- **Category B.** Projects with anticipated moderate adverse impacts on the environment. These include projects with minor environmental impacts, such mini-grids. Category B projects will require the preparation of an environmental and Social Impact assessment. No category A will be financed under REF;
- **Category C.** Projects with no anticipated adverse environmental impacts. Category C projects require no impact assessment studies.

b. Social

- **Category B.** Projects where fewer than 200 people will require an Abbreviated Resettlement Plan and A Resettlement Action Plan when the impact is significant.

ANNEX 5: Subsidiary Financing Agreement between BRD and Banks

AGREEMENT dated, entered into between Development of Rwanda (the Program Implementing Entity) and [insert name of the bank]– BANK (BANK)].

WHEREAS: (a) under a grant agreement (“Grant Agreement”) and a loan agreement (“Loan Agreement”) (together, “Financing Agreements”), dated July 7, 2017, between the Republic of Rwanda (“GoR”) and the International Development Association (“World Bank”), acting as implementing entity to the Scaling-up Renewable Energy-Program under the Strategic Climate Fund (“SCF-SREP”), the World Bank agreed to provide the GoR with a loan (SCF SREP Loan Number TF0A4969) and a grant (SCF SREP Grant No. TF0A4990) (together, “SCF-SREP Financing”) to assist in financing the Rwanda Renewable Energy Fund Project (“REF Project”), which is described in Schedule 1 to the Financing Agreements.

WHEREAS, the World Bank has agreed, on the basis, inter alia, of the foregoing to extend the SCF-SREP Financing provided under the Financing Agreements to the GoR upon the terms and conditions set forth in the Financing Agreement.

WHEREAS, the GoR delegated the responsibility for implementation and management of the Project to BRD, and, in this regard, the GoR has provided a portion of the SCF-SREP Financing to BRD for purposes of BRD implementation of the REF Project.

WHEREAS, the World Bank has entered into a Project Agreement with BRD, dated July 7, 2017, in connection with the Financing Agreements for the REF Project.

WHEREAS, BRD has agreed to implement Part 1(c) of the REF Project, in accordance with the Financing Agreements and the Project Agreement.

WHEREAS, BRD having satisfied itself as to the eligibility of [insert Bank name] to participate in the implementation of Part 1(c) of the REF Project, in accordance with the Project Agreement and the REF Project Operations Manual, has offered [insert Bank name] to assist in the implementation of the Part 1(c) of the REF Project;

WHEREAS, [insert Banks name] has agreed to join as BANK (BANK) by receiving financing (“Subsidiary Financing”) to extend one or more sub-loans (“Sub-loans”) to eligible beneficiaries (“Final Beneficiaries”) under the terms and conditions set forth in this Agreement and in accordance with Financing Agreements, the Project Agreement and the REF Project Operational Manual.

The BRD and the Bank hereby agree as follows:

ARTICLE 1: Subsidiary Financing

- 1.1 The BRD agrees to on-lend proceeds of _____ (SCF-SREP Financing) on terms and conditions set forth or referred to in this Agreement to the BANK for the provision of Sub-loans to eligible Final Beneficiaries (as defined in the Financing Agreement and the REF Project Operational Manual) for financing access to renewable energy.
- 1.2 The BANK shall on-lend Subsidiary Financing exclusively for financing the Sub-loans to final Beneficiaries as a facility access renewable energy.
- 1.3 The principal amount of the Subsidiary Financing shall be equal to the sum of all tranches and all individual back-to-back Sub-loans extended by the BANK to the Final Beneficiaries.

ARTICLE 2: Terms and Conditions of Subsidiary Financing

- 2.1. Subsidiary Financing shall be available only for Sub-loans to be extended to eligible Final Beneficiaries. Financing requests shall be selected, appraised, implemented and evaluated by the BANK, and Sub-loan Agreements shall be entered into, all in accordance with the principles, eligibility criteria and procedures set forth in the REF Project Operational Manual, and all the terms and conditions set out in the Financing Agreements and the Project Agreement, including the obligation to carry out the REF Project in accordance with the World Bank Anti-Corruption Guidelines and the World Bank Environmental Safeguard Review Framework.
- 2.2 Subsidiary Financing shall be denominated in FRW. Interest and other fees payable under this Agreement shall be in FRW.
- 2.3 For bank financing of smaller sub-loans, the available Subsidiary financing will be used based on a drawdown mechanism, where banks extend the eligible loans to eligible Final Beneficiaries without prior BRD review. Sub-loan financing for larger loans will be provided back-to-back to the BANK loans to Final Beneficiaries with the identical amounts, maturity and grace period as follows: An application will be made by the Final Beneficiary to the bank for a loan for a qualifying solar-system related investment and the associated working capital finance. The bank will appraise the eligibility and creditworthiness of the Final Beneficiary as well as the eligibility and feasibility of the qualifying solar-system related investment. If the bank is satisfied that the Final Beneficiary is creditworthy and the solar-system investment makes business sense, and that all applicable eligibility criteria are met, the bank shall submit the sub-loan for approval by the bank’s Credit Committee, following its own applicable credit risk appraisal and management procedures. Once the Credit Committee approves the sub-loan, the bank will submit an application to BRD to confirm the eligibility of subsidiary finance for the sub-loan. A specialized BRD Investment officer will review and confirm the eligibility of the final borrower and the eligibility of the solar-system investment. If the BRD credit investment’s review concludes that the bank’s request meets all applicable eligibility criteria and the credit risk management aspects, the application will be presented to the BRD Credit Committee for the formal approval of financing for the respective sub-loan.

ARTICLE 3: Interest Charges and Payments

- 3.1 The withdrawn and outstanding balance of Subsidiary Financing shall bear interest at a rate equal to% basis points spread.
- 3.2 The total interest due by the BANK to BRD shall be equal to the sum of interest on withdrawn and outstanding balances of Subsidiary Financing (for all tranches and individual back-to-back sub-loan financing extended to the BANK). The interest shall be due monthly or quarterly.
- 3.3 Interest for Subsidiary Financing shall be paid to the account (revolving funds account) as specified by BRD.
- 3.4 The interest rates taxable on all overdue amounts shall, in addition, automatically incur default interest at a rate of 4% without having to notify [insert Bank name], in case of failure to honor the due installment as earlier agreed.
- 3.5 In the event of the restructuring of the loan, BRD shall be entitled to a fee equivalent to 1% plus 18% VAT of the loan balance restructured.

ARTICLE 4: Repayment of Principal

- 4.1 The BANK shall repay the principal amount of Subsidiary Financing due in accordance with the amortization tables set forth in the respective Tranche and Sub-Loan Agreements.
- 4.2 The [insert Bank name] shall repay the principal amount of Subsidiary financing plus interest after a grace period of three months (3) counted from the date the first disbursement is effective;
- 4.3 After the grace period the [insert Bank name] shall repay the entire disbursed tranche plus interest on a quarterly basis for a period of seventy-two months (72).
- 4.4 The BANK shall repay the Subsidiary Financing or any portion thereof before the agreed due date upon demand being made by BRD:
 - a. if the BANK Sub-loan or any portion thereof has been prepaid by the Beneficiary;
 - b. if the BANK fails on a due date to repay any part of the Subsidiary Financing, or to pay interest thereon, or to make any other payment due;
 - c. if the BANK or a Beneficiary cease to exist;
 - d. if this Agreement is terminated by the BRD or by the BANK;
 - e. if the BANK does not cause Beneficiary to follow procedures, as specified in the REF Project Operations Manual;
 - f. if any information or document related to this Agreement concerning the BANK or the BANK Sub-loans proves to have been untrue or incorrect; and/or if any given information concerning the Beneficiary proves to have been knowingly incorrect; or if the BANK in said cases did not make reasonable efforts to check the correctness of information.
- 4.5 The repayments of principal shall be due quarterly on March, June, September and December of each year to the account (revolving funds account) as specified by BRD.

ARTICLE 5: Disbursements

- 5.1 The first disbursement on each portion of Subsidiary Financing shall be made upon signing of the Subsidiary Financing Agreement_____ (including tranche-based Sub-Loan financing and back-to-back Sub-Loans financing for final beneficiaries). The first disbursement shall be equivalent to one half of the related Sub-Loan Financing amount, but not more than FRW_____. The disbursement shall be made by BRD to an account specified by the BANK.
- 5.2 Further disbursements shall be made as per disbursement procedures specified in the REF Project Operations Manual. The amounts may be withdrawn for expenditures made or to be made in respect of the reasonable cost of goods and services of REF project and in observance of procurement procedures as specified in REF Project Operations Manual and the World Bank Procurement Regulations.

- 5.3 For all expenditures with respect to which withdrawals from the Bank Loan Account and the BRD Designated Account were made on the basis of statements of expenditure, the BANK shall:
- a. maintain records and accounts reflecting such expenditures, including evidence collected from the Final Beneficiaries showing that the Sub-loan proceeds were used exclusively for eligible expenditures
 - b. retain until at least one year after BRD and the World Bank have received the audit report for the fiscal year in which the last withdrawal from the Bank's Loan Account or payment out of the Designated Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - c. enable BRD and the World Bank's representatives to examine such records; and
 - d. ensure that such records and accounts are included in the annual audit referred to in Article 9 of this Agreement and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.
- 5.4 If BRD or the World Bank shall determine at any time that any payment: (a) was not made for an eligible expenditure or was made in an amount not eligible; or (b) was not justified by the evidence furnished to BRD, the BANK shall, promptly upon notice from BRD: (i) provide such additional evidence as BRD or the World Bank may request; or (ii) deposit into the Account specified by BRD an amount equal to the amount that was not eligible or not justified.

ARTICLE 6: Pari-Passu

- 6.1 The BANK shall ensure that BRD's rights under this subsidiary agreement will, at all times until full repayment of the loan amount, be ranked equally with all the BANK's unsecured and unsubordinated lenders.

ARTICLE 7: Eligibility Criteria

- 7.1 The BANK shall ensure that it continues to meet the eligibility criteria at all times, including:
- a. **Compliance with prudential regulations issued by the National Bank of Rwanda (BNR)** – the bank must be in good standing with the BNR at all times and observe all other applicable laws and regulations.
 - b. **Good governance** – “fit and proper” owners; adequate Board composition and practices; competent management with adequate managerial autonomy; adequate organization and institutional capacity for its specific risk profile.
 - c. **Capital adequacy** – compliance with BNR regulations (i.e. minimum capital of 15 percent calculated as the ratio of total capital to total assets).
 - d. **Adequate liquidity** – compliance with BNR regulations (i.e. liquid assets to total deposits at 20 percent), well diversified funding sources, well managed or no maturity gaps and regular stress testing.
 - e. **Adequate profitability** – positive profitability, well diversified income structure and stable earnings trend. Well-managed cost structure.
 - f. **Acceptable risk profile** – effective Asset and Liability Management Committee (ALCO), well-defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures).
 - g. **Adequate asset structure and portfolio quality** – acceptable asset structure including concentration; lending to connected parties; effectiveness of loan underwriting; asset

classification and provisioning⁸; level of NPLs (i.e. an NPL ratio as percentage of total assets not exceeding 5 percent) and collection practices.

- h. **Adequate internal audit** – independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions and follow-up on issued raised in internal audit reports.
- i. **Adequate MIS system and well organized IT support, with adequate internal controls and security policies** – the IT support should be based on relational database management system providing good accounting and bookkeeping, and adequate system-software support for transaction processing and all banking and risk management functions.
- j. **Appropriate Implementation Capacity** – for carrying out subproject appraisals and for supervising subproject implementation under the credit line.
- k. **Adequate environmental and social management risk systems.** For carrying out due diligence on Final Beneficiaries and subproject appraisals and for supervising subproject implementation under the credit line.

7.2 The BANK shall enable the World Bank to receive, as needed, information on the following:

- a. Externally audited financial statements meeting IFRS standards for the previous two years, including external audit opinion and recommendations.
- b. Un-audited financial statements as of the last three months, or as late as they are available. These should specifically include balance sheet, income statement, asset classification and provisioning levels.
- c. Names of its significant owners holding more than 10% of shares. Summary information for each significant owner including connected parties – individuals or other companies.
- d. Organizational chart and governance structure. Names of and brief CVs of key senior managers.
- e. Risk management related committees and bodies.
- f. Copy of policies, procedures and Operations Manuals related to lending and credit risk management.
- g. Detailed information on loan classification (all five categories). Details on loan loss provisions and collateral coverage for substandard, doubtful and loss categories.
- h. Dealing with substandard and doubtful loan clients. Collection on collateral.
- i. Internal audit manual. Internal audit schedule and samples of internal audit reports. Examples of follow-up to recommendations from internal audit reports and from external auditors. Examples of reporting to senior management.
- j. Quarterly reports submitted to BNR.

ARTICLE 8: Implementation Requirements

8.1 The BRD shall provide, promptly as needed, the funds, facilities, services and other resources required for the implementation of the project. The BANK shall maintain, with terms of reference satisfactory to BRD and the World Bank:

- a. A technical unit to be responsible of the appraisal of credit applications for solar-based systems. The technical unit shall be staffed with qualified staff in adequate numbers and provide, promptly as needed, loans, services and other resources required for effective Project implementation; and
- b. A credit committee to be responsible for the evaluation and approval of Sub-loan

⁸ The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions.

applications.

- 8.2 The BANK shall exchange views with and furnish all information to BRD and the World Bank, as may be reasonably requested by BRD and the World Bank, with regard to the progress of its activities concerning participation under the REF Project, the performance of its obligations under this Agreement, and other related matters. The BANK shall promptly inform BRD of any condition which interferes or threatens to interfere with the progress of its activities under this Agreement.

ARTICLE 9: Lending Practices

- 9.1 The BANK is obliged to carry out its lending activities as a BANK and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in this Agreement, in Financing Agreements, the Project Agreement, and other legal instruments related to implementation of the REF Project and in REF Project Operations Manual.
- 9.2 The BANK shall follow procedures set forth in REF Project Operations Manual and exercise its rights in relations to each such Sub-loan in such manner as to protect its interests and the interests of BRD and the World Bank.
- 9.3 The BANK shall supervise, monitor and report on details, according to sound banking practices and following procedures set forth in REF Project Operations Manual.
- 9.4 The BANK shall:
- a. suspend or terminate the right of a Final Beneficiary to use the proceeds of a Sub-loan extended by a BANK, or accelerate or obtain a refund of all or any part of the amount of said Sub-loan, upon the Beneficiary's failure to perform any of its obligations under the related Sub-loan Agreement or to comply with the provisions of the World Bank Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Environmental Safeguard Review Framework; and
 - b. For SME sub-loans require each Final Beneficiary to: (i) carry out its obligations under the Sub-loan Agreement with due diligence and efficiency; (ii) for SME loans operate in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to BRD and the World Bank; (iii) procure the goods, and services to be financed out of said Sub-loan Agreement in accordance with the REF Project Operations Manual; (iv) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the progress of the Sub-project and the achievement of its objectives; (v) enable the BRD and the World Bank to inspect the utilization of borrowed funds and any relevant records and documents; and (vi) prepare and furnish to the BRD and the World Bank all information that they shall reasonably request.

ARTICLE 10: Accounting and Auditing

- 10.1 The BANK shall maintain separate records and accounts adequate to reflect in accordance with the regulator of the BANK for the REF Project and sound accounting practices the operations. The BANK shall:
- a. Have its financial statements and Project related records and accounts audited each fiscal year, in accordance with international financial reporting standards or applicable national accounting and financial reporting standards, by independent auditors as prescribed by the National Bank of Rwanda;

- b. Furnish to the World Bank and BRD as soon as available, but in any case not later than six months after the end of each year, the external audit report, of such scope and in such detail as the World Bank and BRD shall have reasonably requested; and
- c. Furnish to the World Bank and BRD other information concerning records and accounts and the audit thereof as the World Bank and BRD shall reasonably request.

ARTICLE 11: Remedies to event of default

11.1 In case of failure to pay the interests and the principal as planned on the repayment schedule for all loan facilities granted to the BANK, the BRD shall have power to manage, lease, sell or take over the assets mortgaged in accordance with the law N° 10/2009 of 14/05/2009 on mortgages as modified and complemented to date and with the law n° 34/2013 of 24/05/2013 on security interests in movable property, as may be modified and complemented from time to time. In the event of sale of those assets, the BRD shall follow procedures set forth in the mortgage law and security interest in movable property law, and/or any other laws enacted by competent authorities.

ARTICLE 12: Transparency

- 12.1 In order to assure the transparency of information, the BRD shall publicize the REF Project implementation related information on its web-site.
- 12.2 The BANK agrees to supply to BRD information necessary for impact evaluation semiannually. This shall include information on sub-loan beneficiaries, including information on sub-loan beneficiaries, and other information that BRD may reasonably request.

ARTICLE 13: Settlement of Disputes

13.1 The Parties shall use their best efforts to settle amicably all disputes arising out of or in connection with this Agreement or the interpretation thereof. Any dispute between the Parties as to matters arising pursuant to this Agreement which cannot be settled amicably within thirty (30) days after receipt by one Party of the other Party's request for such amicable settlement may resolved in accordance with the Rules of the Kigali International Arbitration Centre (KIAC). The seat and venue of arbitration shall be in Kigali and the language of the arbitration proceedings shall be English. The number of arbitrators to the proceedings shall be three appointed in accordance of the laws of KIAC.

ARTICLE 14: Effectiveness of the Agreement

14.1 This Agreement will become effective on the date of its signing.

ARTICLE 15: Termination of the Agreement

- 15.1 This Agreement shall be terminated on _____ upon completion of the Project. It may be terminated earlier if suspended or terminated by the Parties.
- 15.2 The BANK may, by written notice of termination to BRD, terminate this Agreement at any point.
- 15.3 BRD may, by written notice of suspension to the BANK, initiate suspension of this Agreement:
- a. If the BANK fails to be compliant with eligibility criteria and all applicable policies and procedures specified in the REF Project Operational Manual;
 - b. If the BANK fails to maintain the appropriate financial standards and lending practices, with qualified management and staff in adequate numbers;
 - c. If the BANK is found to breach the established eligibility rules for clients and projects, further disbursements and access to new funding will be suspended until the BANK has

- fully refunded the sub-financing related to the ineligible loans and procurements.
- d. If the BANK utilizes the funds for ineligible expenditures, it shall be asked to refund all Bank-financed amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in suspension.
 - e. If the BANK fails to perform any of its obligations under this Agreement, or any of the obligations specified in the REF Project Operations Manual related to procurement, environmental screening, or other World Bank requirements set out in the Financing Agreements, it shall be asked to clean the mistakes by a certain deadline, or else refund all amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in full suspension.
 - f. If the BANK fails to pay the interest and principal payments for longer than 60 days, it shall be asked to make a reimbursement by a certain deadline. Failure to cover full interest and principal due by a given deadline would result in suspension.
 - g. If the BANK becomes insolvent, or shows negative profitability, it will be given a deadline to improve its capital and/or financial position, or else the Bank-funded credit portfolio will be moved to BRD or another bank which continues to meet the criteria. Such a bank will be selected on a competitive basis. The insolvent bank will be suspended.
 - h. If the BANK fails to continue to be in compliance with applicable legal and regulatory requirements applicable to its operations.
- 15.4 The BRD suspension notice shall specify the reasons for suspension and, in cases when the reason for suspension can be addressed, it may specify potential remedies. If, upon receiving a suspension notice from BRD, the BANK fails to remedy the reason for suspension in the period of 60 days, BRD may terminate this Agreement by written notice of termination to the BANK.
- 15.5 Upon termination of this Agreement all rights and obligations of parties shall cease except the BANK financial obligations as per Articles 3 and 4 of this agreement and the BANK obligations pursuant to Article 9 of this Agreement.

ARTICLE 16: Representatives and Addresses

- 16.1 BRD represented by its Chief Executive Officer:
 Development Bank of Rwanda
 P.O. Box 1341
 Kigali, Rwanda:
- 16.2 The BANK name, represented by:
 Address for the BANK is:

Signed on

By BRD

By [Bank]

Authorized Representative

Authorized Representative

Appendix

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, or a category set forth in the table in Section IV.A.2 of Schedule IV.A.2 of Schedule 2 to the Grant Agreement, as the case may be.
3. “Direct Loans” means loans made by the Project Implementing Entity directly to Final Beneficiaries through Window 3 or Window 4 under Part 1 of the Project.
4. “Direct Loan Agreement” means an agreement between the Project Implementing Entity and a Final Beneficiary for a Sub-project under Windows 3 or 4 of the REF.
5. “Environmental and Social Management Framework” or “ESMF” means the plan prepared and disclosed by the Borrower/Project Implementing Entity and the World Bank, dated April 13, 2017, setting out the modalities to be followed in assessing the potential adverse environmental and social impacts of Project activities (including impacts on natural habitat, forests, and physical cultural resources, as well as pest management measures) and the measures to be taken to offset, reduce or mitigate such adverse impacts; as well as for the preparation of environmental and social management plans, as such framework may be amended by the Borrower from time to time, with the prior written agreement of the World Bank.
6. “Final Beneficiaries” means qualifying households, micro enterprises, solar system importers, wholesalers, retailers, installers, solar electricity service providers, and mini-grid developers meeting the respective eligibility criteria and conditions specified in the Operations Manual under the respective on-lending windows for Final Direct Loans, or under the activated windows for Direct Loans, as the case may be, under Part 1 of the Project.
7. “Final Direct Loans” means loans made by Participating Banks to Final Beneficiaries under either of Windows 1 or 2 through the respective Subsidiary Credit Lines provided under Part 1 of the Project.
8. “Final Direct Loan Agreement” means an agreement between a SACCO and a Final Beneficiary for a Sub-project under Window 1, or an agreement between a Participating Bank and a Final Beneficiary for a Sub-project under Window 2 of the REF.
9. “Grant Agreement” means the agreement of even date herewith, between the Recipient and the World Bank, acting as implementing entity of the Scaling-Up Renewable Energy Program under the Strategic Climate Fund, providing a grant in the amount of \$21,440,000 to assist in financing the Project.
10. “MINECOFIN” means the Borrower’s Ministry of Finance and Economic Planning, or any successor thereto.
11. “MININFRA” means the Borrower’s Ministry of Infrastructure, or any successor thereto.
12. “Operations Manual” or “OM” means the operations manual to be adopted by the Project Implementing Entity pursuant to the provisions of Section I.B.1 of the Schedule to the Project Agreement.
13. “Operating Costs” means the reasonable incremental expenses incurred by the Project Implementing Entity, based on annual budgets approved by the World Bank, on account of Project implementation, management, and monitoring, including office supplies and consumables; communication costs; operation and maintenance of office vehicles and equipment; *per diem* and national and international travel costs and accommodations for Project staff; reasonable bank charges; and allowances and salaries of the Project’s contractual staff (but excluding the salaries of the Borrower’s civil/public servants).

14. “Participating Banks” means commercial and microfinance banks to be selected by the Project Implementing Entity for participation in the Participating Bank Subsidiary Credit Line under Part 1 of the Project, on the basis of the criteria and approval procedures set forth in the Operations Manual, and in accordance with the provisions of Section I.D.1 of the Schedule to the Project Agreement.
15. “Participating Bank Subsidiary Credit Line” means a line of credit under Window 2 of the REF, provided by the PIE to a Participating Bank under a Participating Bank Subsidiary Lending Agreement.
16. “Participating Bank Subsidiary Lending Agreements” means the agreements entered between the Project Implementing Entity and the Participating Banks, for the purposes of the Project, pursuant to the provisions of Section I.D.2 of the Schedule to the Project Agreement.
17. “PIU” means the project implementation unit established in the Project Implementing Entity pursuant to the provisions of Section I.A.2 of the Schedule to the Project Agreement.
18. “PPP Law” means the Law governing Public Private Partnership in Rwanda, No. 14/2016 of 2nd/05/2016 Gazette 22 of 30/05/2016.
19. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 9, 2017, and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.
20. “Procurement Regulations” means the “World Bank Procurement Regulations for Borrowers under Investment Project Financing”, dated July 1, 2016.
21. “Project Agreement” means the Strategic Climate Fund Scaling-Up Renewable Energy Program Project Agreement for the Project, of even date herewith between the World Bank and the Project Implementing Entity.
22. “Project Implementing Entity” or “PIE” means the Development Bank of Rwanda.
23. “Project Implementing Entity’s Legislation” means the Memorandum and Articles of Association approved by Resolution No. 8 of the meeting of shareholders of the Development Bank of Rwanda, dated March 23, 2012.
24. “Project Steering Committee” means the project steering committee referred to in Section I.A.1 of Schedule 2 to this Agreement.
25. “Qualifying solar system” means all supported systems required to meet the Lighting Global Quality Standards or equivalent national quality standards, acceptable to the World Bank, subject to regular independent verifications to ensure alignment with International Electrotechnical Commission (IEC) Technical Specifications.
26. “REG” means Rwanda Energy Group, established pursuant to the law N° 97/2013 of 31 January, 2014.
27. “Resettlement Policy Framework” or “RPF” mean a document in form and substance acceptable to the World Bank dated April 13, 2017, which framework outlines the policies and procedures to be implemented in the event that specific activities implemented under the Project have potentially negative impacts on the livelihoods, assets and land of the affected population, as the said framework may be amended and/or supplemented from time to time with the prior written consent of the World Bank, and such term includes any schedules to such document”.
28. “SACCOs” means savings and credit cooperatives, established and operating under the laws of the Borrower pertaining to savings and credit cooperatives.
29. “SACCO Subsidiary Credit Line” means a line of credit under Window 1 of the REF, provided by the PIE to a SACCO under a SACCO Subsidiary Lending Agreement.
30. “SACCO Subsidiary Lending Agreements” means the agreements entered between the Project Implementing Entity and the SACCOs, for the purposes of the Project, pursuant to the provisions of Section I.D.2 of the Schedule to the Project Agreement.

31. “Safeguards Instruments” means the ESMF, the RPF and any Supplemental Social and Environmental Safeguards Instruments.
32. “SREP Design Document” is the design for the Scaling-up Renewable Energy Program, approved by the Strategic Climate Fund Trust Fund Committee and issued on June 1, 2009, and as said design may be amended from time to time in accordance with its terms.
33. “Scaling-up Renewable Energy Program” or “SREP” means the program established under the Strategic Climate Fund in accordance with the Governance Framework for the Strategic Climate Fund for the purposes set forth in the SREP Design Document.
34. “Standard Conditions” means the Standard Conditions for Loans Made by the World Bank Out of the Climate Investment Funds, dated February 18, 2014, with the modifications set forth in Section II of this Appendix.
35. “SMEs” means small and medium enterprises.
36. “Sub-projects” means qualifying Tier-1 (or higher) solar systems to be acquired by qualifying Final Beneficiaries under the terms of Final Direct Loans under Windows 1 or 2 of the REF, or qualifying renewable-energy based mini-grids to developed under the terms of Direct Loans under Window 3 of the REF.
37. “Subsidiary Financing Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Borrower shall make part of the proceeds of the Loan available to the Project Implementing Entity.
38. “Subsidiary Credit Lines” means wholesale lines of credit provided by the Project Implementing Entity to SACCOs and Participating Banks under Part 1 of the Project under either a SACCO Subsidiary Lending Agreement or a Participating Bank Subsidiary Lending Agreement, as the case may be, all in accordance with the provisions of Section I.D of the Schedule to the Project Agreement.
39. “Supplemental Social and Environmental Safeguard Instrument” means any site-specific or sub-project specific environmental and social management plan, resettlement action plan, pest management plan, or other supplemental social and environmental safeguards instruments as required under the terms of the ESMF or RPF.
40. “Tier 1” means a solar system with 1000 lumen hours and above, so defined under the Borrower’s SE4All Multi-Tier Framework, in accordance with the Borrower’s Rural Electrification Strategy.
41. “Training” means the costs attributable to seminars, workshops, and study tours, along with travel and subsistence allowances for training participants, and costs of services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation, all within a plan and budget approved by the World Bank.

ANNEX 6: Sub-loan Agreement between Banks and their clients

LOAN AGREEMENT No:.....

AGREEMENT dated, entered into between [insert name of the Bank] and lender on one hand and [insert name of the Household or Small, and Medium Enterprise (SME) – Final Beneficiary on the other hand

[insert name of the Bank] and [insert name of the Household or Small, and Medium Enterprise (SME) hereby agree as follows:

Article 1: Purpose of the loan

Lender agrees to lend a portion of the loan on terms and conditions set forth or referred to in this Agreement to the [insert Household or Small, and Medium Enterprise (SME) (name)] for the implementation of its project related to renewal Energy located in Village,Cell, Sector, District.....Province.

Article 2: Amount of loan

Under the terms of this loan and security contract, the Lender lends a loan facility amounting to (**FRW**) which the Final Beneficiary declares to have no objection.

Article 3: Repayment

All amounts drawn and outstanding under the Facility and all interest and other sums payable in respect of the Facility shall be due and payable at any time forthwith on demand. However, without prejudice to the Bank's right to make demand at any time, it is agreed that: -

- a. The Facility is repayable immediately should an event of default (as defined in this Letter) occur.
- b. The term loan facility shall be repaid in consecutive monthly/quarterly instalments of approximately **FRW** each, inclusive of interest. The tenor includes **months grace period on principal**.
- c. The first repayment of the principal amount of the loan must be made last day of the month/quarter from the disbursement date. Subsequent payments must then be made on the last day of every month/quarter until the loan is repaid in full.

Article 4: Interest

- a. Interest on the facility shall be paid at such rate or rates not exceeding any maximum permitted by law and subject to a minimum of the Bank's Rwanda Francs Base Rate. The Bank in its absolute and sole discretion may determine from time to time.
- b. Interest on the Facility shall be computed on a reducing balance basis, and shall be debited and payable monthly/quarterly by way of compound interest but without prejudice to the Bank's right to require payment of such interest when due.
- c. The Bank may by notice change the rate of interest so payable, and any such change will not prejudice in any way the Bank's right to recover interest charged subsequent to such change.

Article 5: Prepayment fees

In the event that the facility is prepaid by the borrower and/or redeemed by another financial institution, the Bank shall recover prepayment fee at **5%** on the amount outstanding on the Facility on the takeover date.

Article 6: Commission/charges

- Processing file fee:% flat
- Commitment fee: 1% of the undrawn amount for 3 months.
- Security Perfection: FRW payable upfront
- Late Registration of Security: ... per month of approved limits
- Release of collateral FRW

Ledger fees and other charges and commissions shall be charged in accordance with the Bank’s tariff published from time to time.

Article 7: Management fees

The Bank shall recover from the Borrower’s account management fees of **...% per annum** after the signing of the letter of offer.

Article 8: Additional Interest

If any sum payable by the Borrower hereunder is not paid on the date on which it is due in accordance with the provisions of this facility, and demand having been made, the Borrower shall pay continuing accrued additional interest on such sum at the rate of% per month/quarter over and above the subsisting rate of interest payable on the facility by the borrower until full payment is received by the Bank. The Bank may by notice change this rate of interest so payable, and any such change will not prejudice in any way the Bank’s right to require payment of such interest when due.

Article 9: Returns

Copies of receipts evidencing up to date payment of all charges, fees, levies etc. due on the Property including land rent, rates and rent and or land clearance certificates as may be required, failing which the Bank reserves the right to pay directly to the relevant authorities and or departments without reference to the Borrower and debit to the Borrower’s Overdraft account such charges, fees, levies etc. together with the incidental expenses if any, so as to ensure that the Bank’s interests stand adequately protected at all times.

Article 10: Other Covenants

- a. The Borrower will inform the Bank of any additional borrowings from other sources.
- b. The Borrower will provide the Bank regularly with such information and in such form as may be required from time to time relating to the Borrower’s finances and operations.
- c. The Borrower shall advise the Bank immediately of any changes in its occupation or any material or major happening that may affect the Borrower’s operations. This could include but not be restricted to loss of capacity to generate income, changes in the shareholding pattern, industrial or labor disputes, industrial or economic downturn, diversification plans, capital expenditure commitments, change in objectives and the like.
- d. The Borrower shall undertake to submit valuation reports for any and all immovable properties securing the Facility at least once every (3) years from approved Valuers. The Bank shall also, if the circumstances so warrant, ask for periodic valuation of the said properties. In the event that this is not complied with the Bank shall arrange for the same and debit the relevant charges to the Borrower’s account.

- e. The Borrower acknowledges that [Insert Bank (name)], its management, directors and/or shareholders shall not be liable for any disclosure of information pertaining to the Borrower and/or related parties, to the credit reference bureau. This information includes past, current and future information;
- f. All insurable assets forming part of the Bank's security shall be comprehensively insured against theft/damage/fire for the full value thereof during the tenure of the Facilities by an insurance company approved by the Bank with the interest of the Bank being duly noted on the policy document.
- g. The Borrower shall deliver to the Bank the relevant renewal advice for renewal of any insurance cover at least seven (7) days prior to expiry failing which the Bank shall be at liberty to effect such insurance cover at the Borrower's cost without further reference to the Borrower and debit the Borrower's account with any amount paid by the Bank.

Further terms and Conditions

1. Conditions precedent

- a. The Bank shall not be obliged to make any disbursement of the Facility until it has received as a condition precedent, in each case, in a form and substance satisfactory to it, the documents, items and evidence specified in the Financing Schedule (such documents, items and evidence herein after collectively referred to as the "Security Documents").
- b. No indulgence by the Bank of its rights under this Agreement, the Financing Schedule, any of the Security Documents will operate as a waiver of its rights and/or remedies.
- c. The Bank's obligation to make any disbursement of the Facility is also conditional upon the Borrower's compliance at the relevant time with the terms and conditions of, and there being no breach of or default under the Letter.

2. Currency

- a. The Loan will be disbursed and repaid in Rwandan Francs.
- b. The Security Documents now offered to and/or held by the Bank and/or which the Bank may hold from time to time will secure all the Borrower's liabilities (both actual and contingent), denominated in any currency whether such liability is in the Borrower's single name or jointly with any other person.
- c. All moneys received or held by the Bank or by any Receiver under any Legal Charge may from time to time after demand has been made by the Bank be converted into such other currency as the Bank considers necessary or desirable to cover the obligations and liabilities actual or contingent of the Borrower in that other currency at the then prevailing spot rate of exchange of the Bank for purchasing that other currency with the existing currency.

3. Representations and Warranties

The Borrower represents and warrants to the Bank as follows:

- a. Every consent, authorization or approval of governmental or public bodies or authorities required in connection with the execution, delivery, validity or enforceability of this Letter or the performance by the Borrower of its obligations hereunder or required to make this Letter admissible in evidence has, where applicable, been obtained and is in full force and effect.
- b. Neither the execution and delivery of the form of acceptance indorsed hereon by the Borrower nor the performance or observance of any of its obligations under this Letter will conflict with, or result in, any breach of any law, statute, regulation, indenture, mortgage, trust deed, agreement or other instrument, arrangement, obligation or duty by which the Borrower is bound or cause, where applicable, any limitation on any of the powers whatsoever of the

Borrower howsoever imposed or on the right or ability of the Borrower to exercise such powers to be exceeded.

- c. All information submitted by the Borrower to the Bank, inter alia, on its financial position, net worth, details of indebtedness, presents accurately its state of affairs and the financial position of the Borrower as at such date.
- d. There has been no material adverse change in the financial position of the Borrower from that set forth in the application form and in the annexures thereto, submitted to the Bank requesting the Bank for the Facility.
- e. The representations and warranties set forth in this Paragraph are given and made on and as of the date hereof, shall survive the acceptance of this Letter and are continuing representations and warranties which are deemed to be repeated during continuance of the Facility.

4. Events of default

In the event of:

- a. Failure by the Borrower to make any repayment of principal or payment of interest or other moneys in respect of the Facility on its due date, or
- b. A breach in the performance of any other term and condition of the Facility or any covenant by the Borrower or any term and condition of any of the Security Documents or any other security held by the Bank for the Facility, or
- c. A trustee, sequestrator or similar officer being appointed of all or any of the assets of the Borrower, or
- d. A distress, execution or other legal process being levied against any of the assets of the Borrower and not being discharged or paid within 7 days, or
- e. The Borrower selling, transferring or otherwise disposing of the whole or any substantial part of its undertaking or assets whether by a single transaction or a number of transactions without the prior written consent of the Bank, or
- f. Any indebtedness of the Borrower becoming immediately due or payable or capable of being in default on the part of any person, or the Borrower failing to discharge any indebtedness on its due date, or
- g. Any representation or warranty made by the Borrower hereunder or for the purpose of obtaining the Facility being incorrect in any material respect as of the date of which it is made or deemed to be made, or there being any material adverse change of the position as set out in such representation or warranty, then the Bank's commitment to advance the Facility or any balance thereof shall cease and the whole amount of the outstanding Facility and all accrued interest or other amounts owing hereunder will become repayable forthwith on demand in writing made by the Bank at any time. The Borrower shall also provide cash cover on demand for all contingent liabilities of the Borrower to the Bank and for all notes or bills accepted, endorsed or discounted and all bonds, guarantees, indemnities, documentary or other credits or any instruments whatsoever from time to time entered into by the Bank for or at the request of the Borrower. In addition, any and all Security Documents and any and all other securities held by the Bank in respect of the Facility shall become immediately enforceable.
- h. Any moneys not paid following a demand under this Paragraph shall continue to attract interest at the contracted rate as well after as before judgment or any Bankruptcy or liquidation of the Borrower.

5. Exchange of Information

- a. The Borrower hereby expressly consents and authorizes the Bank to disclose, respond, advise, exchange and communicate the details or information pertaining to the Borrower's account(s) to other banks, financial institutions, credit card companies, or credit reference bureaus,

including authorized agents, representatives, lawyers or debt collection agents for the purposes of any bona fide enquiry or collection of any data or towards recovery of any sums due and outstanding to the Bank.

- b. The Bank may from time to time release (without notifying the Borrower) any information relating to any of the Borrower's account to any statutory authority which has legal power to demand for such information.
- c. The Borrower acknowledges that any information released by the Bank under this clause may be used by the recipient to assess applications for credit by the Borrower or any related parties for bad debt tracing and for fraud prevention purposes. The Borrower shall no claim whatsoever against the Bank for any consequential loss, damage, fees or expenses suffered or incurred by the Borrower in relation to the release of any information by the Bank under this clause.

6. Confidentiality

The Borrower agrees not to disclose to any third parties any information provided by the Bank in connection with this offer, except to those legally required.

Definitions

- **Loan:** Amount received from the Lender by the Final Beneficiary and which the latter is obligated to pay back with interests, commissions and other fees at a later time;
- **Prepayment penalties:** Penalties attached to the payment of all or part of the loan prior to its due date;
- **Cure period:** A contractually designated timeframe during which a Final Beneficiary can fix a default;
- **Interest rate:** Rate expressed in percentage at which the amount charged on the loan over time is calculated;
- **Penalty:** Additional payment required for not fulfilling the loan contract obligations with regard to due payments;
- **Restructuring:** Amendment to initial conditions & terms of the loan contract;
- **Representations and warranties:** Statements by which the Final Beneficiary gives certain assurances to the Lender and on which the Lender may rely;
- **Covenants:** Promises by the Final Beneficiary that certain activities specified in this loan agreement will or will not be carried out;
- **Credit Reference Agencies:** a company that collects information from various sources and provides credit information on Final Beneficiaries for a variety of uses;
- **Loan notification letter:** A letter addressed to the Final Beneficiary notifying him/her of the offer by the Lender of the loan and summarizing terms and conditions of the loan;
- **Commission:** Fee charged by the Lender for its service for appraising and offering the loan to the Final Beneficiary
- **Grace period:** Time period allowed by the Lender to the Final Beneficiary for which the latter is exempted from paying the principal loan without any penalty;
- **Commitment interest:** Charges paid by the Final Beneficiary in return of the Lender's commitment to make funds not yet disbursed available;
- **Final Beneficiary:** is a natural person or legal entity established and operating under Rwandan laws, with the organization, management, technical capacity and financial resources necessary to carry out the proposed Final Sub-project.

Financing Schedule

A. Conditions precedent

(i)

...

B. Securities to be provided

(i)

...

FOR THE BORROWER

FOR THE BANK

ANNEX 7: Tranche Utilization Report for Banks

Tranche Utilization and Renewable Energy System Installation Report (from Bank to BRD) Name and ID Number Tranche Number and Date When Tranche Sub-Loan Contract Signed

o T/C	Name	ID No.	Address	Mobile No.	Installation Date	System Information				Loan Information					
						System Identification No.	Capacity (Wp)	System Cost	Company	Loan Amount	Loan Tenure	Loan Approval Date	EMI Amount	O/s Amount	Interest Rate (%)
T1/1															
T1/2															

Prepared By:

Signature:

Name:

Mobile No.:

Official Stamp and Date

T/C: Tranche Number and Credit Number

Name: Name of household client or SME using drawdown

ID No.: National Identification Number or any other identity number of the borrower

Installation Date: The date when solar system was installed by the solar company

System identification number: The unique number engraved on the system by the installation solar company

System Cost: The total cost of the system, if different from the loan amount

System Capacity: The size of the solar system expressed in watt peak.

Loan Amount: The amount of loan provided by the Bank

Loan Tenure: The duration of the loan, expressed in number of months

Loan Approval Date: The date when Bank had approved sub-loan its client

Equal Monthly Installment (EMI) Amount: The principal and interest amount to be repaid by the borrower due monthly

O/s Loan: The total loan amount to be repaid to the Bank

Interest Rate: The annual interest rate in percentage to be charged to client including commission, service charge, fees etc.

Purpose: The main objective of system installation i.e. basic lighting or micro-enterprise operation

Company: The name of the installer company

Note: The Bank can also use their own reporting format (subject to their operating software) however the report must contain minimum information as required by the REF

