



Development Bank of Rwanda

Renewable Energy Fund Project

Sacco 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
PFI	SACCOs
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 SACCOs	Based on Subsidiary Financing Agreement
Interest Rate: SACCOs 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 SACCOs	Up to 36 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: SACCOs to BRD	Based on Subsidiary Financing Agreement
Repayment: Beneficiaries to SACCOs	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 and SACCOs 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 (PFIs)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 SACCOs 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 "SACCO" 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_Devt_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.

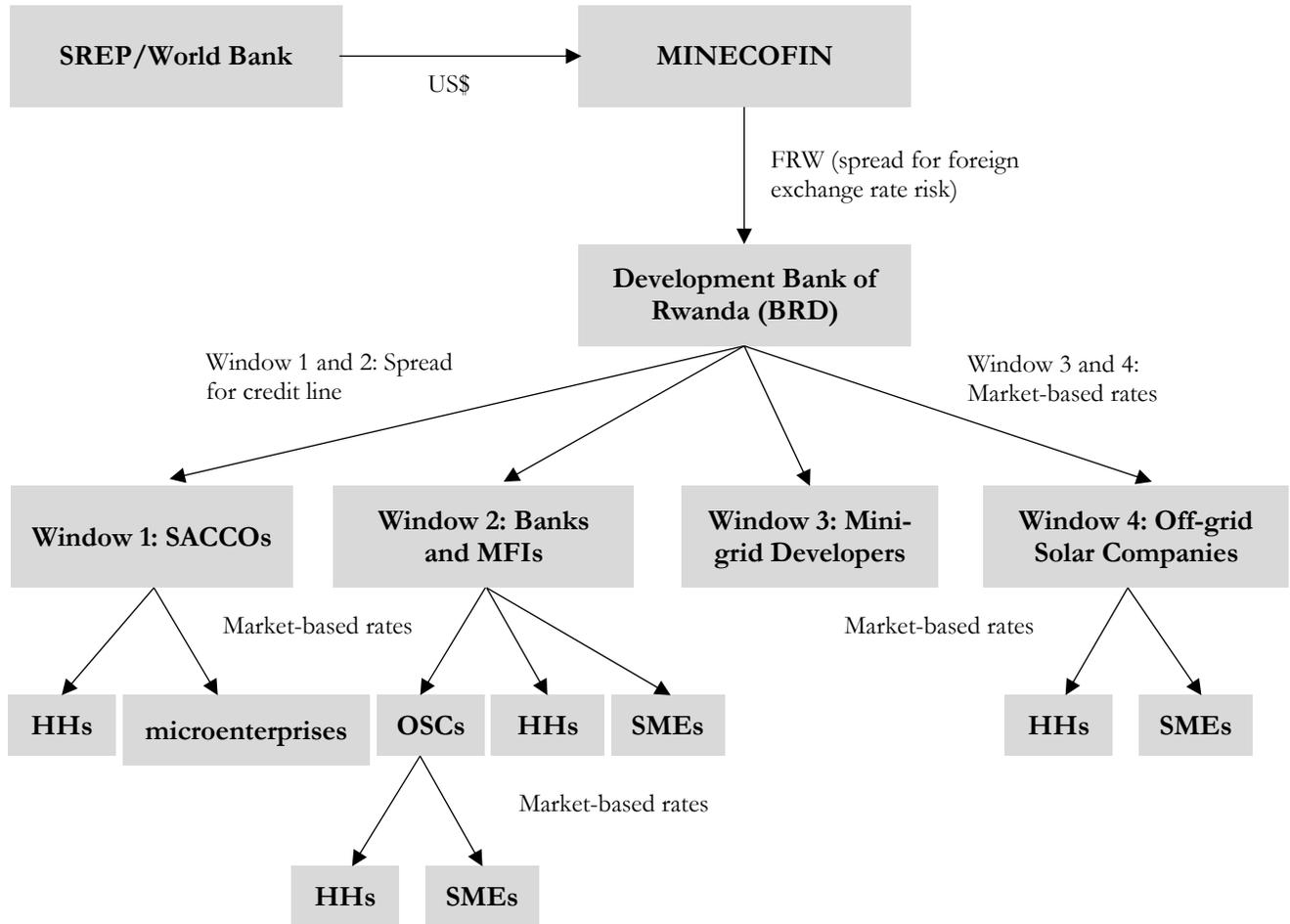
Qualified solar systems. All supported systems are required to meet the Lighting Global Quality Standards or equivalent national quality standards, if those are acceptable to the World Bank, subject to regular independent verifications to ensure alignment with International Electrotechnical Commission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

b. BRD to SACCOs

BRD will on-lend the funds to SACCOs which comply with eligibility criteria agreed with the World Bank. The on-lending arrangement will be governed by a SACCOs Subsidiary Financing Agreement to be signed between BRD and each SACCO. The SACCOs Subsidiary Financing Agreement will outline the terms and conditions of the financing, and detail the rights and obligations of both parties, and remedies among other provisions. The standard form for the SACCOs Subsidiary

Financing Agreement is provided as Annex 1. For each additional tranche, an Annex to the Subsidiary Financing Agreement will be signed. The Annex specifies the amount, the specific numbers and specific obligations related to the specific tranche – including the repayment schedule.

The SACCO subsidiary financing will be based on a drawdown model as follows: the client submits an application to the SACCO for a loan for the purchase of a solar system of Tier 1 and above access level.⁴ The SACCO appraises the eligibility and creditworthiness of the client, as well as the feasibility of the investment in case of micro enterprises. If the SACCO is satisfied that the client is creditworthy and that all applicable eligibility criteria are met, the loan is approved by the SACCO Credit Committee following applicable credit risk appraisal and management procedures. If the SACCO Credit Committee approves the loan, a loan agreement with the beneficiary (including mandatory clauses, as specified) is signed and followed by disbursements to the borrower off-grid solar company that installs the solar system and provide product warranty and after sales service. The standard form of the Sub-Loan Agreement between SACCO and the final borrower is provided as Annex 2.

Disbursements from SACCOs to off-grid solar companies will be executed in installments upon completion of different milestones: (i) up to 25% of the total loan amount⁵ will be disbursed upon SACCO Credit Committee's approval of the loan to the beneficiary. The SACCO will notify the off-grid solar company of the approval and complete the disbursement subject to the installation occurring within an agreed timeframe as per the signed Service Level Agreement. The solar company will proceed to arrange for the installation; (ii) up to 80% of the total loan amount will be disbursed upon confirmation from the beneficiary that installation has been completed, basic orientation for the system operation is provided, warranty/guarantee and after-sales-service papers signed and the equipment is working properly; and (iii) the remaining 20% of the total system cost will be released in half-yearly installments until the expiry of the warranty/guarantee.

The subsidiary finance starts with a BRD sub-loan in local currency of US\$ 25,000 equivalent, extended to a SACCO for up to 36 months, with 3 months of grace period. It is open to all SACCOs which are interested and able to meet the eligibility criteria, assuring good financial condition and risk management capacity. SACCOs use the subsidiary finance to extend sub-loans to households and micro enterprises. This window will include the following types of finance:

- sub-loans in local currency to households of up to US\$ 1,000 equivalent with up to 36 months-maturity under monthly/bi-monthly/weekly repayment system and up to 3 months grace period;
- sub-loans in local currency to micro-enterprises of up to US\$ 1,000 equivalent with up to 36 months-maturity and up to 3 months grace period under quarterly or monthly repayment system;

⁴ The SE4All MTF initiative launched by the Secretary-General of the United Nations in 2011 aims to achieve universal access to modern energy services by 2030. The MTF measures access in the Tiered spectrum, from Tier 0 (no access) to Tier 5 (the highest level of access). Under the MTF, Tier 1 (minimum 12 Watt hour per day) is defined as providing access up to four hours per day and at least one hour at night and can be used for basic applications such as task lighting, radio, and phone charging.

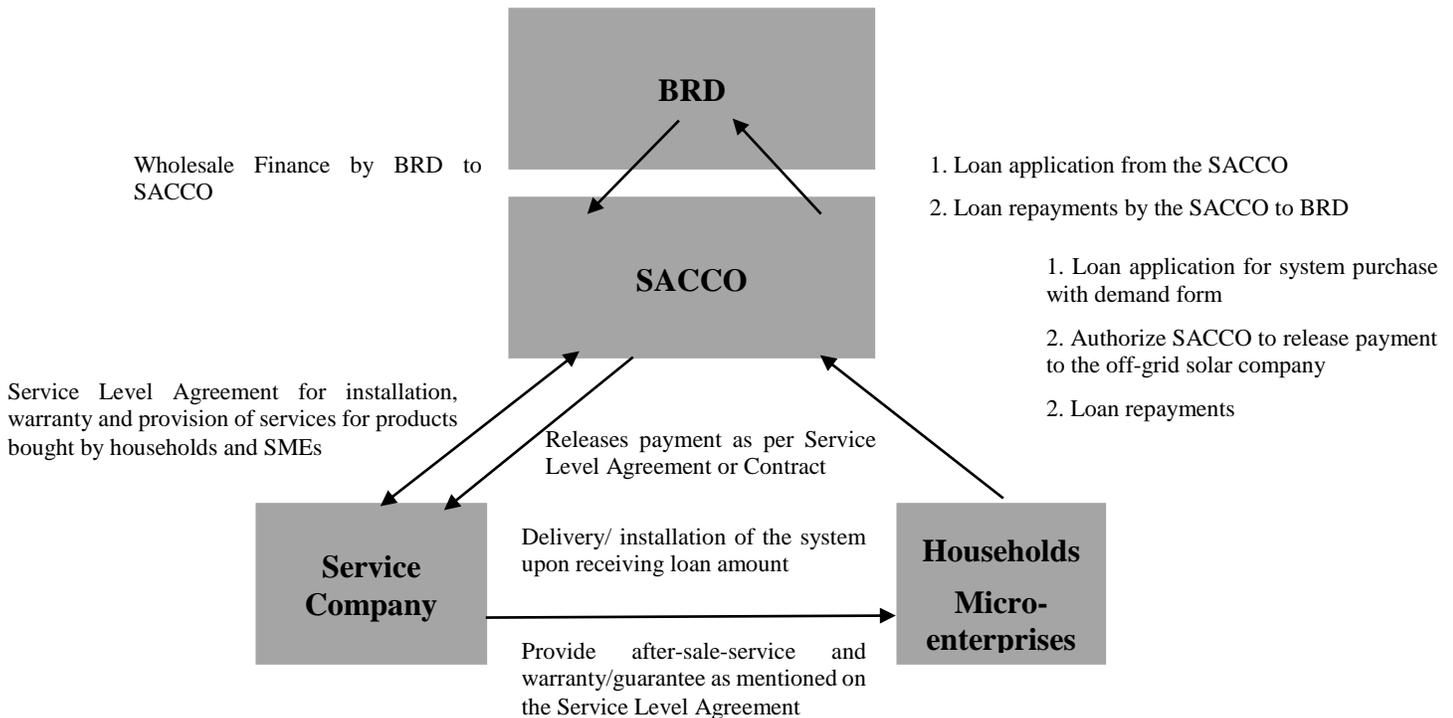
⁵ The loan amount may be different from the system cost. In this case, the final beneficiaries are required to manage remaining amount as their equity contribution which shall be collected by the SACCOs and released to the OSCs.

The SACCO after signing subsidiary financing agreement with BRD shall start collecting request from the potential households. Once the request is collected, the SACCO, on behalf of the beneficiary household, shall place purchase order with 25 percent advance money as first installment. The OSC then installs the system at household and requests SACCO for second installment (up to 95 percent of the second installment) with payment release authorization or no-objection letter from the household.

Once the SACCO has used 90% of the tranche of US\$ 25,000, it can apply to BRD for additional tranche. The application for additional tranche must include all required documentation including the full details on how the tranche has been used. The detailed tranche utilization reporting requirements are provided as Annex 3. BRD may decide to do a post-review of the SACCO appraisal and/or lending process and of the related sub-loan documentation.

There is no maximum amount of subsidiary finance available for one SACCO. Any changes in the maximum limit should be agreed between BRD and the World Bank. Successful SACCOs, which have effectively used the subsidiary finance and have a non-performing loans ratio in compliance with BNR requirements., would be able to get a higher draw-down amount and a higher maximum amount, as approved by the BRD. **The first two tranches will be subject to prior review and no-objection by the World Bank.**

Figure 2: Partnership Model for SACCOs Operations



SACCOs will enter into service level agreements with off-grid solar companies to coordinate their energy lending, disbursement and customer service processes. The off-grid solar companies will have to satisfy the eligibility criteria to ensure that they will provide good quality solar equipment and have adequate capacity to provide the expected services. The solar companies will need to provide product warranty and servicing for the whole duration of loan tenors extended by SACCOs.

Guidance on the agreement is provided in Annex 4. The eligibility criteria for the off-grid solar companies are provided in this OM.

For each SACCO loan to be extended, a SACCO Sub-Loan Agreements as Annex 2 shall be signed between the SACCO and the Final Beneficiary for sub-loans to households and micro-enterprises. If required, the SACCOs can also use their standard contract when signing the loan contract with their clients. However, in this case, the certain key provisions and information as provided on Annex 2 must be included in the loan contract.

a. Role of Participating SACCOs

SACCOs will on-lend funds to eligible households and micro-enterprises. SACCOs will be free to select final beneficiaries on which they are willing to take the credit risk without any interference. Each SACCO shall have:

- **Technical staff** responsible for the demand collection, coordination with best OSCs for system installation and after-sales-service and appraisal of credit applications to purchase solar-based systems. The SACCO 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 SACCOs responsibilities include:

- Review of loan applications from both recruited and walk-in households and micro-enterprises;
- Appraisal of eligibility of both recruited and walk-in households and micro-enterprises applicants;
- Appraisal of the financial condition/creditworthiness for each applicant;
- Approval of loans by the SACCO Credit Committee;
- In close partnership with OSCs, organize mass-user awareness and demand collection campaigns. The BRD may provide necessary advice on how to effectively organize such campaigns.
- Signing of appropriate loan agreements with household and micro-enterprise clients; service agreement with service companies; as well as Sub-Loan 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 SACCO'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, upon request, 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 SACCO shall also provide to BRD a written report on SACCO'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 3.
- Prepare all Project implementation reports specified in the OM on time and with good quality information and submit to BRD 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, have 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 SACCO'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 SACCO.
- Prepare and furnish to BRD and the World Bank all information as BRD or the World Bank shall reasonably request relating to Project implementation.

SACCOs Qualification and Eligibility Criteria

The success of any financial intermediation operation critically depends on the effectiveness and quality of the SACCOs (PFIs). Strong and capable SACCOs, 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 borrowers, which are consistent with Project objectives.

Access to participation shall be open to all interested SACCOs which are able to satisfy the eligibility criteria. SACCOs that are to be considered for participation are required to:

- Allow authorized World Bank's representatives on a need-to-know basis access to privileged and confidential information necessary to appraise whether the SACCO meets and/or continues to meet the agreed qualification criteria;
- 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.

All SACCOs which are interested to participate should submit a written request to BRD. Their eligibility will be appraised by BRD. The final decision on the SACCO's qualification for participation will be made after final review and consultation with the World Bank. BRD shall be informed in writing whether the SACCO was able to meet the eligibility criteria. Successful SACCO will be invited to sign the Subsidiary Financing Agreement.

a. SACCOs Eligibility Criteria

The eligibility criteria assessed in the due diligence process follow the general guidance provided under World Bank Policy. Given that a large number of Umurenge SACCOs is still facing considerable challenges in their operations, eligibility criteria need to be defined that are cognizant of

the nature of these institutions while at the same time ensuring that participating institutions are in stable financial condition, are prudently managed with capacity to appraise and carry credit risk, and are able to effectively report on project activities.

Once qualified, a SACCO will be expected to continue meeting 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) – regular reporting to BNR. The SACCO must be in good standing with the BNR at all times and observe all other applicable laws and regulations.
- **Adequate organization and governance** – “fit and proper” owners; competent management; adequate organization and institutional capacity for its specific risk profile.
- **Capital adequacy** – compliance with BNR regulations with 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 30 percent), well managed or no maturity gaps.
- **Adequate profitability** – positive profitability and stable earnings trend. Well-managed cost structure.
- **Adequate credit portfolio structure and portfolio quality** – well-defined lending policies and procedures; acceptable credit portfolio structure; regular loan classification and provisioning⁶; low concentration; lending to connected parties within prudential limits; non-performing loans ratio in compliance with BNR prudential requirements; effective collection practices.
- **Adequate internal controls, overseen by Audit Committee** – independent internal control function with defined procedures; annual internal controls plan; regular reviews by Audit Committee and follow-up on issues raised in internal controls reports.
- **Adequate accounting and book-keeping and MIS system, with adequate internal controls** – must have credible financial statements with chart-of accounts as specified by BNR, with at least basic IT support providing good accounting and bookkeeping, and adequate support for transaction processing and loan portfolio management.
- **Appropriate implementation capacity** – for carrying out client and sub-loan appraisals and for supervision of the use of funds and micro-enterprise sub-project implementation.

b. Ongoing SACCO Financial Performance Criteria

Each SACCO will be required to demonstrate ongoing compliance with the following financial performance indicators throughout its participation in the project. BRD will continuously monitor performance and engage with the SACCOs whenever performance on the eligibility criteria deteriorates. Whenever a SACCO deviates from the eligibility criteria, a credible commitment in the form of a time-bount action plan needs to be prepared by the SACCO submitted to BRD. During supervision, the World Bank team jointly with BRD will closely monitor the performance and on-lending through the SACCOs. Findings from the ongoing monitoring of, and engagement with the SACCOs will be captured in a dedicated section in the quarterly progress reports submitted by BRD to the World Bank.

⁶ At least four times per year and adequate provisioning.

Table 1: Ongoing SACCO's Financial Performance Criteria

Standard in current regulation	Limits	Formula definition
Capital Adequacy Ratio	Min 15 percent	Total equity/ total assets. Every SACCO is required to maintain an equity corresponding to a minimum of 15 percent of total assets.
Liquidity Ratio	Min 30 percent	Cash and cash equivalent/ sight deposits and contingent liabilities. SACCOs must maintain a liquidity ratio of at least 30 percent at all times. It must constitute a reserve equivalent to one half of this ratio in the form of treasury bills or term deposits with commercial banks.
Fixed Assets/Equity	Max 75 percent	Net fixed assets/ equity. Every microfinance institution, union or federation must at all times cover the medium and long-term uses of funds with stable resources. Medium and long-term uses of funds are loans with remaining tenors longer than one year and net capital assets. Stable resources are deposits, borrowings and other liabilities with remaining terms longer than one year and equity. A SACCO is not authorized to utilize more than 75 percent of its equity.
Insider Loans/Equity	Max 20 percent	Loans to staff and directors and related parties/equity. The total amount of commitments by a SACCO for all its directors and employees may not exceed 20 percent of its equity as established in the most recent financial statements.
Total Net Loans/Total Assets	Max 80 percent	Total loans/total resources. The total amount of commitments made by a SACCO cannot exceed the minimum of 80 percent of the volume of its resources. Resources are deemed to include equity capital, deposits, subsidies and long and medium term borrowings.
Total Equity Investments/Equity	Max 40 percent	Equity investment/total equity. A SACCO is requested to: <ul style="list-style-type: none"> • hold equity in enterprises up to, for each participation, either 15 percent of the amount of its equity or 20 percent of the capital of the enterprise, whatever limit is lower; • For all its participations, 40 percent of its own equity.
Single Borrowing/Total Deposits	Max 5 percent	Loans to single borrower/total deposits. A SACCO may not grant loans, including overdrafts or credit facilities to the same natural person or legal entity or group for an amount exceeding 5 percent of its total deposits or the maximum allowed as per BNR requirements, whichever is lower.
Single Borrowing/total equity	Max 10 percent	Loans to single borrower/equity. A SACCO may not grant loans, including overdrafts or credit facilities to the same natural person or legal entity or group for an amount exceeding 10 percent of its total equity or the maximum allowed as per BNR requirements, whichever is lower, as established in its most recent financial statements.
Provisioning practices (days)	Overdue up to 3 months 25 percent, 6 months 50 percent and 12 months 100 percent. For overdrafts SACCOs should make provisions as follows: overdue up to 3 months 75 percent and 6 months 100 percent.	

c. Appraisal of SACCO Eligibility – Information Needed

Before the eligibility appraisal starts, information should be obtained on the SACCO's financial condition indicating that it is able to meet the eligibility criteria. This should include:

- Ownership, governance structure and organization;
- Latest financial statements and the management reports obtained from the BNR and or SACCO;
- Prudential supervisory data obtained from the BNR;
- Written policies and procedures covering credit risk appraisal and risk management;
- Specification of internal audit functions and the list of internal audit reports produced in the last 24 months.
- Necessary legal documents such as SACCO registration certificate, tax clearance certificate, memorandum of article/association etc.

d. SACCO Eligibility Review Process

The eligibility review will be executed by the BRD with final approval obtained from the World Bank. This shall include interviews with senior management of the SACCO 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 SACCO's organization, business strategy, ownership and governance structure;
- Interviews with senior management on the SACCO's financial condition and profitability, including review of related company policy documents and Board reports;
- Interviews with senior management on lending policies, procedures and practices and internal controls.

Once the eligibility has been confirmed, the BRD will invite the SACCO to sign a Subsidiary Financing Agreement with BRD. The Subsidiary Financing Agreement specifies details regarding the terms of access to financing, mutual responsibilities and terms and conditions of participation of the SACCO in the project. Once signed, it will allow eligible SACCO access to finance on specified terms for eligible beneficiaries.

e. Implementation Requirements

A SACCO 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 practices and in conformity with sound lending policies and procedures referred to in the OM. The SACCO shall:

- Make loans to households and micro-enterprises clients on terms and conditions set forth in the OM and comply with requirements specified in the Subsidiary Financing 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;
- Satisfy all reporting requirements for BRD and the World Bank, as specified in Subsidiary Finance Agreement;

f. Suspension

If, for reasons that are specific to the individual SACCO, the performance of a SACCO deviates substantially from the eligibility criteria and the applicable policies and procedures specified in the OM and there is no clear and credible commitment from SACCO management to remedy the situation immediately, its access to sub-financing shall be suspended. The suspension rules are the following:

- If a SACCO is found to breach the established eligibility rules for clients, further disbursements and access to new funding will be suspended until the SACCO has fully refunded the sub-financing related to the ineligible SACCO loans;
- If a SACCO 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;
- If a SACCO 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;
- If a SACCO 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 SACCO which continues to meet the criteria. Such a SACCO will be selected on a competitive basis. The insolvent SACCO will be suspended;
- In cases when it has been established beyond reasonable doubt that a SACCO's managers are not "fit and proper", the SACCO will be given a deadline to remove such managers and appoint ones that are "fit and proper", or else the Bank-funded credit portfolio will be moved to BRD or another SACCO which continues to meet the criteria. Such SACCO will be selected on a competitive basis.
- In case where it is found the GRM is not functional;

The actions needed to address the specific issues that provided the basis for suspension and the deadlines by which the actions need to be completed will be defined by BRD in agreement with the World Bank. The SACCO's right to sub-financing may be restored once the problems that have prompted its suspension have been adequately addressed. The appraisal on whether the problems have been addressed will be executed by BRD or by a third party, if so agreed between BRD and the World Bank. The decision on removing the suspension shall be made by BRD in agreement with the World Bank.

Eligibility Criteria for Final Borrowers

a. Eligibility Criteria for SACCOs clients

SACCOs will use the financing to extend sub-loans to households and micro-enterprises.

Eligibility criteria for households include:

- National identity card for at least one member of the household asking for a sub-loan;
- The person in the household asking for the sub-loan must be a member of the SACCO with a fully paid member contribution, if applicable;
- Has had an active account with the SACCO for the last 3 months;
- Good credit history with the SACCO – if the member 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 micro-enterprises include:

- The owner/company must be a member of the SACCO with a fully paid member contribution;
- Duly licensed and in business for the last 12 months with business address in the respective area in which the SACCO operates;
- Has had an active account with the SACCO for the last 6 months;
- Good credit history with the SACCO - has borrowed from the SACCO and repaid on-time;
- Capacity to pay back the loan within a period of up to 60 months;
- Has basic book-keeping records such as sales, purchases, receipts and payments, etc.;
- In compliance with local tax authorities.
- For, the new micro-enterprises seeking loan for solar and solar-powered equipment, should produce the brief concept of the business acceptable to the SACCO.

b. 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”⁷. 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 position⁸;
- 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;
- 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;

⁷ “Fit and proper” broadly means that the owners and managers are honest, experienced and qualified to operate the respective business.

⁸ 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.

- 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.

c. Eligibility Criteria for OSCs clients

OSCs will use the financing to extend credit to households and micro-enterprises. **Eligibility criteria for households** include:

- National identity card for at least one member of the household asking for a credit;
- Capacity to pay back the loan within a period of up to 36 months and up to 3 months’ grace period.

Eligibility criteria for micro-enterprises include:

- Duly licensed and in business for the last 12 months with business address
- Capacity to pay back the loan within the term;
- Has basic book-keeping records such as sales, purchases, receipts and payments, etc.;
- In compliance with local tax authorities.
- For, the new micro-enterprises seeking loan for solar and solar-powered equipment, should produce the brief concept of the business acceptable to the OSC.
- Capacity to pay back the loan within a period of up to 60 months

X. SACCOs Sub-Loan Terms and Conditions

SACCOs' 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 micro-enterprises;
- 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 micro-enterprises;
- There would be no sub-loan prepayment penalties, and interest could be charged on a declining balance formula.

a. SACCOs Sub-Loan Limits

- For SACCOs, the wholesale finance amount will be equivalent to US\$ 25,000 with loan maturity of up to 36 months (including 3 months of grace period);
- Once 90% of the approved wholesale finance amount has been utilized, the SACCO may apply for an additional amount of Sub-financing. The application for additional tranche must include full details on how the tranche has been used as specified in Annex 3;
- The maximum sub-loan amount is US\$ 1,000 equivalents for sub-loans to households; and US\$ 5,000 equivalents for sub-loans to micro-enterprises;
- Successful SACCOs, which use the facility effectively and have a non-performing loan ratio in compliance with BNR requirements, will be able to receive a higher draw-down amount and a higher loan cumulative amount if approved by BRD and the World Bank;
- There will be no maximum financing amount available for one SACCO. Any changes in the maximum limits should be agreed between BRD and the World Bank.

b. Credit Risk Aspects

SACCOs will assume full credit risk for all sub-loans to households and micro-enterprises.

c. Interest Rates

- BRD will on-lend funds to SACCOs at interest rates that take into account BRD's cost of funds, operating costs and an appropriate credit risk margin;
- BRD lending shall follow dual interest rate mechanism as prescribed below:
 - SACCO shall submit loan utilization report on quarterly basis clearly indicating the status of on-lending of funds and outstanding balance on the account.
 - At the time of repayment to BRD, SACCO shall repay the principal and the loan interest earned by BRD, as well as potential interests earned by the SACCO on unutilized funds, given the lower interest amount charged by BRD (up to 3.5%) compared to the interest earned on SACCOs deposits at commercial banks (7%).⁹

⁹ For instance, if BRD disburses US\$ 25,000 to a SACCO and after 1 month the SACCO reports to BRD the on-lending of US\$ 5,000 and a US\$ 20,000 balance in the REF account at a commercial bank, the SACCO shall pay back BRD US\$ 131.25 (US\$ 20,000*7%/12 + US\$ 5,000*3.5%/12) interest plus US\$ 694.44 principal, if the loan tenor is 36 months. The repayment will be undertaken based on the repayment schedule agreed upon.

- The SACCOs for both households and micro-enterprises will be able to freely set their interest rates on market terms. Interest rates are expected to cover at least the SACCO 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 SACCOs sub-loans would be due monthly after 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 SACCO 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 SACCO Subsidiary financing would be due monthly, quarterly, or semiannually.

a. On-Lending Arrangements for Subsidiary Financing

Subsidiary financing for the SACCO, OSC and MGD sub-loans will be extended on a first-come, first-served basis. The eligible SACCOs, OSCs and MGDs have no obligations to ask for Subsidiary financing. Subsidiary financing will be extended only when the eligible SACCO, 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 SACCO, OSC or MGD can ask for additional financing. The maximum financing amount available will be agreed between BRD and the World Bank. A SACCO, OSC or MGD may request that its maximum financing amount be increased. SACCOs, 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 SACCOs 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 SACCOs 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 SACCOs.

Sub-financing for larger loans requiring prior review will be provided back-to-back to the SACCO 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 SACCO sub-loans. The terms and conditions under the revolving fund will be agreed between MINECOFIN and BRD.

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

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

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

The SACCO 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 SACCO makes an application for an additional tranche. BRD may ask to review the documentation and details on the SACCO drawdown loans at any time, including all required documentation specified in this OM and BRD Credit Policies.

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

Free Limit SACCO Sub-Loans. The SACCO 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 SACCOs 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 SACCO, as agreed with the World Bank. Free limits may be different, depending on the experience of individual SACCOs 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 SACCO Sub-Loans, the approval process will be based on the following procedure:

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

d. On-Lending Arrangements for Prior Review SACCO 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 SACCO 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 SACCO sub-loan are in compliance with the requirements imposed by this OM and the applicable BRD Credit Policies.

For all SACCO sub-loans not requiring prior review, the SACCO will ensure satisfactory receipt of the sub-loan documentation package as specified in the BRD Credit Policies. Any SACCO 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 SACCO 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 SACCO (SACCO or commercial bank), MGD or OSC that has signed the Subsidiary Financing Agreement; disbursements to SACCOs, 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 SACCOs, 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 SACCO and BRD, specifying the amount and the specific terms and conditions of sub-financing, the SACCO shall open a Dedicated Account related to the sub-financing of the SACCO Sub-loans (i.e., the loans to the final beneficiaries), at the SACCO, BRD or financial institution acceptable to BRD. The SACCO shall nominate one unit, and inform BRD accordingly, to be responsible for transmitting the disbursement applications and monitoring disbursements. The SACCO 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 SACCO shall promptly inform BRD about any changes in signature authority.

In order to realize a disbursement, the SACCO 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 SACCO 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, SACCOs 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 SACCOs 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 SACCO 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.

SACCO Principal Repayments - The SACCOs 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 SACCOs 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 SACCO loan to the final beneficiary is late, or the SACCO has classified any loan or credit as substandard, doubtful or loss, the SACCO 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 SACCO or OSC shall agree to keep the credit history of the final beneficiaries on file until the Project has been implemented.

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

- if the SACCO 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 SACCO or a Beneficiary cease to exist;
- if the Agreement is terminated by BRD or by the SACCO;
- if the SACCO 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 SACCO or the SACCO 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 SACCO in said cases did not make reasonable efforts to check the correctness of information.

SACCO 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 SACCO 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 SACCO).

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 SACCOs 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).

SACCO, 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/outsources 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 SACCO 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/ SACCO 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.¹⁰

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 SACCO, 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 SACCO, OSC, and MGD to identify risks and assess whether the ESMS developed by the SACCO, 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

¹⁰ 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, SACCOs, 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.

Procurement Arrangements

The project will follow the existing procurement policies and procedures of BRD. The REF project primarily deals with loans made by eligible financial intermediaries, for which the final beneficiary of loan funds is a private borrower. The project is structured around two components— Component 1: Line of Credit and Direct Financing for Off-grid Electrification (US\$ 44 million) and Component 2: Technical Assistance, Capacity Building, and Project Implementation Support (US\$ 4.94 million).

Component-1 (Line of Credit and Direct Financing for Off-grid Electrification) of project deals with loans made by eligible financial intermediaries, for which the final recipient of loan funds is a private borrower, or direct loans to private borrowers. This component is exempted from the use of Bank Procurement Regulations for IPF. The procurement for Component-2 would be carried out in accordance with the World Bank’s Procurement Regulations for IPF Borrowers - Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services’, dated July 1, 2016; and ‘Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants’, revised as of July 1, 2016; and the provisions stipulated in the Legal Agreement.

Payments Made during Reporting Period

Against Contracts Subject to the Bank’s Prior Review

Contract Number	Supplier	Contract Date	Contract Amount	Date of World Bank’s No Objection to Contract	Amount Paid to Supplier during Period	World Bank’s Share of Amount Paid to Supplier during Period

ANNEX 1: Subsidiary Financing Agreement between BRD and SACCOs

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

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(a) 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 SACCO name] to participate in the implementation of Part XXX of the REF Project, in accordance with the Project Agreement and the REF Project Operations Manual, has offered [insert SACCO name] to assist in the implementation of the Part 1(a) of the REF Project;

WHEREAS, [insert SACCO name] has agreed to join as SACCO (SACCO) 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 SACCO hereby agree as follows:

ARTICLE 1: Subsidiary Financing

1.1 BRD agrees to on-lend a portion of the proceeds of _____ (SCF-SREP Financing) on terms and conditions set forth or referred to in this Agreement to the [insert SACCO name] for the provision of Sub-loans to eligible Final Beneficiaries (as defined in the Financing Agreements and the REF Project Operational Manual) for financing access to Solar Home System for households and micro-enterprises

- 1.2 The [insert SACCO name] shall on-lend Subsidiary Financing exclusively for financing the Sub-loans to Final Beneficiaries as a facility to access renewable energy, in accordance with Schedule 1 of the Financing Agreements.
- 1.3 The principal amount of the Subsidiary Financing shall be equal to the sum of all tranches extended by the [insert SACCO name] to 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 [insert SACCO name], 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 The SACCO Subsidiary Financing will be based on a drawdown model as follows: the client submits an application to the SACCO for a loan for the purchase of a qualifying solar system of Tier 1 and above access level. The SACCO will appraise the eligibility and creditworthiness of the client, as well as the feasibility of the investment in case of micro enterprises. If the SACCO is satisfied that the client is creditworthy and that all applicable eligibility criteria are met, the loan will be approved by the SACCO Credit Committee following applicable credit risk appraisal and management procedures. If the SACCO Credit Committee approves the loan, a loan agreement with the beneficiary (including mandatory clauses, as specified) will be signed and followed by disbursements to the final borrower.

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 per annum.
- 3.2 The total interest due by the [insert SACCO name] to BRD shall be equal to the sum of interest on withdrawn and outstanding balances of Subsidiary Financing (for all tranches sub-loan financing extended to the [insert SACCO name]). The interest shall be due quarterly or monthly until total repayment.
- 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 SACCO name], in case of failure to honor the due installment as earlier agreed.
- 3.6 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 [insert SACCO name] 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 SACCO 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 SACCO name] shall repay the entire disbursed tranche plus interest on a monthly or quarterly basis for a period of thirty-six months (36).
- 4.4 The [insert SACCO name] shall repay the Subsidiary Financing or any portion thereof before the agreed due date upon demand being made by BRD:
- if the [insert SACCO name] Sub-loan or any portion thereof has been prepaid by the Beneficiary;
 - if the [insert SACCO name] 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 [insert SACCO name] or a Final Beneficiary cease to exist;
 - if this Agreement is terminated by the BRD or by the [insert SACCO name];
 - if the [insert SACCO name] does not cause the Final Beneficiary to follow procedures, as specified in the REF Project Operations Manual;
 - if any information or document related to this Agreement concerning the [insert SACCO name] or the Sub-loans proves to have been untrue or incorrect; and/or if any given information concerning the Final Beneficiary proves to have been knowingly incorrect; or if the [insert SACCO name] in said cases did not make reasonable efforts to check the correctness of information.
- 4.5 The repayments of principal shall be due quarterly or monthly 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 _____ (tranche-based Sub-Loan 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 [insert SACCO name].
- 5.2 Further disbursements shall be made as per disbursement procedures specified in the REF Project Operational Manual. The amounts may be withdrawn for expenditures made or to be made in respect of the reasonable cost of goods and services for purposes of the REF Project and in observance of procurement procedures as specified in REF Project Operational Manual and the World Bank Procurement Regulations.
- 5.3 For all expenditures with respect to which withdrawals from the Bank Loan Account and BRD Designated Account were made on the basis of statements of expenditure, the [insert SACCO name] shall:
- 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;
 - 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 eligible expenditures;

- enable BRD and the World Bank’s representatives to examine such records; and
- 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 [insert SACCO name] 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 [insert SACCO name] 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 of the [insert SACCO name]’s unsecured and unsubordinated lenders.

ARTICLE 7: Eligibility Criteria

7.1 The [insert SACCO name] shall ensure that it continues to meet the eligibility criteria at all times, including:

- **Compliance with prudential regulations** issued by the National Bank of Rwanda (BNR) – regular reporting to BNR. The SACCO must be in good standing with the BNR at all times and observe all other applicable laws and regulations.
- **Adequate organization and governance** – “fit and proper” owners; competent management; adequate organization and institutional capacity for its specific risk profile.
- **Capital adequacy** – compliance with BNR regulations with 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 30 percent), well managed or no maturity gaps.
- **Adequate profitability** – positive profitability and stable earnings trend. Well-managed cost structure.
- **Adequate credit portfolio structure and portfolio quality** – well-defined lending policies and procedures; acceptable credit portfolio structure; regular loan classification and provisioning¹¹; low concentration; lending to connected parties within prudential limits; low level of NPLs (i.e. an NPL ratio as percentage of total assets not exceeding 5 percent); effective collection practices.
- **Adequate internal controls, overseen by Audit Committee** – independent internal control function with defined procedures; annual internal controls plan; regular reviews by Audit Committee and follow-up on issues raised in internal controls reports.
- **Adequate accounting and book-keeping and MIS system, with adequate internal**

¹¹ At least four times per year and adequate provisioning.

controls – must have credible financial statements with chart-of accounts as specified by BNR, with at least basic IT support providing good accounting and bookkeeping, and adequate support for transaction processing and loan portfolio management.

- **Appropriate implementation capacity** – for carrying out client and sub-loan appraisals and for supervision of the use of funds and micro-enterprise sub-project implementation.
- **Adequate environmental and social management risk systems.** For carrying out due diligence on Final Beneficiaries.

7.2 The [insert SACCO name] shall enable BRD to receive, as requested, from its supervisory authority information on the following:

- Ownership, governance structure and organization
- Quarterly financial statements and the latest management reports from SACCO and its supervisory authority Prudential supervisory data and other information to be obtained from the National Bank of Rwanda (BNR).
- Written policies and procedures covering credit risk appraisal and risk management
- Specification of internal audit functions and the list of internal audit reports produced in the last 24 months.

ARTICLE 8: Implementation Requirements

8.1 BRD shall provide, promptly as needed, the funds, facilities, services and other resources required for the implementation of the REF Project. The [insert SACCO name] shall maintain, with terms of reference satisfactory to BRD and the World Bank:

- 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
- A credit committee to be responsible for the evaluation and approval of Sub-loan applications.

8.2 The [insert SACCO name] 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 [insert SACCO name] 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 [insert SACCO name] is obliged to carry out its lending activities as a SACCO 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 agreements related to implementation of the REF Project and in REF Project Operational Manual.

- 9.2 The [insert SACCO name] shall follow procedures set forth in REF Project Operational 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 [insert SACCO name] shall supervise, monitor and report on details, according to sound practices and following procedures set forth in REF Project Operational Manual.
- 9.4 The [insert SACCO name] shall suspend or terminate the right of a Final Beneficiary to use the proceeds of a Sub-loan extended by a [insert SACCO name], or accelerate or obtain a refund of all or any part of the amount of said Sub-loan, upon the Final 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.

ARTICLE 10: Accounting and Auditing

- 10.1 The [insert SACCO name] shall maintain separate records and accounts adequate to reflect in accordance with the regulator of the [insert SACCO name] for the REF Project and sound accounting practices the operations. The [insert SACCO name] shall:
- Have its financial statements and REF Project related records and accounts audited each fiscal year, in accordance with international financial reporting standards or applicable national accounting and financial reporting, by independent auditors as prescribed by the BNR.
 - 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
 - Furnish to the World Bank and BRD other information concerning records and accounts and the audit thereof as the Bank and BRD shall reasonably request.

ARTICLE 11: Credit Risk Coverage

- 11.1 In case the [insert the SACCO name] fails to honor its obligations in this agreement, the Bank shall seek a forced execution through state powers, pursuant to the Article 29, paragraph 2 of the law N°13bis/2014 of 21/05/2014 Governing the Office of Notary which states that: "Where any notarized document evidences an unquestionable debt due for payment, the court registrar may append enforcement order thereto".

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 [insert SACCO name] agrees to supply to BRD information necessary for impact evaluation semi-annually. This shall include 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 [insert SACCO name] may, by written notice of termination to BRD, terminate this Agreement at any point upon repayment of disbursed amount not yet paid.

15.3 BRD may, by written notice of suspension to the [insert SACCO name], initiate suspension of this Agreement:

- If the [insert SACCO name] fails to be compliant with eligibility criteria and all applicable policies and procedures specified in the REF Project Operational Manual,
- If the [insert SACCO name] fails to maintain the appropriate financial standards and lending practices, with qualified management and staff in adequate numbers;
- If the [insert SACCO name] is found to breach the established eligibility rules for clients and projects, further disbursements and access to new funding will be suspended until the SACCO has fully refunded the sub-financing related to the ineligible loans and procurements.
- If the [insert SACCO name] 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.
- If the [insert SACCO name] fails to perform any of its obligations under this Agreement, or any of the obligations set out in the Financing Agreements and further specified in the REF Project Operational Manual related to procurement, environmental screening, or other Bank policies mentioned in the Financing Agreements, it shall be asked to remedy any compliances 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.
- If the [insert SACCO name] 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.
- If the [insert SACCO name] 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.
- If the [insert SACCO name] 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 [insert SACCO name] 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 [insert SACCO name].
- 15.5 Upon termination of this Agreement all rights and obligations of parties shall cease except the [insert SACCO name] financial obligations as per Articles 3 and 4 of this agreement and the [insert SACCO name] obligations pursuant to Article 9 of this Agreement.

ARTICLE 16: Representatives and Addresses

15.1 BRD represented by its Chief Executive Officer
 Development Bank of Rwanda
 P.O. Box 1341 Kigali, Rwanda:

12.2 The SACCO name, represented by:
 Address for the SACCO is:
 Signed on

By BRD
 Authorized Representative

By [SACCO]
 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 SACCOs or 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 2: Sub-loan Agreement between SACCOs and their clients

LOAN AGREEMENT No:.....

AGREEMENT dated, entered into between [insert name and address of the SACCO] and lender on one hand and [insert name and address of the Household or Micro-enterprise – Final Beneficiary] on the other hand

[insert name of the SACCO] and [insert name of the of the Household or Micro-enterprise beneficiary] 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 Micro-enterprise (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.

The Facility is repayable immediately should an event of default occur.

The facility shall be repaid in consecutive monthly/quarterly instalments of approximately FRW each, inclusive of interest. The tenor includes months grace period on principal.

The first repayment of the principal amount of the loan must be made on day of the month of, year Subsequent payments must then be made on the last day of every month/quarter until the loan is repaid in full.

Article 4: Interests, fees, commissions and charges

Interest on the facility shall be paid at% rate at the same time with the principal.

Interest on the Facility shall be computed on a reducing balance basis

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

Article 5: Securities

All the loan amount, loan interests, arrears and any other fees and commissions received or payable by the beneficiary will be covered by the securities with the following details:

Security	Value
A property in the plot No., size:, located inCell,Sector,District, Province. The Plot UPI :.../.../.../.../... has been registered as a mortgage for the loan on FRW
TOTAL SECURITY FRW

Article 6: Confidentiality

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

Article 7: Other covenants

The Final Beneficiary shall advise the [Insert name of the SACCO] immediately of any changes in his/her occupation or any material or major happening that may affect the Final Beneficiary’s capacity to generate income.

Article 8: Validity

Each party pronounces and provides to the other party that this Contract is fully valid, made and delivered, and that the performance of its obligations is not in any conflict, with any law or any other agreement by which it is bound.

Article 9: Entry into force and Duration

This Loan Agreement shall enter into force on the date of signature by the Parties concerned and stays into force until full loan repayment (principal, interests, and any other fees that may be reasonably incurred by the lender in relation to this loan).

Article 10: Cessation

In case of dispute between the parties arising out of this Memorandum or in connection with it or related to the termination thereof, the Parties should undertake amicable settlement before judicial process. To this end, the Parties will meet within sixty days (60) of the invitation sent by registered letter by either party to the other party. If this meeting do not take place within that period or if the dispute is not the subject of a written resolution by all concerned parties within sixty days of the meeting, the injured party shall have the full right to refer the matter to the Rwandan competent courts.

Article 11: Applicable Law

The validity, interpretation, execution and performance of this Agreement shall be governed by Rwandan Laws

Done in three original copies
Kigali the

FOR [Insert SACCO’s name]

Beneficiary

ANNEX 3: Tranche Utilization Report for SACCOs

Tranche Utilization and Solar Home System Installation Report (from SACCO 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 SACCO

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

Loan Approval Date: The date when SACCO had approved sub-loan its member

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 SACCO

Interest Rate: The annual interest rate in percentage to be charged to the member 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 SACCO an also use their own reporting format (subject to their operating software) however the report must contain minimum information as required by the REF

