



# **Development Bank of Rwanda**

## **Renewable Energy Fund Project**

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### **Bank Operations Manual (Window 2)**

**The World Bank/ Development Bank of Rwanda**

**11/30/2020**

## ABBREVIATIONS AND ACRONYMS

BRD	Development Bank of Rwanda
BNR	National Bank of Rwanda
EDCL	Electricity Development Corporation Limited
ESMF	Environmental and Social Management Framework
FRW	Rwandan Francs
GoR	Government of Rwanda
IFR	Interim Financial Reports
IFRS	International Financial Reporting Standards
IPF	Investment Project Financing
MGD	Mini-Grid Developer
MICC	Management Investment Credit Committee
M&E	Monitoring and Evaluation
MINECOFIN	Ministry of Finance and Economic Planning
MININFRA	Ministry of Infrastructure
NEP	National Electrification Plan
OM	Operations Manual
OSC	Off-grid Solar Company
PFI	Participating Financial Institutions
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
RBF	Results Based Financing
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

## TABLE OF CONTENTS

<b>I.</b>	<b>PDO OBJECTIVES AND EXPECTED BENEFITS .....</b>	<b>2</b>
a.	Project Development Objectives (PDO).....	2
b.	PDO Indicators.....	2
<b>II.</b>	<b>PROJECT COMPONENTS .....</b>	<b>3</b>
<b>III.</b>	<b>FINANCING ARRANGEMENTS .....</b>	<b>5</b>
a.	World Bank to MINECOFIN and BRD.....	5
b.	BRD to Banks.....	5
<b>IV.</b>	<b>PROJECT IMPLEMENTATION ARRANGEMENTS .....</b>	<b>9</b>
a.	Role of participating Banks (commercial and microfinance).....	12
b.	Role of Solar Companies .....	13
c.	Role of the World Bank during Project Implementation.....	16
d.	Role of the Energy Development Corporation Limited .....	16
<b>V.</b>	<b>BANKS QUALIFICATION AND ELIGIBILITY CRITERIA .....</b>	<b>17</b>
a.	Banks' Eligibility Criteria .....	17
b.	Ongoing Bank Financial Performance Criteria.....	18
c.	Appraisal of Banks Eligibility – Information Needed .....	19
d.	Bank Eligibility Review Process .....	19
e.	Implementation Requirements .....	20
f.	Suspension .....	20
a.	Eligibility Criteria for Banks clients .....	22
b.	Eligibility Criteria for OSCs clients.....	24
<b>VII.</b>	<b>BANKS SUB-LOAN TERMS AND CONDITIONS .....</b>	<b>25</b>
a.	Banks' Sub-Loan Limits.....	25
b.	Credit Risk Aspects.....	26
c.	Interest Rates .....	26
<b>VIII.</b>	<b>SUBSIDIARY FINANCING .....</b>	<b>27</b>
a.	On-Lending Arrangements for Subsidiary Financing.....	27
b.	On-Lending Arrangements for Drawdown Bank Sub-Loans .....	27
c.	On-Lending Arrangements for Free-Limit Bank Sub-Loans .....	28
d.	On-Lending Arrangements for Prior Review Bank Sub-Loans .....	28
e.	Ex-Post Reviews .....	29
<b>IX.</b>	<b>DISBURSEMENT ARRANGEMENTS .....</b>	<b>30</b>
a.	Documentation Requirements.....	30

<b>X.</b>	<b>REPAYMENT ARRANGEMENTS .....</b>	<b>32</b>
<b>XI.</b>	<b>MONITORING, EVALUATION AND REPORTING .....</b>	<b>33</b>
<b>XII.</b>	<b>ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM .....</b>	<b>35</b>
	<b>a.</b> Environmental.....	37
	<b>b.</b> Social .....	37

### **LIST OF ANNEX**

Annex 1: Subsidiary Financing Agreement between BRD and Banks.....	38
Annex 2: Sub-loan Agreement between Banks and their clients .....	49
Annex 3: Tranche Utilization Report for Banks.....	55
Annex 4: Service Level Agreement with off-grid solar companies.....	56
Annex 5: Annex to Subsidiary Financing Agreement.....	60
Annex 6: Subsidiary Financing Request .....	62
Annex 7: REF Project Indicators.....	63

### **LIST OF FIGURES**

Figure 1: Project Design and Flow of Funds .....	5
Figure 2: Bank and Microfinance Institution Lending Process.....	7
Figure 3: Partnership Model for Banks Operations.....	8
Figure 4: Project Implementation Arrangements .....	11

### **LIST OF TABLES**

Table 1: Ongoing Bank's Financial Performance Criteria.....	18
Table 2: Applicable Eligibility Criteria for OSC Participation, by Window.....	23

## RENEWABLE ENERGY FUND PROJECT

### Operating Guidelines

Project Life	Six (6) years [2017 – 2023]
Loan amount and financing Source	US\$ 27.5 million - SREP/World Bank
Grant amount and financing Source	US\$ 21.44 million – SREP/World Bank
Borrower	Government of Rwanda (GoR)
Implementing Agency	Development Bank of Rwanda (BRD)
Service Charge: World Bank to GoR	0.1% p.a. on Loan Amount (US\$ 27.5 million)
Interest Rate: GoR to BRD	Based on Subsidiary Financing Agreement
Interest Rate: BRD to Banks	Based on Subsidiary Financing Agreement
Interest Rate: Banks to Beneficiaries	Market Based
Maturity: World Bank to GoR	40 Years including 10 years' grace period
Maturity: GoR to BRD	Based on Subsidiary Financing Agreement
Maturity: BRD to Banks	Up to 72 months with up to 3 months' grace period
Repayment: GoR to World Bank	Based on Financing Agreement
Repayment: Banks to BRD	Based on Subsidiary Financing Agreement
Repayment: Beneficiaries to Banks	Based on Loan Agreement
Exchange Risk	GoR will bear all foreign exchange risk
Compliance with BNR Prudential Regulations	All participating SACCOs and Banks will have to comply with BNR regulations.
Consumer Education & Protection	MININFRA in partnership with BRD, PFIs and OSCs will educate consumers and promote the REF Project.
Window 5 RBF subsidy	Ubudehe 1 – Up to FRW 100,000 or 90% of the SHS price Ubudehe 2 – Up to FRW 80,000 or 70% of the SHS price Ubudehe 3 – Up to FRW 50,000 or 45% of the SHS price
BRD service charge on Window 5	4% of subsidy amount disbursed to OSC

# Operations Manual

The "**Operations Manual**" (OM) presented here is designed specifically for use by Development Bank of Rwanda (BRD), Participating Financial Intermediaries (PFIs)<sup>1</sup>, 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) project<sup>2</sup>.

The OM was updated in November 2020 to reflect the changes to project design, implementation, and results framework introduced with Project Restructuring, as approved by SREP Committee on April 20<sup>th</sup>, 2020, World Bank on April 24<sup>th</sup>, 2020, and the Government of Rwanda on May 14<sup>th</sup>, 2020.

## 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 PFIs 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).

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

<sup>2</sup> 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, direct loan financing and partial grants for off-grid electrification; and (2) Technical assistance, capacity building and project implementation support.

**Component One - Line of credit, direct loan financing and partial grants 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, Enterprises and OSCs.* 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 Final beneficiaries, that is: households, enterprises, and OSCs for the acquisition and possibly in the case of the OSCs hereunder, distribution of qualifying solar systems of Tier 1 and above access level.
- b. *Window 2 – On-lending through commercial banks and microfinance institutions to households, Enterprises and OSCs.* This window provides a wholesale line of credit to BRD for on-lending to eligible commercial and microfinance banks, which extend sub-loans eligible Final Beneficiaries that is: households, enterprises, and OSCs for the acquisition and possibly in the case of the OSCs hereunder, distribution of qualifying solar systems of Tier 1 and above access level.
- 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 Loan financing to locally-registered OSCs.* This window provides direct financing to qualifying locally registered OSCs supporting Tier 1 or higher solar systems or locally registered OSCs serving poor households under the Government’s programs.
- e. *Window 5 – Results Based Financing Facility (“RBF Facility”) to OSCs.* This window will provide results-based partial grants (“RBF Grants”) to eligible OSCs to facilitate the sale of Tier 1 and above solar-home systems and the provision of after sale services to qualifying

households<sup>3</sup>. The partial grant will be provided to OSCs to lower the cost of the system for end-users.

**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 a 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.

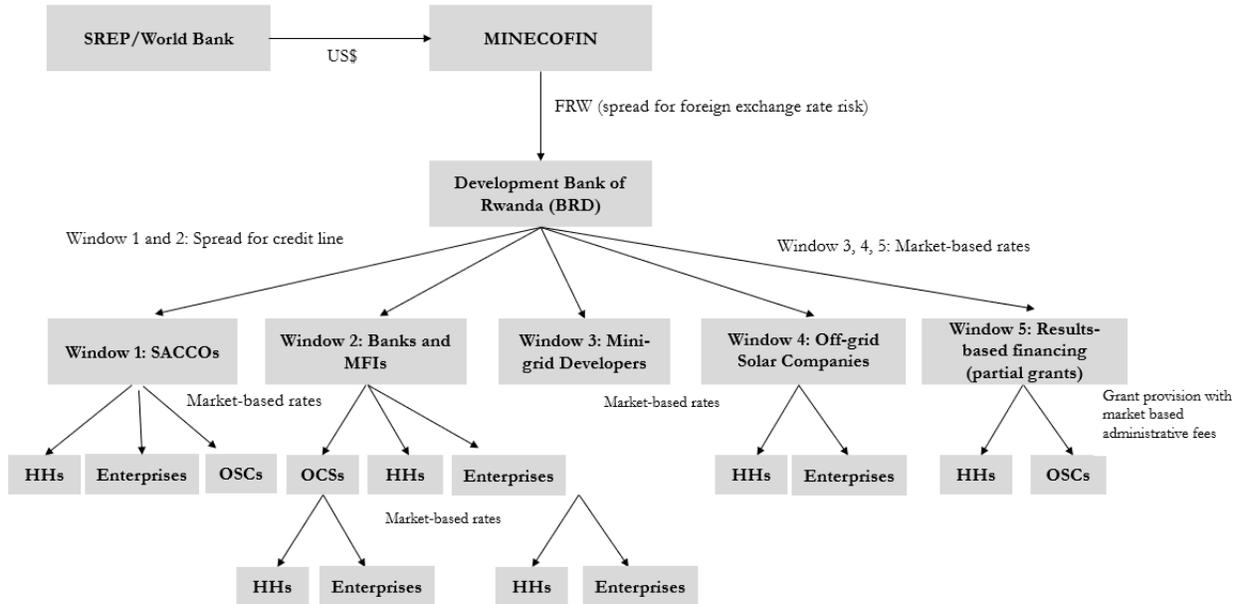
Technical assistance activities will also cover gender aspects, including (i) monitoring Window 1 and Window 2 for the appearance of gender gaps in access to financial services for male and female applicants and enterprises for purchase and retailing of off-grid technologies to enhance development outcomes 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.

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<sup>3</sup> The current definition entails households belonging to Ubudehe 1, 2, and 3 categories. The Operations Manual will follow the definition of Ubudehe categories as adopted by the Government and adjust, if needed, over time, to reflect the Government approach to subsidy support.

**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**<sup>4</sup>, and (ii) **Subsidiary Agreement between MINECOFIN and BRD**.

#### b. BRD to Banks

- **BRD will on-lend the funds to all banks (commercial and microfinance) that are interested in participating and which comply with eligibility criteria agreed with the World Bank.** BRD will on-lend funds to banks at interest rates that consider at minimum BRD's cost of funds, operating costs and an appropriate credit risk margin. The on-lending rate shall be no higher than 5% p.a. but would be subject to adjustment based on market conditions;
- Considering the tenor of 5 years extended to banks, the Five-Year Treasury Bond will serve as a benchmark. Therefore, a spread of up to 7% to on-lend to final beneficiaries will allow the banks a marginal return compared to the set benchmark. Banks will have the flexibility to adjust such a spread based on market conditions. Interest rates are expected to cover the bank's cost of funding, operational costs and an appropriate credit risk premium based on the credit assessment of the final borrower.

<sup>4</sup> As per project restructuring, finalized on May 14<sup>th</sup>, 2020.

The on-lending arrangement will be governed by a Banks Subsidiary Financing Agreement to be signed between BRD and each bank. The Banks 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 Banks 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.

**Participating banks will be eligible to receive a drawdown tranche of up to FRW 500 million, extended to a bank for up to 72 months, with up to 3 months of grace period.<sup>5</sup>**

Banks will extend sub-loans to households, enterprises and OSCs for the purchase (and in case of OSCs, also distribution) of solar systems of Tier 1 and above access level and will take full credit risk in on-lending to their customers. The bank window will include the following types of financing:

- Sub-loans in local-currency for households who are bank clients for the purchase of solar systems of Tier 1 and above access level for sub-loans of up to FRW 1 million with up to 36 months maturity and up to 3 months grace period.;
- Sub-loans in local-currency for enterprises who are bank clients, registered and operating in the Republic of Rwanda, for the purchases for own use solar systems of Tier 1 and above for sub-loans up to FRW 1 million equivalent with up to 36 months maturity under 3 months grace period
- Sub-loans in local currency for OSCs which meet the eligibility criteria for the purchase and distribution of solar systems of Tier 1 and above with sub-loans of up to FRW 20 million equivalent with maturity of up to 60 months and up to 6 months grace period;
- Sub-loans in local-currency for OSCs which meet the eligibility criteria for the purchase and distribution of solar systems of Tier 1 and above with sub-loans above FRW 20 million with maturity of up to 72 months and up to 12 months grace period

**Sub-loans to households and enterprises (up to FRW 1 million) and for OSCs (up to FRW 20 million) will be based on the drawdown model.** The drawdown facility will be used for the household and enterprises sub-loans and for enterprises and OSCs sub-loans up to FRW 20 million equivalent, 60 months final maturity including up to 6 months grace period.

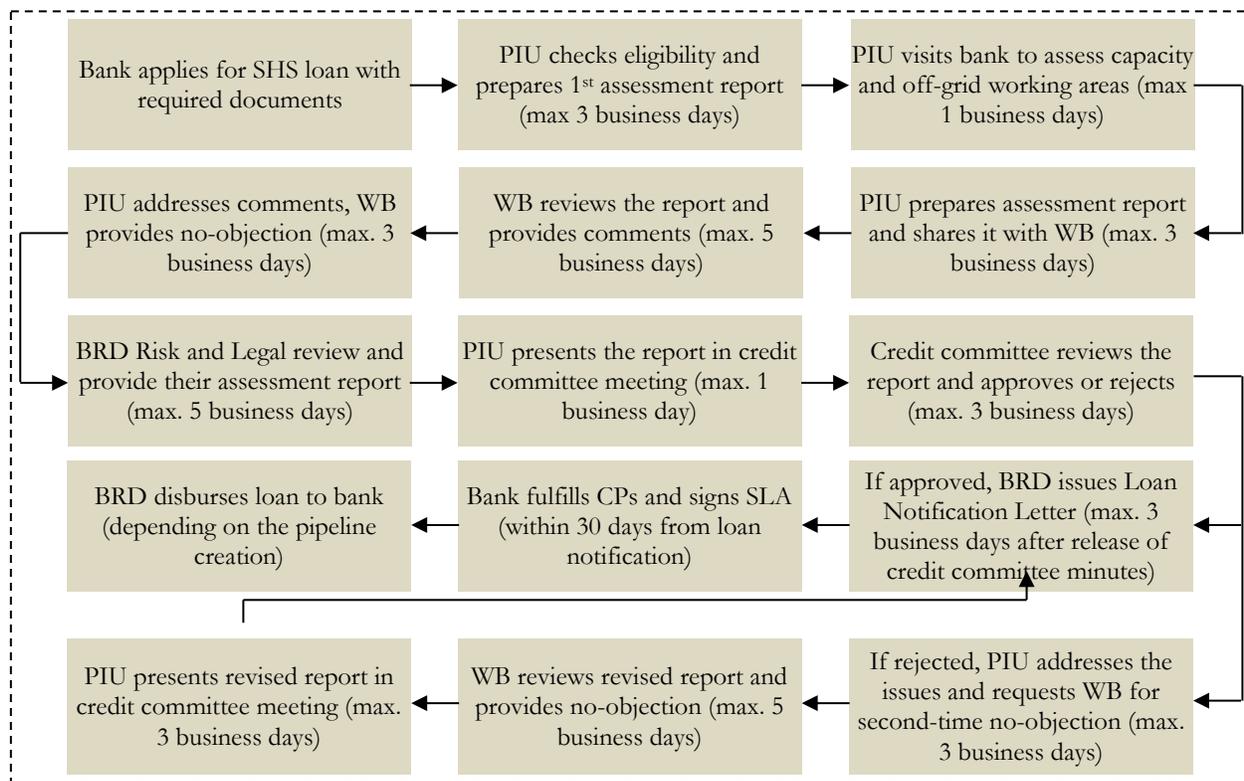
Once a bank has utilized 90% of the drawdown tranche, it can apply to BRD for an additional tranche. The application for an additional tranche will include all required documentation including the full details on how the tranche has been used. The detailed tranche utilization reporting requirement is provided as Annex 3. There will be no maximum financing available for one bank. Any changes in the maximum limit should be agreed between BRD and the World Bank. Successful Banks, which have a non-performing loan ratio of less than 5%, will be able to receive a higher drawdown amount and a higher maximum amount if approved by BRD and the World Bank.

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<sup>5</sup> Banks which are actively using the funds can request an increase in the tranche amount of up to FRW 1 billion. The increase in the tranche amount will be approved by BRD in consultation with the World Bank.

Figure 2 illustrates the REF financing process for eligible banks and microfinance institutions.

**Figure 2: Bank and Microfinance Institution Lending Process**



**Refinancing** -- Solar systems that have already been financed by a bank from its own funding sources, where both the beneficiaries and the systems meet the eligibility criteria, may be refinanced from the REF funds. The eligible bank financing should have been extended after the REF effectiveness date (November 3, 2017) or within a reasonable period and the proposal for refinancing has to demonstrate the additionality of REF funding. Refinancing will not be allowed in cases where the vast majority of systems funded from the proceeds of the loan have been installed.

**Back-to-Back Finance.** Sub-loans to OSCs above FRW 20 million and up to FRW 500 million will be extended by BRD back-to-back to bank loans to the OSCs, with maturity of up to 72 months and up to 12 months grace period, as follows: An application will be made by the the OSCs to the commercial bank for a loan for solar-system related investment and the associated working capital finance. The bank will appraise the eligibility and creditworthiness of the the OSC, as well as the eligibility and feasibility of the solar-system related investment. If the bank is satisfied that the OSC is creditworthy and the solar-system investment makes business sense, and that all applicable eligibility criteria are met, the bank shall submit the sub-loan for approval by the bank’s Credit Committee, following its own applicable credit risk appraisal and management procedures. Once the Credit Committee approves the sub-loan, the bank will submit an application to BRD to confirm the eligibility of subsidiary finance for the sub-loan. A specialized BRD investment officer will review and confirm the eligibility of the final borrower and the eligibility of the solar-system investment. If the BRD investment officer’s review concludes that the bank’s request meets all applicable eligibility criteria and the credit risk management aspects, the application will be presented to the BRD Credit

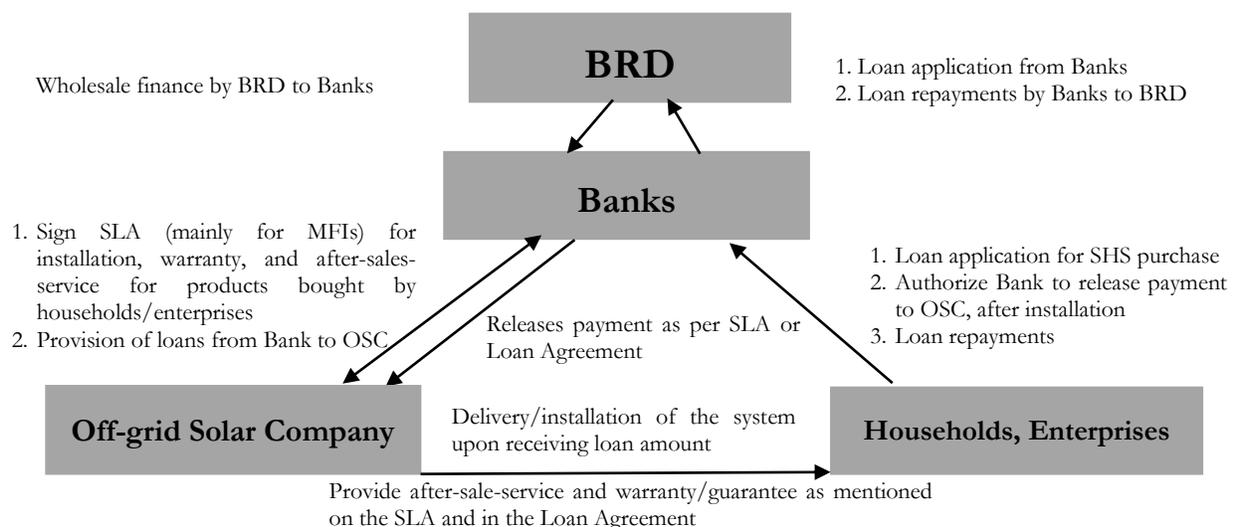
Committee for the formal approval of financing for the respective sub-loan. For the back-to-back sub-loans, the final beneficiary should finance at least 20% of the cost of its project.

The first two sub-loans from each commercial bank and all sub-loans above FRW 100 million will require no-objection by the World Bank. Once the the World Bank completes the review and provides the no-objection the bank sub-loan can be presented to the BRD credit committee (MICC or Board Credit Committee, depending on the size of the loan). If the World Bank has any issues or notes any deficiencies, BRD will be informed, in writing, about details of the World Bank’s assessment and any remedial actions required. If any remedial actions are required, BRD shall inform the bank how to address the noted issues or deficiencies. Once the issues have been adequately addressed, the World Bank will be asked for the second review. If the BRD credit committee has any issues or notes any deficiencies, the PIU will address the noted issues or deficiencies and request the World Bank for second-time no-objection. Based on the changes to the appraisal documents and second-time no-objection from the the World Bank, the BRD credit committee will finally approve the loan. As for SACCOs, all sub-loans issued by banks can be subject to ex-post review, as decided by BRD and/or the World Bank.

**Where loans or sub-loans are for the provision of solar equipment; the equipment provider and the participating banks may enter into service level agreements (mainly for microfinance institutions) to coordinate their energy lending, disbursement and customer service processes.** Under the agreement, solar companies will need to provide product warranty and servicing for the whole duration of loan tenors extended by banks. The template of the agreement is provided in Annex 2. The OSCs 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 eligibility criteria for the OSCs are provided in this OM.

**For each bank loan to be extended, Bank Sub-Loan Agreements shall be signed between the bank and the Final Beneficiary** for sub-loans to households; enterprises and OSCs. The banks are expected to use their standard documents when signing the loan contracts with their clients. Nevertheless, there are certain key provisions and information, which will have to be included in the Sub-Loan Agreement between the bank and its client.

**Figure 3: Partnership Model for Banks Operations**



#### **IV. Project Implementation Arrangements**

The Development Bank of Rwanda (BRD) is the REF project implementing entity and hosts a PIU to successfully fulfill its REF management functions. A Steering Committee is established for effective coordination and project oversight.

##### **Development Bank of Rwanda–Project Management and Administration**

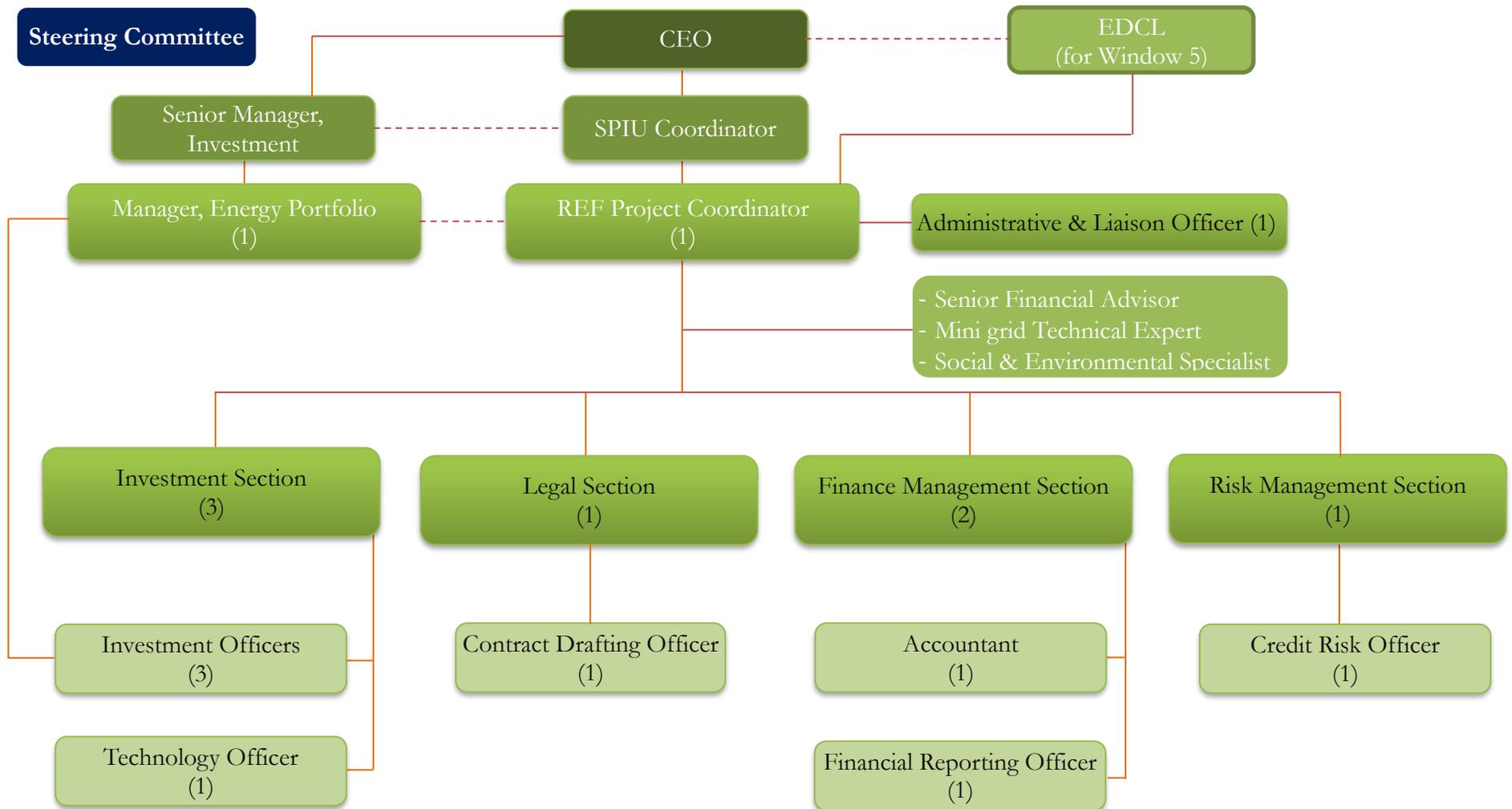
**The PIU is the primary counterpart for the project in BRD.** The PIU is responsible for monitoring indicators, supervising the credit lines, direct loans, and partial grants, as well as implementation of the necessary technical assistance to the beneficiaries. This includes collecting necessary information from project beneficiaries, assessing and monitoring SACCOs and banks compliance with the respective eligibility criteria, supervision of withdrawal applications and loan books, and reporting on progress during implementation. Figure 9 describes the project administration arrangements. Additional roles and responsibilities for the implementation of the RBF partial grants scheme are detailed in the OM for Window 5.

##### **BRD REF management functions include:**

1. **REF administration:** this will be covered by the PIU and functions will include the following:
  - Maintain relationships with MINECOFIN, REG, EDCL, and the World Bank;
  - Appraise eligibility of the banks and microfinance institutions;
  - Coordinate implementation of all five windows;
  - Maintain relationships with banks and microfinance institutions, MGDs and OSCs;
  - Sign Subsidiary Financing Agreement with banks for draw-down and tranche-based financing;
  - Sign Sub-Loan Agreements for larger sub-loans with banks for back-to-back financing of eligible enterprises and OSCs for eligible solar-system investment projects;
  - Provide required capacity building to banks, and OSCs. If required, the REF can hire the consultants for such capacity building activities.
  - Provide reports to MINECOFIN, REG, and the World Bank necessary for REF implementation reviews and take a lead in REF impact assessments;
  - Ensure integrity of procurement process;
  - Ensure integrity of environmental screening;
  - Ensure compliance with World Bank's Anti-Corruption Guidelines.
  
2. **Approval and supervision of REF subsidiary finance:** Approval and supervision of subsidiary finance will be covered by the Management Investment Credit Committee (MICC) and or BRD board Credit Committee (depending on the size of the loan). The approval and supervision of subsidiary finance includes:
  - Prepare and disseminate information about the REF credit line, terms and conditions of finance and eligibility criteria for beneficiaries, projects and solar equipment to all interested parties, including banks, MGDs, OSCs as well as households and enterprises benefiting from the credit line;

- Review and approve tranche finance to banks and OSCs for financing sub-loans that are below the free limit for each window;
  - Before approving every new tranche for bank, the MICC will verify that the approved tranche was used strictly following this Operations Manual, including eligibility of individual final beneficiaries, using funds for solar equipment, following procurement procedures and observing the safeguard set by the World Bank; Before approving a sub-loan above the free limit, the MICC will review the loan application and project appraisal executed by the bank to ensure that the bank has followed the procedures and meets the eligibility criteria specified in this Operations Manual;
  - Ensure that funds are used for eligible expenditures. Funding that is not used for eligible expenditures should be suspended;
  - Monitor that banks are supervising with due diligence their sub-loans to beneficiaries;
  - Supervise that sub-loans are made to eligible beneficiaries in accordance with agreed criteria specified in this Operations Manual, and that procurement, disbursement, environmental and other requirements are adhered with by all banks. The supervision responsibilities include all subsidiary finance (free-limit and non-free limit);
  - Prepare, in an agreed format, quarterly written reports for the World Bank on disbursements, sub-loan repayments, and compliance with the Operations Manual and the legal documents pertaining to the REF credit line implementation;
  - Prepare, in an agreed format, written reports for the World Bank on progress made in achieving the REF objectives (semi-annually or annually, as specified for each item).
  - Arrange parallel financing with other programs;
  - In cases of parallel financing, BRD may act as administrative agent with responsibility for information sharing and distribution of reports, if so agreed by all parties.
3. **Financial management and disbursement:** Financial management and disbursements will be covered by the REF PIU Financial Management Section and will include the following:
- Maintain financial management system in accordance with the World Bank requirements;
  - Maintain a Special Account, prepare withdrawal applications, maintain a local project account, and maintain summary records of the flow of resources;
  - Make disbursements to banks in a timely manner against appropriate documents (to evidence the use of funds, procurement aspects);
  - Arrange and monitor repayments of interest and principal from all participants. The Finance Unit should inform the MICC promptly on any non-receipt or overdue payments from REF participants requiring further action;
  - Make arrangements for external audits of the project accounts and records, including the Special Account, the local project accounts and Statements of Expenditures;
  - Prepare and submit to the World Bank not later than 45 days after the end of each quarter, interim unaudited financial reports for the REF covering the past quarter, in the form and substance satisfactory to the World Bank;
  - Prepare other respective quarterly, semi-annual and annual financial management reports.
  - Providing guidance on national M&E reporting requirements for energy sector.

Figure 4: Project Implementation Arrangements



a. Role of participating Banks (commercial and microfinance)

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

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

Specific banks' responsibilities include:

- Review of loan applications from both recruited and walk-in households, enterprises, and OSCs for on-lending;
- Appraisal of eligibility of applicants;
- Appraisal of the financial condition/creditworthiness for each applicant;
- Approval of loans by the bank's Credit Committee;
- Signing of appropriate loan agreements with households, enterprises, and OSCs clients; service level agreement with service companies; as well as Subsidiary Financing Agreement with BRD;
- Ensuring that disbursements/payments to clients and service companies are made in a timely manner against appropriate documents (to evidence the use of funds);
- Ensuring that the bank's borrowers follow environmental practices in line with the Environmental Code of Practice both during the approval process and during implementation;
- Enable BRD and the World Bank to inspect the Sub-projects, as needed, as well as any relevant records and documents;
- Ensure that payments of interest and principal are timely made. On due-dates of interest and principal, the bank shall also provide to BRD a written report on the bank's sub-loan performance, deviation of payments from agreed terms, and an updated credit history of the final beneficiaries;
- Provide monthly report to BRD with each final beneficiary level details on solar-system installation and progress towards sub-loan repayment. The report template is presented in Annex 3.
- Prepare all Project implementation reports specified in this OM on time and with good quality information. Submit to BRD and the World Bank on agreed reporting dates;
- Keep all necessary records and payment evidence, as required in legal documents and the OM;
- At BRD and/or World Bank's request, share the project-related financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards, and promptly furnish the externally audited project related statements to BRD and the World Bank;

- Submit annual external audits of the bank’s financial statements (prepared by reputable external auditors and executed according to international auditing standards) to BRD no later than six months after the end of each financial year. BRD shall submit the external audits to the World Bank no later than seven days after it has received the external audits from a bank.
- Prepare and furnish to BRD and the World Bank all information as BRD or the World Bank shall reasonably request relating to Project implementation.

b. Role of Solar Companies

OSCs will use funds to provide qualified solar equipment to households and enterprises as per the service contracts signed by parties. Under Window 5, OSCs will use partial grants to decrease the end-user price of qualified solar equipment for eligible final beneficiaries in support of the affordability of off-grid services – as detailed in the OM for Window 5.

OSCs will be free to select final beneficiaries without any interference. While in the case of delayed payments service contracts OSCs use the ability to switch on and off equipment, as well as price and deposits to manage credit risk, and their credit process is more screening and scoring than credit application underwriting; each OSC shall maintain, with terms of reference satisfactory to BRD and the World Bank:

- **Technology and Service Support unit** responsible for the procurement, demand collection, installation [where relevant], after-sale-services and support of quality approved solar equipment throughout the whole term of any service contract;
- **Technically trained staff** responsible for sales of solar-systems. Such teams selling solar equipment will be staffed with trained personnel in adequate numbers and provide, promptly as needed, credit and other services and other resources required for effective Project implementation.
- **When applicable, Credit Committee or equivalent responsible committee** for evaluation and approval of loan application process for solar-based systems.
- **When applicable, adequate policies and procedures** to enable it to appraise and manage the credit risk, stimulate the demand, and to monitor and evaluate, including remote monitoring and control of such equipment in accordance with indicators acceptable to BRD and the World Bank, the progress in Project implementation and the achievement of Project objectives.
- Specific OSCs responsibilities under Window 1-4<sup>6</sup> include: Supply the SHSs that comply with Ministerial Guideline for Minimum Standards for SHS (June 2019 version) and Lighting Global certified; Customer support and after-sales-service in compliance with the MoU signed with EDCL and warranty responsibilities, as defined for qualifying solar systems<sup>7</sup>. All participating OSCs are required to have a functioning customer service number in place that has the capacity (including e.g. languages available for customer care) to log complaints and requests

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<sup>6</sup> Specific responsibilities to benefit from the partial grants available under Window 5 are detailed in the Window 5 specific OM.

<sup>7</sup> Customers that face technical issues with the SHS have the right to inform the OSCs for after sales services and claiming on the product warranty. The OSC has to provide such service for free, within the year warranty period indicated by national . The OSCs may charge a fee for any service that the customer may require after 3 years from SHS installation date. The fee shall be agreed between customer and OSC.

for service. The OSC technicians or call center agents are required to return the call of the customer within 72 hours after the complaint is registered;

- Provide basic customer awareness to final beneficiaries on product and service terms, including:  
a) basic features and proper handling of the system; b) conditions for warranty/guarantee; c) rights and obligations of the customer as per the service contract, including repayment obligations (when applicable), customer care and options for grievance redressing. It is advised to OSCs to provide an information brochure or a User Manual in Kinyarwanda containing the basic information of the system;
- Development and application of appropriate credit screening to be fully integrated into their sales processes;
- Collections incorporating use of remote switch off and equipment recovery according to published terms and conditions;
- Portfolio monitoring and the adjustment of credit screening parameters, pricing and deposit levels;
- Approval of credit terms, exceptional credit requests and collections actions by the OSC Credit Committee or equivalent;
- Signing of appropriate service contracts with household and enterprise clients as well as Sub-Loan Agreements with BRD;
- Ensuring that deliveries to clients are made in a timely manner against appropriate documents (to evidence the use of funds);
- Ensuring that responsible parties (OSCs and their customers) follow environmental practices in line with the Environmental Code of Practice both during the approval process and during implementation, and in compliance with applicable national regulations and guidelines;
- Enable BRD and the World Bank to inspect the Sub-projects, as needed, as well as any relevant records and documents;
- Ensure that payments of interest and principal are timely made. On due-dates of interest and principal, the OSC shall also provide to BRD a written report on OSC credit portfolio performance, deviation of payments from agreed terms, and an updated credit history of the final beneficiaries;
- Provide monthly report to the BRD which should include the name of final borrower, national identification card number, system cost, type of solar equipment or capacity, total system cost, warranty records, credit amount, interest rate (if not embedded on the credit amount), credit sales tenure, outstanding credit amount, number of household members, number of female members in the house and number of children (below 16 years) benefited.
- Prepare all Project implementation reports specified in the OM on time and with good quality information. Submit to BRD and World Bank on agreed reporting dates;
- Keep all necessary records and payment evidence, as required in legal documents and the OM;
- At BRD and/or World Bank's request, 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 OSC 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 an OSC.

- Prepare and furnish to BRD and the World Bank all information as BRD or the World Bank shall reasonably request relating to Project implementation.

The OSCs should comply with six consumer protection principles as defined by GOGLA's Consumer Protection Working Group (<https://www.gogla.org/node/2294>). The principles represent the minimum standards of practice consumers should expect from an OSC.

#### Transparency:

- The OSC shares clear and sufficient information on the product, service, payment plan and personal data privacy practices to enable consumers to make informed decisions;
- The OSC shares relevant and timely information before, during and after sales;
- The OSC communicates in a language and manner consumers can understand

#### Responsible sales and pricing:

- The OSC takes adequate care to ensure consumers can afford to pay for the product and /or service without becoming overburdened;
- The OSC ensures consumers' characteristics are taken into account in the price, payment structure and fees of the product and / or service.

#### Good consumer service:

- The OSC ensures availability of technical and after-sales service support, including warranty and post-warranty service for a reasonable period of time;
- An accessible, effective and timely mechanism for complaints and problem resolution is in place;
- The OSC instructs consumers on proper use and care, and any health and safety risks, related to the product usage or disposal;
- The OSC considers measures to enable continued operability of the product in the event of the failure of the OSC

#### Good product quality:

- The OSC ensures the product/system is appropriate, good quality, safe and performs as advertised;
- The OSC ensures the user interface / payment platform is appropriate for consumers
- The OSC takes reasonable measures to ensure product longevity (including ease of operation and maintenance, repairability and durability)

#### Data privacy:

- The OSC applies good practices and comply with relevant laws and regulations governing consumer data privacy
- The OSC only collects, use, retain and share personal information that is necessary for the stated consumer service and legitimate interests of the business;
- The OSC ensures consumer data is kept secure and confidential

#### Fair and respectful treatment:

- The OSC ensures fair and respectful treatment of current and prospective consumers, with adequate safeguards in place against corruption and abusive treatment;
- The OSC promotes inclusive practices and do not discriminate, for example, by gender, religion or ethnicity;
- The OSC seeks consumers' views and feedback on the design and delivery of the product, service and payment plan.

c. Role of the World Bank during Project Implementation

The World Bank will be actively involved in supporting project implementation. It will:

- Supervise a-priori the first two sub-financing applications per each bank.
- The sub-financing not requiring prior review and all sub-financing approved by the Credit Committees will be supervised on a sampling basis, a-posteriori.
- Appraise interested banks already actively involved with BRD to confirm that they satisfy the eligibility criteria and re-appraise banks, as needed.
- Review performance of the bank loan portfolio during supervision missions.
- Conduct site visits to observe progress and meet with beneficiaries and borrowers.
- Supervise that the Bank's Environmental and Social Management System has been duly followed.
- Disburse funds as requested. Review of disbursement management and financial flows, as applicable.
- Review and supervise the project implementation performance, including financial management aspects.
- Review of the internal audit reports, the annual audited financial statements complemented by the operational and performance information reports, the auditor's report, and remedial actions recommended in the auditor's management letters.
- Discuss and agree with BRD on changes needed in the OM and discuss/address all issues that might impede effective project implementation or compliance with agreed policies and procedures.
- Monitor compliance with World Bank's procurement guidelines.

d. Role of the Energy Development Corporation Limited

The Energy Development Corporation Limited (EDCL) has the overall responsibility of connections rollout (grid, mini-grid off-grid), planning and monitoring as per the National Electrification Plan. EDCL is a key member of the Steering Committee, with the main responsibility of monitoring and claim verification under Window 5.

## V. Banks Qualification and Eligibility Criteria

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

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

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

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

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

### a. Banks’ Eligibility Criteria

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

The eligibility criteria include:

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

- **Capital adequacy** – compliance with BNR regulations (i.e. minimum capital of 15 percent calculated as the ratio of total capital to total assets).
- **Adequate liquidity** – compliance with BNR regulations (i.e. liquid assets to total deposits at 20 percent), well diversified funding sources, well managed or no maturity gaps and regular stress testing.
- **Liquidity coverage ratio:** Compliance with BNR regulations (i.e. The ratio of a bank’s stock of high quality liquid assets to its net cash outflows over the 30 day period must not be less than 100 percent at any time).
- **Net stable funding ratio:** Compliance with BNR regulation (i.e. the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year)
- **Adequate profitability** – positive profitability, well diversified income structure and stable earnings trend. Well-managed cost structure.
- **Acceptable risk profile** – effective Asset and Liability Management Committee (ALCO), well-defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures).
- **Adequate asset structure and portfolio quality** – acceptable asset structure including concentration; lending to connected parties; effectiveness of loan underwriting; asset classification and provisioning<sup>8</sup>; non-performing loans ratio in compliance with BNR requirements and collection practices.
- **Adequate internal audit** – independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions and follow-up on issues raised in internal audit reports.
- **Adequate MIS system and well-organized IT support, with adequate internal controls and security policies** – the IT support should be based on relational database management system providing good accounting and bookkeeping, and adequate system-software support for transaction processing and all banking and risk management functions.
- **Appropriate Implementation Capacity** – for carrying out subproject appraisals and for supervising subproject implementation under the credit line.

**b. Ongoing Bank Financial Performance Criteria**

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

**Table 1: Ongoing Bank's Financial Performance Criteria**

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

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

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

**c. Appraisal of Banks Eligibility – Information Needed**

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

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

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

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

**d. Bank Eligibility Review Process**

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

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

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

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

#### e. Implementation Requirements

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

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

#### f. Suspension

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

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

- If a bank utilizes the funds for ineligible expenditures, it shall be asked to refund all Bank-financed amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in suspension;
- If a bank fails to observe and/or fails to ensure that its clients observe applicable Bank policies it shall be asked to clean the mistakes by a certain deadline, or else 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 bank fails to pay the interest and principal payments for longer than 60 days, it shall be asked to make a reimbursement by a certain deadline. Failure to cover full interest and principal due by a given deadline would result in suspension;
- If a bank becomes insolvent, or shows negative profitability, it will be given a deadline to improve its capital and/or financial position, or else the Bank-funded credit portfolio will be moved to BRD or another bank which continues to meet the criteria. Such a bank will be selected on a competitive basis. The insolvent bank will be suspended;
- In cases when it has been established beyond reasonable doubt that a bank's owners or managers are not "fit and proper", the bank will be given a deadline to remove such owners or managers and appoint ones that are "fit and proper", or else the Bank-funded credit portfolio will be moved to BRD or another bank which continues to meet the criteria. Such bank will be selected on a competitive basis.

**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 bank'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.. The decision on removing the suspension shall be made by BRD in agreement with the World Bank.

## VI. Eligibility Criteria for Final Borrowers

### a. Eligibility Criteria for Banks clients

Banks will use the financing to extend sub-loans to households, enterprises, and OSCs.

**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 enterprises** include:

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

**Eligibility criteria for OSCs** include:

Once pre-qualified, off-grid solar companies will be expected to meet the eligibility criteria at all times. Compliance will be monitored and reviewed annually.

1. **Licensed with adequate ownership structure.** Companies should be duly licensed (with identification number assigned by tax authorities) and in full compliance with relevant national regulations pertaining to tax, legal, and accounting norms. The owners and managers of the enterprise must be 'fit and proper'.
2. **Agreement with EDCL.** Companies must have a valid Memorandum of Understanding (MOU) with EDCL.
3. **Compliance with government reporting requirement.** Monthly reporting to EDCL as per the MOU.
4. **Satisfactory end-user pricing scheme.** Companies must demonstrate that the end-user will be directly and fully benefited from the Window 5 subsidy scheme.
5. **Profitable and creditworthy.** Companies should be 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 positions.

6. **Adequate funding.** Companies should have a defined funding strategy with no obvious gaps or constraints on additional funding.
7. **Quality of operations.** Companies shall have a sound business plan with proven resources to efficiently carry out operations at the functional level, including organization, management, staff, financial and others.
8. **Adequate collateral/warranty.** Companies should provide adequate collateral or guarantees for the BRD loan as per BRD requirements.
9. **Quality products.** Companies should be selling SHS that meet the Ministerial Guidelines (June 2019 version) and applicable international quality standards.
10. **Warranty and after-sales service.** Companies must have an established and active aftersales service capability.
11. **Collections and portfolio management.** Companies should have metrics and procedures to track portfolio quality and adequate collection practices.
12. **Adequate accounting systems and management information and well-organized IT support.** Companies should have been providing good accounting, bookkeeping, management reports, and adequate system software support covering its delayed payments services.
13. **Participation in other REF windows.** Participation in Window 1, 2 or 4 is a condition to access Window 5 subsidy fund.
14. **Recycling.** Companies must have a policy and a plan for the recycling of system components at end of life, particularly batteries.

The REF eligibility criteria will always be applied in the case of BRD Direct Lending to OSCs. Under Window 1 and Window 2, a combination of REF and bank's own eligibility criteria shall be adopted. Table 2 summarizes when the REF eligibility criteria (as detailed above) should be complied with; and when PFIs own criteria shall stand. OSCs participating in Windows 1, 2, and 5 will be subject to annual reviews. OSCs applying for financing under Window 4 will be subject to reviews on a case-by-case basis.

**Table 2: Applicable Eligibility Criteria for OSC Participation, by Window**

	<b>Window 1 – Borrowing from SACCOs</b>	<b>Window 1 – Supplying SACCOs</b>	<b>Window 2</b>	<b>Window 4</b>	<b>Window 5</b>
Licensed with adequate ownership structure	REF	REF	REF	REF	REF
Agreement with EDCL	n.a.	n.a.	n.a.	n.a.	REF
Compliance with government reporting requirement	n.a.	n.a.	n.a.	n.a.	REF
Satisfactory end-user pricing scheme	n.a.	n.a.	n.a.	n.a.	REF
Profitable and creditworthy	PFI	PFI	PFI	REF	n.a.
Adequate funding	PFI	PFI	PFI	REF	REF
Quality of operations	PFI	PFI	PFI	REF	REF
Adequate collateral/warranty	PFI	PFI	PFI	REF	n.a.

Quality products	REF	REF	REF	REF	REF
Warranty and after-sales service	REF	REF	REF	REF	REF
Collections and portfolio management	PFI	PFI	PFI	REF	REF
Adequate accounting systems and management information and well-organized IT support	PFI	PFI	PFI	REF	REF
Participation in other REF windows	n.a.	n.a.	n.a.	n.a.	REF
Recycling	REF	REF	REF	REF	REF
Subject to annual review	REF	REF	REF	REF (case-by-case)	REF (case-by-case)

**Access to participation shall be open to all interested OSCs** which are able to satisfy the eligibility criteria.

**b. Eligibility Criteria for OSCs clients**

OSCs will use the financing to extend credit to households and 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 enterprises** include:

- Duly licensed and in business 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 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

## VII. Banks Sub-Loan Terms and Conditions

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

- The sub-loans will finance purchase of solar-based systems of Tier 1 and above access level by households, enterprises, and OSCs, and for the distribution of SHS by OSCs;
- 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 enterprises; and up to 72 months with up to 12 months' grace period for sub-loans to OSCs;
- Sub-loans to OSCs will be provided by Banks and MFIs in accordance with BNR prudential regulations on single borrower limits, and in accordance with Banks' own credit policy.
- There would be no sub-loan prepayment penalties, and interest could be charged on a declining balance formula.

### a. Banks' Sub-Loan Limits

- For banks, the wholesale finance amount will be equivalent to FRW 500 million, extended for up to 72 months, with up to 3 months of grace period;
- Once 90% of the approved wholesale finance amount has been utilized, the bank may apply for an additional amount of Sub-financing. The application for additional tranche will include all required documentation including the full details on how the tranche has been used (e.g., name of final borrower, national identification card number, system cost, type of solar equipment or capacity, loan amount, interest rate, loan tenure, outstanding loan, number of household members, number of female members in the house and number of children (below 16 years) benefited). The detailed tranche utilization reporting requirement is provided as Annex 3;
- Under the drawdown model, the maximum sub-loan amount is FRW 1 million for sub-loans to households and enterprises; and FRW 20 million for sub-loans to OSCs for solar system related investments and working capital purposes for qualified solar systems;
- For OSCs who meet the bank's lending criteria, loans above FRW 20 million (and up to FRW 500 million) will be extended by BRD back-to-back to banks' loans to the OSC with maturity of up to 72 months and up to 12 months grace period.
- Successful banks, which use the facility effectively and have a non-performing loan ratio in compliance with BNR requirements, will be able to receive a higher drawdown amount and a higher maximum amount as proposed by BRD and agreed with the World Bank;
- There will be no maximum financing amount available for one bank. Any changes in the maximum limit should be agreed between BRD and the World Bank.
- For banks to SACCOs, sub-loans in local-currency who meet the bank's lending criteria to purchase/install Tier 1 and above solar-based systems at final beneficiary's household. The SACCOs then should on-lend such loan to their member for up to 36 months and not exceeding FRW 1 million per member. For each enterprise or OSC, the SACCOs shall extend up to FRW 1 million loan up to 60 months including up to 6 months grace period.
- Solar systems that have already been financed by a bank from its own funding sources, where both the beneficiaries and the systems meet the eligibility criteria, may be refinanced from the

REF funds. Such refinancing facility shall be extended to those financing which have been extended after the REF effectiveness date.

**b. Credit Risk Aspects**

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

**c. Interest Rates**

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

## VIII. Subsidiary Financing

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

### a. On-Lending Arrangements for Subsidiary Financing

**Subsidiary financing for the Bank sub-loans will be extended on a first-come, first-served basis.** The eligible Banks have no obligations to ask for Subsidiary financing. Subsidiary financing will be extended only when the eligible Bank submits a Financing Request to BRD. The Subsidiary Financing Request format for Banks is provided in Annex 5. Once the approved amount of Subsidiary financing has been utilized, the Bank can ask for additional financing. The maximum financing amount available will be agreed between BRD and the World Bank. A Bank may request that its maximum financing amount be increased. Bank must comply with the applicable eligibility criteria during their participation in the REF project.

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

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

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

### b. On-Lending Arrangements for Drawdown Bank Sub-Loans

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

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

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

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

#### c. On-Lending Arrangements for Free-Limit Bank Sub-Loans

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

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

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

#### d. On-Lending Arrangements for Prior Review Bank Sub-Loans

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

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

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

#### e. Ex-Post Reviews

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

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

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

## IX. Disbursement Arrangements

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

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

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

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

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

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

In order to realize a disbursement, the Bank shall furnish to BRD a Disbursement Request. A standard format for the Disbursement Requests is provided in Annex 6. The Disbursement requests in the form of Applications of Withdrawal duly signed by the authorized representative of the Bank should have the quarterly Interim Unaudited Financial Statements as supporting documentation for advance replenishments.

### a. Documentation Requirements

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

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

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

If BRD (or the World Bank) shall determine at any time that any payment: (a) was not made for an eligible expenditure or was made in an amount not eligible; or (b) was not justified by the evidence furnished to BRD, the Bank 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).

## **X. Repayment Arrangements**

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

**Bank Principal Repayments** - The Banks shall repay the principal amount of subsidiary financing due in accordance with the amortization tables set forth in the respective Annexes to the Subsidiary Financing Agreements.

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

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

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

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

## **XI. Monitoring, Evaluation and Reporting**

**The achievement of the Project objectives will be measured through indicators summarized in Annex 7.** 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 PFIs and the final beneficiaries, including field visits, interviews with final beneficiaries.

## **XII. External Audit Arrangements**

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

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

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

**Bank 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.

### **XIII. 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) as well as company's own ESMS, in case of mini-grid developers.

#### **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).

#### **Social safeguards**

**BRD will hire/outsourcing 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 BRD's 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 BRD's ESMS, each PFI 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/PFI 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.<sup>9</sup>**

**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;

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<sup>9</sup> The Performance Standards can be found at [www.ifc.org/enviro](http://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*.

- 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 PFI, 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 PFI, OSC, and MGD to identify risks and assess whether the ESMS developed by the PFI, 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 environmental and social safeguard categories that BRD, and then, PFIs, OSCs and MGDs will use are:

**a. Environmental**

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

**b. Social**

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

## **Annex 1: Subsidiary Financing Agreement between BRD and Banks**

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

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

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

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

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

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

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

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

The BRD and the Bank hereby agree as follows:

### **ARTICLE 1: Subsidiary Financing**

- 1.1 The BRD agrees to on-lend proceeds of \_\_\_\_\_ (SCF-SREP Financing) on terms and conditions set forth or referred to in this Agreement to the PFI for the provision of Sub-loans to eligible Final Beneficiaries (as defined in the Financing Agreement and the REF Project Operational Manual) for financing access to renewable energy.
- 1.2 The PFI shall on-lend Subsidiary Financing exclusively for financing the Sub-loans to final Beneficiaries as a facility access renewable energy.

- 1.3 The principal amount of the Subsidiary Financing shall be equal to the sum of all tranches and all individual back-to-back Sub-loans extended by the PFI to the Final Beneficiaries.

## **ARTICLE 2: Terms and Conditions of Subsidiary Financing**

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

## **ARTICLE 3: Interest Charges and Payments**

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

## **ARTICLE 4: Repayment of Principal**

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

#### **ARTICLE 5: Disbursements**

- 5.1 The first disbursement on each portion of Subsidiary Financing shall be made upon signing of the Subsidiary Financing Agreement\_\_\_\_\_ (including tranche-based Sub-Loan financing and back-to-back Sub-Loans financing for final beneficiaries). The first disbursement shall be equivalent to one half of the related Sub-Loan Financing amount, but not more than FRW\_\_\_\_\_. The disbursement shall be made by BRD to an account specified by the PFI.
- 5.2 Further disbursements shall be made as per disbursement procedures specified in the REF Project Operations Manual. The amounts may be withdrawn for expenditures made or to be made in respect of the reasonable cost of goods and services of REF project and in observance of procurement procedures as specified in REF Project Operations Manual and the World Bank Procurement Regulations.
- 5.3 For all expenditures with respect to which withdrawals from the Bank Loan Account and the BRD Designated Account were made on the basis of statements of expenditure, the PFI shall:
  - a. maintain records and accounts reflecting such expenditures, including evidence collected from the Final Beneficiaries showing that the Sub-loan proceeds were used exclusively for eligible expenditures
  - b. retain until at least one year after BRD and the World Bank have received the audit report for the fiscal year in which the last withdrawal from the Bank's Loan Account or payment out of the Designated Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
  - c. enable BRD and the World Bank's representatives to examine such records; and
  - d. ensure that such records and accounts are included in the annual audit referred to in Article 9 of this Agreement and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

- 5.4 If BRD or the World Bank shall determine at any time that any payment: (a) was not made for an eligible expenditure or was made in an amount not eligible; or (b) was not justified by the evidence furnished to BRD, the PFI 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 PFI shall ensure that BRD's rights under this subsidiary agreement will, at all times until full repayment of the loan amount, be ranked equally with all the PFI's unsecured and unsubordinated lenders.

#### **ARTICLE 7: Eligibility Criteria**

- 7.1 The PFI shall ensure that it continues to meet the eligibility criteria at all times, including:
- a. **Compliance with prudential regulations issued by the National Bank of Rwanda (BNR)** – the bank must be in good standing with the BNR at all times and observe all other applicable laws and regulations.
  - b. **Good governance** – “fit and proper” owners; adequate Board composition and practices; competent management with adequate managerial autonomy; adequate organization and institutional capacity for its specific risk profile.
  - c. **Capital adequacy** – compliance with BNR regulations (i.e. minimum capital of 15 percent calculated as the ratio of total capital to total assets).
  - d. **Adequate liquidity** – compliance with BNR regulations (i.e. liquid assets to total deposits at 20 percent), well diversified funding sources, well managed or no maturity gaps and regular stress testing.
  - e. **Adequate profitability** – positive profitability, well diversified income structure and stable earnings trend. Well-managed cost structure.
  - f. **Acceptable risk profile** – effective Asset and Liability Management Committee (ALCO), well-defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures).
  - g. **Adequate asset structure and portfolio quality** – acceptable asset structure including concentration; lending to connected parties; effectiveness of loan underwriting; asset classification and provisioning<sup>10</sup>; level of NPLs (i.e. an NPL ratio as percentage of total assets not exceeding 5 percent) and collection practices.
  - h. **Adequate internal audit** – independent internal audit function with well-defined procedures, annual internal audit plans, regular reviews of all key risk management functions and follow-up on issued raised in internal audit reports.
  - i. **Adequate MIS system and well organized IT support, with adequate internal controls and security policies** – the IT support should be based on relational database management system providing good accounting and bookkeeping, and adequate system-software support for transaction processing and all banking and risk management functions.
  - j. **Appropriate Implementation Capacity** – for carrying out subproject appraisals and for supervising subproject implementation under the credit line.
  - k. **Adequate environmental and social management risk systems.** For carrying out due

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<sup>10</sup> The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions.

diligence on Final Beneficiaries and subproject appraisals and for supervising subproject implementation under the credit line.

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

#### **ARTICLE 8: Implementation Requirements**

- 8.1 The BRD shall provide, promptly as needed, the funds, facilities, services and other resources required for the implementation of the project. The PFI shall maintain, with terms of reference satisfactory to BRD and the World Bank:
- a. A technical unit to be responsible of the appraisal of credit applications for solar-based systems. The technical unit shall be staffed with qualified staff in adequate numbers and provide, promptly as needed, loans, services and other resources required for effective Project implementation; and
  - b. A credit committee to be responsible for the evaluation and approval of Sub-loan applications.
- 8.2 The PFI 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 PFI 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 PFI is obliged to carry out its lending activities as a PFI and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in this Agreement, in Financing Agreements, the Project Agreement, and other legal instruments related to implementation of the REF Project and in REF Project Operations Manual.

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

#### **ARTICLE 10: Accounting and Auditing**

- 10.1 The PFI shall maintain separate records and accounts adequate to reflect in accordance with the regulator of the PFI for the REF Project and sound accounting practices the operations. The PFI shall:
- a. Have its financial statements and Project related records and accounts audited each fiscal year, in accordance with international financial reporting standards or applicable national accounting and financial reporting standards, by independent auditors as prescribed by the National Bank of Rwanda;
  - b. Furnish to the World Bank and BRD as soon as available, but in any case not later than six months after the end of each year, the external audit report, of such scope and in such detail as the World Bank and BRD shall have reasonably requested; and
  - c. Furnish to the World Bank and BRD other information concerning records and accounts and the audit thereof as the World Bank and BRD shall reasonably request.

#### **ARTICLE 11: Remedies to event of default**

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

## **ARTICLE 12: Transparency**

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

## **ARTICLE 13: Settlement of Disputes**

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

## **ARTICLE 14: Effectiveness of the Agreement**

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

## **ARTICLE 15: Termination of the Agreement**

- 15.1 This Agreement shall be terminated on \_\_\_\_\_ upon completion of the Project. It may be terminated earlier if suspended or terminated by the Parties.
- 15.2 The PFI may, by written notice of termination to BRD, terminate this Agreement at any point.
- 15.3 BRD may, by written notice of suspension to the PFI, initiate suspension of this Agreement:
- a. If the PFI fails to be compliant with eligibility criteria and all applicable policies and procedures specified in the REF Project Operational Manual;
  - b. If the PFI fails to maintain the appropriate financial standards and lending practices, with qualified management and staff in adequate numbers;
  - c. If the PFI is found to breach the established eligibility rules for clients and projects, further disbursements and access to new funding will be suspended until the PFI has fully refunded the sub-financing related to the ineligible loans and procurements.
  - d. If the PFI utilizes the funds for ineligible expenditures, it shall be asked to refund all Bank-financed amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in suspension.
  - e. If the PFI fails to perform any of its obligations under this Agreement, or any of the obligations specified in the REF Project Operations Manual related to procurement, environmental screening, or other World Bank requirements set out in the Financing Agreements, it shall be asked to clean the mistakes by a certain deadline, or else refund all amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in full suspension.
  - f. If the PFI fails to pay the interest and principal payments for longer than 60 days, it shall be asked to make a reimbursement by a certain deadline. Failure to cover full interest and principal due by a given deadline would result in suspension.
  - g. If the PFI becomes insolvent, or shows negative profitability, it will be given a deadline to improve its capital and/or financial position, or else the Bank-funded credit portfolio will be moved to BRD or another bank which continues to meet the criteria. Such a bank will be selected on a competitive basis. The insolvent bank will be suspended.

- h. If the PFI 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 PFI 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 PFI.
- 15.5 Upon termination of this Agreement all rights and obligations of parties shall cease except the PFI financial obligations as per Articles 3 and 4 of this agreement and the PFI obligations pursuant to Article 9 of this Agreement.

**ARTICLE 16: Representatives and Addresses**

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

16.2 The PFI name, represented by:  
Address for the PFI is:

Signed on .....

By BRD

By [Bank]

Authorized Representative

Authorized Representative

## Appendix

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, or a category set forth in the table in Section IV.A.2 of Schedule IV.A.2 of Schedule 2 to the Grant Agreement, as the case may be.
3. “Direct Loans” means loans made by the Project Implementing Entity directly to Final Beneficiaries through Window 3 or Window 4 under Part 1 of the Project.
4. “Direct Loan Agreement” means an agreement between the Project Implementing Entity and a Final Beneficiary for a Sub-project under Windows 3 or 4 of the REF.
5. “Enterprise(s)” means an entity registered and operating in the Republic of Rwanda that purchases for own use Tier-1 (or higher) solar systems under the REF.
6. “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.
7. “Final Beneficiaries” means qualifying households, Enterprises, , locally registered Off-Grid Solar Companies, solar system importers, wholesalers, retailers, installers, , 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.
8. “Final Direct Loans” means loans made by Participating Banks to Final Beneficiaries under either of Windows 1 or 2 through the respective Subsidiary Credit Lines provided under Part 1 of the Project.
9. “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.
10. “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.
11. “MINECOFIN” means the Borrower’s Ministry of Finance and Economic Planning, or any successor thereto.
12. “MININFRA” means the Borrower’s Ministry of Infrastructure, or any successor thereto.
13. “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.
14. “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).
15. “Participating Banks” means commercial banks and microfinance institutions 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.
  16. “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.
  17. “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.
  18. “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.
  19. “PPP Law” means the Law governing Public Private Partnership in Rwanda, No. 14/2016 of 2nd/05/2016 Gazette 22 of 30/05/2016.
  20. “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.
  21. “Procurement Regulations” means the “World Bank Procurement Regulations for Borrowers under Investment Project Financing”, dated July 1, 2016.
  22. “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.
  23. “Project Implementing Entity” or “PIE” means the Development Bank of Rwanda.
  24. “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.
  25. “Project Steering Committee” means the project steering committee referred to in Section I.A.1 of Schedule 2 to this Agreement.
  26. “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.
  27. “RBF Facility” or “Results-based Financing Facility” means the facility established under Part 1(e) of the Project for the provision of RBF Grants to eligible OSCs to facilitate affordability of Tier 1 or higher solar systems for low income households.
  28. “RBF Grant” means the partial grant provided to eligible OSCs under the RBF Facility for the sale of Tier 1 or higher solar systems and provision of after sale services to Final Beneficiaries (low income households).
  29. “RBF Manual” means the manual prepared and adopted by the Recipient as referred to in part (EE) of Section I, Schedule 2 to this agreement.
  30. “REG” means Rwanda Energy Group, established pursuant to the law N° 97/2013 of 31 January, 2014.
  31. “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”.

32. “SACCOs” means savings and credit cooperatives, established and operating under the laws of the Borrower pertaining to savings and credit cooperatives.
33. “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.
34. “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.
35. “Safeguards Instruments” means the ESMF, the RPF and any Supplemental Social and Environmental Safeguards Instruments.
36. “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.
37. “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.
38. “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.
39. “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.
40. “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.
41. “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.
42. “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.
43. “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.
44. “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 Banks and their clients

### LOAN AGREEMENT No:.....

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

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

#### **Article 1: Purpose of the loan**

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

#### **Article 2: Amount of loan**

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

#### **Article 3: Repayment**

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

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

#### **Article 4: Interest**

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

#### **Article 5: Prepayment fees**

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

**Article 6: Commission/charges**

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

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

**Article 7: Management fees**

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

**Article 8: Additional Interest**

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

**Article 9: Returns**

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

**Article 10: Other Covenants**

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

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

### **Further terms and Conditions**

#### **1. Conditions precedent**

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

#### **2. Currency**

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

#### **3. Representations and Warranties**

The Borrower represents and warrants to the Bank as follows:

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

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

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

#### **4. Events of default**

In the event of:

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

#### **5. Exchange of Information**

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

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

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

## **6. Confidentiality**

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

## **Definitions**

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

**Financing Schedule**

**A. Conditions precedent**

(i)

...

**B. Securities to be provided**

(i)

...

**FOR THE BORROWER**

**FOR THE BANK**

### Annex 3: Tranche Utilization Report for Banks

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

o T/C	Name	ID No.	Address	Mobile No.	Installation Date	System Information				Loan Information						Purpose	No of HH members benefited		
						System Identification No.	Capacity (Wp)	After subsidy System Cost	Company	Loan Amount	Loan Tenure	Loan Approval Date	EMI Amount	O/s Amount	Interest Rate (%)		Total	Female	Children (Under 16)
T1/1																			
T1/2																			

**Prepared By:**

Signature: .....  
Name: .....  
Mobile No.: .....

**Checked By:**

Signature:.....  
Name:.....  
Mobile No.:.....

Official Stamp and Date

T/C: Tranche Number and Credit Number

Name: Name of household client, enterprise, or OSC using drawdown

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

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

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

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

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

Loan Amount: The amount of loan provided by the Bank

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

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

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

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

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

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

Company: The name of the installer company

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

## **Annex 4: Service Level Agreement with off-grid solar companies**

**Service Level Agreement  
Between  
[Insert the name of the SACCO or Bank  
AND  
[Insert the name of the Solar Company]  
Kigali, ....., 2020**

This Service Level Agreement (hereinafter referred to as “SLA” or the “agreement”) is made on the ... [insert day] day of ... [insert month and year].

Between:

[insert name of SACCO OR Bank] a limited Company, registered under incorporation number ....., whose head office is ....., hereunder referred to as “the PFI” and;

[ the Supplier], A private company limited by shares, dully registered under the company code n°....., whose registered physical address is ....., legally represented by .....hereunder referred to as “Supplier”

Supplier and PFI jointly referred to as “the Parties”

### **WHEREAS:**

The Government of Rwanda has resolved to increase electricity access in Rwanda through off grid technology and facilitate private sector participation in renewable off-grid electrification; The targeted beneficiaries are Rwandans households and businesses (“Final Beneficiaries”) selected pursuant to criteria established in the Project Operational Manual, which will gain 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;

### **WHEREAS:**

The World Bank (with request from the Government of Rwanda) has approved Results-based Financing (RBF) subsidy scheme called REF Window 5. This window shall provide RBF Grants to eligible OSCs to subsidize the price of Tier 1 and above Solar Home System (SHS) and the provision of after sales service to qualifying households. The subsidy shall be provided to Ubudehe 1, 2 and 3 households in accordance with the conditions stipulated on Window 5 Operations Manual;

### **WHEREAS:**

The Supplier under this agreement shall offer a subsidized cash price of its SHS products to the PFI.

NB: Subsidized cash price represents the end-user cash price offered by the Supplier minus effective subsidy amount. This price shall be different for different Ubudehe categories. The effective subsidy amount represents approved subsidy minus subsidy administration cost such as 4% subsidy incremental cost.

In the framework of implementing the above main objectives, both parties desire to enter into a Memorandum of Understanding on the terms and conditions hereinafter set forth;

**NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:**

**1. Scope, purpose and intent**

The undersigned Parties, through this Agreement, commit to jointly develop and cooperate to finance, distribute and install solar equipment to the Final Beneficiaries, under the framework of the Renewable Energy Fund Project (“the Project”) of the Government of Rwanda.

The undersigned Parties, through this Agreement, commit to jointly collaborate to increase electricity availability to the Final Beneficiaries through off grid solar systems.

**2. Terms of the agreement**

This Agreement is valid and shall continue in full force and effect until the end of thirty six months (36 months), starting on ..... [insert the date of signature by both parties].

**3. Notice without prejudice**

Either Party can terminate this Agreement by providing written notice to the other, subject to all invoices and costs being paid. All amendments in relation to this Agreement shall be made at any time by mutual consent of the Parties.

**4. Program overall target and resources**

Both Parties agree that they will cooperate to distribute and finance \_\_\_\_\_ systems during the period of the agreement. Each Party will deploy or hire sufficient staff and resources to reach these targets.

**5. Project preparation phase**

Both Parties will cooperate to develop a process for marketing, customer acquisition, customer approval, delivery and installation, after sales services, payments and collections.

At this phase Parties will agree the process for payment by the PFI to the Supplier for systems purchased including what proportions of the equipment cost will be paid at the time of sub-loan approval, installation, and performance verification after agreed period.

- (i) up to 25% of the total loan amount will be disbursed upon a. confirmation from the Supplier (or its agent/technician) that if the particular loan beneficiary is eligible for Window 5 subsidy. and b. [Name of SACCO] Credit Committee’s approval of the loan to the beneficiary The [Name of SACCO] shall notify the Supplier of the approval and complete the disbursement subject to the installation occurring within an agreed timeframe. The [Name of SACCO] shall avail the Supplier household details (name, physical address, national identification card number and Ubudehe category) of proposed loan beneficiary. The Supplier shall keep this information confidential and use to check Window 5 eligibility status of proposed beneficiary.
- (ii) the remaining amount will be disbursed upon confirmation from the beneficiary that installation has been completed, the equipment is working, and warranty and after sales service agreement has been provided;

**6. Project Governance**

- Each Party will appoint a focal point on matters pertaining to this Agreement.
- Focal points will meet at least once a month to review progress and resolve operational issues.

- Focal points will produce a report for senior management once per month.

In the event that issues cannot be resolved at focal point level, a senior executive from each Party will resolve the issue jointly within 30 days.

## 7. System Price

The Supplier shall provide Solar Home System as per the following price agreed with the SACCO:

Product Name	Price			
	Ubudehe 1	Ubudehe 2	Ubudehe 3	Ubudehe 4
<u>Product 1 [Name of the product]:</u>				
A. Cash price	FRW .....	FRW .....	FRW .....	FRW .....
B. Subsidy (as per Grant Subsidiary Financing Agreement)	FRW ... or up to 90% of A	FRW ... or up to 70% of A	FRW ... or up to 45% of A	n.a.
C. Subsidy cost	4% of B	4% of B	4% of B	n.a.
D. Effective subsidy amount	B – C	B – C	B – C	n.a.
<b>E. Final price to SACCO</b>	<b>A – D</b>	<b>A – D</b>	<b>A – D</b>	<b>A</b>
<u>Product 2 [Name of the product]:</u>				
A. Cash price	FRW .....	FRW .....	FRW .....	FRW .....
B. Subsidy	FRW ... or up to 90% of A	FRW ... or up to 70% of A	FRW ... or up to 45% of A	n.a.
C. Subsidy cost	4% of B	4% of B	4% of B	n.a.
D. Effective subsidy amount	B – C	B – C	B – C	n.a.
<b>E. Final price to SACCO</b>	<b>A – D</b>	<b>A – D</b>	<b>A – D</b>	<b>A</b>

Note: Add other rows and apply the same calculation for other products.

- The Cash Price represents the final end-user price of the product on cash sales. This price is exclusive of financing cost applied on PAYGO price;
- The Subsidy amount shall be in FRW shall be calculated in accordance with the subsidy table defined in Window 5 Operations Manual.
- The subsidy shall be provided only to the eligible households as defined in the Window 5 Operations Manual. The eligibility shall be assessed through a web-based Eligibility Tool.
- The households in 5 district (Ruhango, Gisagara, Nyanza, Nyamagabe and Huye) will not be eligible for Window 5 until the EnDev ‘Pro Poor’ RBF has ended in March 2021. The Supplier shall apply the Pro Poor RBF Subsidy for the SACCO working in these 5 districts. The SACCO may request Supplier the copy of Contract signed with the Pro Poor, if necessary;
- The OSC shall revisit the final price offered to SACCO if and when necessary.

## 8. Project Implementation

### 8.1. Obligations of the Supplier

The Supplier hereby agrees to:

- Provide to the Final Beneficiaries with the solar system equipment whose specifications are in accordance with the Lighting Global Quality Standards or equivalent national quality standards as stipulated on the Ministerial Guideline on Minimum Standards Requirements for Solar Home Systems (June 2019 version), if those are acceptable to the World Bank, subject to regular independent verifications to ensure alignment with International Electrotechnical Commission (IEC) Technical Specifications.

- Plan and fund its purchase of stock to avoid unnecessary delays to Final Beneficiaries who have been approved to receive systems.
- Delivery process up to the Final Beneficiaries wherever they are located and without further undertakings by the [insert the name of the PFI].
- If relevant cater for the installation process up to the effective functioning and production of solar electricity as expected by the PFI and the Final Beneficiaries.
- Support the Final Beneficiaries of system by assisting them to receive the full benefits of the manufacturer warranty in a timely manner.
- Repossess the equipment which does not perform as per expected standards. or in case of non-repayment of the financed equipment so as to give it to any other interested person.
- Exchange of all relevant documentation to the PFI and provide any information related to the project as may be reasonably requested by PFI.
- Joint marketing and promotion of the solar energy system about its availability and its proper, effectiveness and efficiency of the system.
- Finance in terms of salaries, and any other reasonable expenses that may be incurred by in relation to his/her personnel in connection to the Project.
- Provide monthly electronic reports to [insert PFI name] on the implementation of the Project, including the serial numbers of each installed solar electric system and any other reasonably agreed aspects of the Project to be mutually agreed by [insert PFI name] and Supplier.
- Adher with the recycling policy for timely recycling of end-of-the life solar equipments.

**8.2. Obligations of the PFI**

The PFI hereby agrees to:

- Provide details of the solar system equipment to be supplied.
- Participate in joint marketing programs.
- Brief staff of the Supplier in the credit screening process so as to make the proposal of customers to the PFI more effective.
- Provide a credit approval or refusal within \_\_\_\_ days of receiving an application;
- Pay the Supplier according to payment arrangements defined in the Project Preparation phase.
- Provide the financing to the Final Beneficiaries as defined in the sub-loan agreement.
- Initiate and support repossession with all documentation necessary.
- Oversee the implementation and monitoring of the Project.

The Parties hereby agree that upon PFI’s discretion, if the Supplier does provide technical support the Final Beneficiaries, the PFI shall officially report to BRD. The PFI may have right to terminate the agreement. BRD may take necessary action including the suspension of the Supplier from Window 5.

**9. Disputes Resolution**

For any dispute in relation to the implementation of this Agreement, the Parties thereto involved shall endeavor in good faith an amicable settlement. Unless all possible and reasonable attempts to resolve the dispute in good faith are exhausted with no success, this Agreement is not subject to be referred to Rwandan Competent Courts.

**For and on behalf of [insert name of PFI]      For and on behalf of the [name of Supplier]**

.....

**Annex 5: Annex to Subsidiary Financing Agreement**

**Between**

**BRD (“PIU”)**

**and**

**[insert PFI name]**

*(To be signed for each Sub-loan extended or to be extended by a PFI that will be funded by Subsidiary Financing out of Bank Loan proceeds. References in the text are related to PFI Sub-Loan Agreement signed or to be signed between the PFI and the Beneficiary for purposes of financing expenditures for goods, services or works under a Sub-project or to provide tranche finance for sub-loans to final beneficiaries for the solar equipment..)*

**Article 1 – (Sub-Projects Financing Version)**

This Annex to the Subsidiary Financing Agreement \_\_\_\_ [insert reference number for the SFA] dated \_\_\_\_\_[insert SFA signing date] between \_\_\_\_\_ (“PIU”) and \_\_\_\_\_ Bank (“PFI”) is made to provide funding for a PFI Sub-loan to finance a Sub-project \_\_\_\_\_ [insert name of the Sub-project] for the Beneficiary [insert name of the Beneficiary] in the amount of \_\_\_\_\_ [amount of the PFI Sub-loan]. The description of the sub-project is attached as Attachment C.

**Article 1 – (Tranche Financing Version)**

This Annex to the Subsidiary Financing Agreement \_\_\_\_ [insert reference number for the SFA] dated \_\_\_\_\_ [insert SFA signing date] between \_\_\_\_\_ (“PIU”) and \_\_\_\_\_ Bank (“PFI”) is made to provide funding for purchase of solar equipment, as specified in Attachment B in the amount of \_\_\_\_\_ [amount of the PFI tranche.

**Article 2**

The maturity of the said PFI Sub-loan/tranche is \_\_\_\_\_ (insert PFI Sub-loan maturity). The grace period is \_\_\_\_\_ (insert length of grace period). The currency of the said PFI Sub-loan is RWF. The amortization table for the principal is attached as Annex A to this Agreement.

**Article 3**

The proceeds of the PFI Sub-loan shall be used to purchase \_\_\_\_\_ [goods, services, works], the specification of which is attached as an Attachment B.

The PFI shall use the Subsidiary Financing exclusively for the purpose specified in the Attachment B.

**Article 4**

The PFI shall repay the principal amount of related Subsidiary Financing in accordance with the amortization table set forth as Attachment A.

The withdrawn and outstanding balance of Subsidiary Financing related to this Sub-loan shall bear interest at a rate equal to \_\_\_\_\_.

The PIU and the PFI agree on quarterly payments of the accumulated interest charges. The payments shall be due on (insert dates) starting from \_\_\_\_\_ (insert date).

The payments shall be made into the \_\_\_\_\_ Account. The sum payable by the PFI shall be deemed to have been paid when received in the said Account.

[Specify other aspects/payments, if any]

### Article 5

(Specify obligations related to the provision of information and other possible obligations related to following the rules specified in Operations Manual, such as related to environmental screening or safeguards).

Other related matters are specified in the Subsidiary Finance Agreement between the PFI and BRD of \_\_\_\_\_ (date), the terms of which both parties have knowledge.

For the PIU

For the PFI

\_\_\_\_\_ (signed)

\_\_\_\_\_ (signed)

### Attachments

- 1) **Attachment A:** Amortization table [equivalent to PFI Sub-loan amortization schedule].
- 2) **Attachment B:** i) List of [goods, services, works] expected to be purchased by SME from the PFI Sub-loan proceeds; or ii) List of solar systems that could be financed to be purchased by final beneficiaries.
- 3) **Attachment C:** Specification/description of the PFI Sub-project financed.

## **Annex 6: Subsidiary Financing Request**

### **Renewable Energy Fund Project Banks (On-lending to Individuals, Households, Enterprises and OSCs) Loan Application/Disbursement Request Form**

#### Name & Address of the Bank

To Program Implementation Unit (PIU), Development Bank of Rwanda (BRD)  
Kigali

In continuation of our letter No. \_\_\_\_\_ date \_\_\_\_\_ forwarding our Interim Unaudited Financial Statements, we forward herewith our application for sanction of a loan of FRW \_\_\_\_\_ (in words \_\_\_\_\_) under the Renewable Energy Fund Project of the credit line for On-lending to households, enterprises, and OSCs.

We enclose a certified copy of our Board Resolution No. \_\_\_\_\_ date \_\_\_\_\_ approving our application for the captioned loan and also authorizing \_\_\_\_\_ (Name) (Designation) to execute necessary documents for the loan on behalf of our Bank in favor of BRD.

We request that the loan may be sanctioned for a period of \_\_\_\_\_ years, subject to your usual terms, including the rate of interest.

General Manager, BANK

## Annex 7: REF Project Indicators

	Baseline	End Target
<b>Project Development Objective Indicators</b>		
People provided with new or improved electricity service (Corporate Results Indicator) (Number)	0	1,800,000
Of which women (Number)	0	936,000
Enterprises provided with access to electricity (Number)	0	27,500
Annual electricity output from renewable energy (MWh/year)	0	13,000
Increased private sector investment in renewable energy electrification (Amount (USD))	0	41,000,000
<b>Intermediate Results Indicators</b>		
Number of districts covered by participating market enablers (Number)	0	30
Number of participating SACCOs (Number)	0	30
Total funding drawdown by SACCOs from the facility (Amount(USD))	0	4,000,000
Total funding onlent by SACCOs to households and enterprises (Amount(USD))	0	4,000,000
Total funding onlent by SACCOs to female applicants (Percentage)	0	30
Average NPL ratio of SACCOs portfolio (Percentage)	0	5
Number of SACCOs trained (Number)	0	30
Number of participating Banks (Number)	0	10
Total funding drawdown by Banks from the facility (Amount(USD))	0	8,000,000
Total funding onlent by Banks to households and enterprises (Amount(USD))	0	8,000,000
Total funding onlent by Banks to female applicants (Percentage)	0	30
Average NPL ratio of Banks portfolio (Percentage)	0	5
Total funding onlent to mini-grid developers (Amount(USD))	0	5,000,000
Number of people provided with access to electricity by household connections (mini-grids) (Number)	0	105,000
Renewable energy generation capacity in mini-grids constructed under the project (Megawatt)	0	1.1
Total funding onlent to off-grid solar companies (Amount(USD))	0	13,940,000
Average NPL ratio of off-grid solar companies portfolio (Percentage)	0	5
Number of people provided with access to electricity by household connections (off-grid solar) (Number)	0	1,695,000
Renewable energy generation capacity from solar home systems under the project (Megawatt)		6.6
Total result-based grant financing provided (Amount (USD))		15,000,000
Total financing leveraged by the facility from private and other sources (Amount(USD))	0	79,000,000
Number of knowledge sharing events (Number)	0	10
Number of citizen engagement events (Number)	0	10

