

February 23, 2017

CLIMATE INVESTMENT FUNDS

**[APPROVAL BY MAIL] RWANDA: RENEWABLE ENERGY FUND PROJECT (WORLD BANK) (SREP)--
XSRERW058A-
COMMENTS FROM SWITZERLAND**

Please receive our comments regarding WB/GoR answers to our questions below:

- Regarding answers 1 a-e:

The argument that the considered co-financing is very conservative was already used to justify that in the IP the leverage factor of 1:2.66 is well below the 1:4 targeted by SREP. The leverage factor in the IP also did not consider reflows from loans. We therefore think that a leverage factor above 1:2.5 excluding the reflow effect is adequate for this project. We do concur however that co-financing from the private sector should not be over-estimated, i.e. it is adequately stated at \$40 million. To achieve an adequate leverage factor, the project should either receive additional commitments from MDBs, GoR or other developing partners, or the requested SREP funding should be adjusted (reduced).

- Regarding answers 2a.b and d:

There are two core indicators for SREP, including “additionally generated energy/electricity from RE sources” and “number of people benefitting from improved energy access/supply from RE sources”. All projects report to both core indicators and there is no such thing as a pure access project. Moreover, the massive reduction of additional energy generated from RE sources is primarily due to less focus on mini-grids, which was initially defined as receiving 24% of SREP contribution in the IP and for which Switzerland requested a stronger focus. The weakening of this component in the project application goes against this recommendation, which was notably motivated by the SREP objective to focus on productive use of energy. The objectives should be revised to reflect at least the split between mini-grid and off-grid announced in the IP. We do not agree with the argument that the market alone should drive the fund allocation from REF, since the grant and concessional loan funding of REF introduces itself a (potential) market distortion.

- Regarding answer 3b:

We do not agree with your statement that “there is virtually no financing for off-grid solar products at the moment”. As announced only recently, leading global off-grid company BBOXX has successfully concluded a US\$2 million debt facility in local currency with Banque Populaire du Rwanda and announced readiness to inject another US\$200 million into the sector [<http://www.newtimes.co.rw/section/article/2017-02-16/208062/>]. Also, Ignite Power, the biggest solar financing company in Rwanda, claims that Rwanda people already have the most affordable solar home systems in Africa leading a US\$38 million solar project [<https://constructionreviewonline.com/2017/02/rwanda-offers-most-affordable-solar-home-systems-in-africa/>].

Unless this published information is entirely incorrect, your statement above is not accurate. Under these circumstances, it cannot be assumed that this heavily grant subsidized project does not introduce any market distortions.

- Regarding answer 3a:

We understand conceptually that some grant financing may be needed to mitigate notably the currency risk, although the SREP non-grant contribution is in itself already heavily concessional. However, your explanation does not justify and quantify the level of grant financing that is needed and possible without introducing market distortions. We would appreciate if you could model the financial flows implied in the project to quantify the needs for grants and concessional SREP loans. Such modelling should also take into account the present market rates (or spreads) for loans and prices/costs for solar products.

- Regarding answers 4a and c:

We requested a “more detailed description of capacity building and TA activities” with our endorsement of the IP, which was “agreed” by the WB and GoR. At that stage, the budget for these activities was US\$2.5 million. We are thus surprised that such detailed description is missing and qualified as “usually not in-cluded” in the PAD or its annexes. We thus reiterate our request that such a detailed description with corresponding detailed budget positions shall be made available to SREP Subcommittee members in order to have this position approved.

Besides, your last sentence, providing for a potential reallocation of funding from component 2 (TA) to component 1 (line of credit) indicates that there is some doubt whether the full requested amount for TA is actually needed.