

# CLIMATE INVESTMENT FUNDS

March 5, 2018

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**Update on the Rwanda Energy Fund (REF) Project - (SREP) (IBRD)- XSRERW058A**

**World Bank responses to comments from United Kingdom**

<b>UK Comments</b> <b>(February 14, 2018)</b>	<b>World Bank Responses</b> <b>(March 5, 2018)</b>
<p>The leverage ratio was originally assumed to be 1:1, however the update estimates that “Likely scenarios shield an average leveraged financing ratio of at least 1:1.9” has this purely come from recent developments in the off-grid electricity sector? What role does the Government’s commitment to make the REF a revolving facility have on this leverage ratio?</p>	<p>The expected increase in the leveraged financing ratio can be attributed to both (i) new developments in the off-grid sector, namely the SIDA and USAID guarantees, and (ii) the Government’s commitment to make the REF a revolving facility. These two salient features of the likely scenarios had not been considered when the original ratio of 1:1 was estimated.</p> <p>The Government’s commitment to make the REF a revolving facility is expected to result in additional contributions from various sources, including private sector, as the facility will continue its operation beyond the project implementation period. BRD will be able to utilize the reflows associated with the original loans to attract additional funding and extend funding to SACCOs, banks, mini-grid developers, and potentially off-grid solar companies beyond the original 6-year project implementation period.</p>
<p>If there is a revolving element in the analysis could we have further information on this, we weren’t clear from the text below table 2 in annex 1 whether we were counting additional co-finance from revolutions and from which sources? If we are, we’d be really interested to hear about the methodologies you are using for these revolutions and additional co-financing and why you have decided to count from some sources and not others.</p>	<p>The revolving element could be estimated based on financing reflows at two levels, namely at the BRD/REF facility level and at the financing window level (e.g., SACCOs, banks). At the REF facility level, the revolving element occurs due to multiple lending from BRD to SACCOs, banks, mini-grid developers, and off-grid companies within the implementation period of the REF facility, which was assumed as 6 years and 9 years. At the financing window level, given the different repayment tenure between BRD and SACCOs/banks and between SACCOs/banks and their clients, it would be possible for SACCOs/banks to have multiple iterations of lending within their maturity (before paying back to BRD). The text below Table 2 indicates that the calculation of financing leveraged ratio assumed financing reflows at the BRD/REF facility level but did conservatively not consider potential reflows at the financing windows level.</p> <p>The sources of private co-financing which were considered for the reflows at the BRD/REF facility level include (a) 30% down payment for solar systems purchased by enterprises, which receive financing from SACCOs and Banks; (b) Financing cost for each solar system i.e. the contribution from households and enterprises through loan repayment when financed from SACCOs and Banks; (c) Mini-grids developers must have 30% equity for REF eligibility, this 30% is included as private sector co-financing (d) OSCs must contribute \$1 for every \$2 used from the REF funding i.e. 33% co-financing and (e) financing cost paid by OSCs.</p>

	<p>For completeness, there are other sources of co-financing that were included in the leveraged financing calculations, noting that these are one-time contributions (not related to the revolving element of the facility) (a) IDA US\$7 million; (b) EnDev US\$1.5 million; (c) SIDA guarantee US\$25 million; (d) USAID guarantee US\$10 million; (e) BRD in-kind contribution US\$0.5 million; and (f) Belgian Technical Cooperation (BTC) US\$2 million.</p>
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