

# CLIMATE INVESTMENT FUNDS

March 2, 2017

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

**RESPONSE FROM WORLD BANK TO COMMENTS FROM UNITED STATES**

Thank you very much for these comments. Kindly find our responses below:

Q1. Who benefits from the concessionality of SREP funds? Given the multiple links in the lending chain, how much will make it to the final consumer? We note that MINECOFIN is going to take a spread specifically to account for exchange rate risk; will some of the concessionality go toward that spread?

A1. The concessionality of SREP funds will ultimately benefit the final consumer/ beneficiary (both households and businesses). The financial flow/ setting of interest rates will be as follows: MINECOFIN will impose a spread to compensate for the currency risk that they are taking on. Loans will be extended in domestic currency in order to eliminate the currency risk for the final consumers/ beneficiaries. The Development Bank of Rwanda (BRD) will add a spread to cover the cost for REF administration and management. An additional spread will be imposed by the financial intermediaries (SACCOs and commercial banks for the wholesale window and BRD for the direct lending window) to cover their operating cost and the credit risk. The low cost of SREP financing will allow MINECOFIN, BRD and the other financial intermediaries to cover their cost and risks while still offering loans to the final consumers (households and businesses) at more affordable terms. To ensure that the lower cost of SREP financing is passed through to the final consumers, in their applications for the line of credit SACCOS and banks will be required to indicate the range of their expected spread. If the indicative range is considered too high by BRD, they would have the right to reject the application. In addition, the long tenor of SREP funding will allow loans to intermediaries and financial beneficiaries to be much longer than currently available in the market. The longer tenor and lower cost of finance is expected to stimulate the demand and to reduce the credit risk.

Q2. There is discussion under the Lessons Learned section about the importance of using quality-certified, guaranteed equipment. Can staff please clarify how it will ensure use of quality equipment in this project? Further, will all equipment be guaranteed? How will this all be enforced at the local lending level?

A2. All systems will be required to comply with the Lighting Global Quality Standards, as specified in the eligibility criteria for locally-registered off-grid solar companies participating in the REF facility. The use of Lighting Global-verified products will ensure that equipment works as stated and is supported by manufacturers' guarantees. The length of guarantees underpins the term over which the SACCOs/banks are confident to lend. Off-grid solar companies will be required to offer Lighting Global-verified products as condition of participation in the REF facility. SACCOs/banks will enforce that REF financing is only used for the purchase of Lighting Global-verified products using their normal internal compliance procedures. To ensure guarantees are honored, off-grid solar companies will be vetted as to their technical capability and their network to support after sales services. This will be done as part of the negotiations of service level agreements with off-grid solar companies.

Q3. It is not clear to us how ongoing maintenance will be financed after the initial investment is made. Will there be any ex-ante eligibility criteria to ensure that borrowers will have sufficient means to maintain systems in the future? Or in what other ways will maintenance, including battery replacement, be supported the future (by the project proponents, the government, the borrower, or some other entity)?

A3. SACCOs/banks will appraise the capacity of potential borrower to honor payment obligations during the period of the loan. During the repayment period, solar equipment guarantees will be required and enforced such that any component failures will be repaired at no additional cost to the borrower. Once the loan has been fully repaid and the guarantee period expired, the borrower will take responsibility to ensure the sustainable use and maintenance of the system. Components of the solar system will need replacing according to their expected useful life ranging from 3-5 years for a battery to up to 20 years for components (e.g., panels). Bulbs will need to be replaced more frequently. Upon completing the repayment of the loan, the borrower can either directly replace the battery or other components, or request a top up loan with the SACCO/bank that had arranged the solar loan in the first place. Both SACCO/bank and off-grid solar companies will take a 'life cycle' approach to the service starting with customer acquisition and ending with battery recycling, replacement or upgrade. The opportunity for providing additional loans or sales is a particular feature of solar energy financing.

Q4. Window 3 for mini-grid developers notes that hybrid systems with diesel back up will be eligible under the REF, but that the diesel component will not receive SREP finance. How will the World Bank segregate those components and assure that SREP financing is not directly used for diesel backup?

A4. BRD will undertake the technical and financial viability of the mini-grid project, including project's compliance with the eligibility criteria for hybrid systems which will ensure that the diesel component is financed from sources other than SREP. The eligibility criteria establishes that hybrid systems are eligible for financing under the REF facility, provided that the investment cost of any non-renewable energy generator (e.g., diesel component) is less than or equal to the amount of equity contributed by the developer plus any third-party finance mobilized by the developer.

Q5. Can staff please clarify the relationship between this project and the BTC-funded Private Sector Participation in the Generation of Electricity from Renewable Sources (PSPE) program? Will the PSPE contribute funds for TA and capacity-building under this project or just in parallel?

A5. World Bank and BTC teams agreed on the scope of technical assistance and capacity building activities to ensure maximizing synergies and complementarities of their respective programs. The BTC-funded program will help increase the capacity of BRD to effectively analyze the viability of renewable energy project proposals (in both on- and off-grid electricity sector), as well as assist the Energy Private Developers (EPD) to develop a pipeline of viable project proposals. The BTC-funded program will be executed in parallel to the proposed REF Project.

Q6. Can staff please explain how the emissions reductions and other project benefits will be allocated to SREP and EnDev after EnDev provides results-based payments?

A6. The REF Project will report on 100 percent of greenhouse gas (GHG) emission reductions and/or other benefits (e.g., number of people connected) achieved under the project. The rationale is that these emission reductions and/or other benefits would not have materialized in the absence of REF financing.

Q7. Does staff envision that any of the subprojects are likely to be rated category A?

A7. The proposed REF Project will not finance any sub-project that is likely to be rated Category A; the REF facility will finance sub-projects (e.g., mini-grids) with minimum footprint. The screening process for has been included in ESMF and RPFT and safeguards screening checklist will be a part of the Operations Manual. Project Document for more detail.