CLIMATE INVESTMENT FUNDS

March 2, 2017

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

RESPONSE FROM WORLD BANK TO COMMENTS FROM UNITED KINGDOM

Thank you for the opportunity to address your concerns. Kindly find our responses below.

Q1. The main mechanism for the delivery of Window 1 is through SACCOs, which have a widespread coverage in Rwanda. We can see the logic for wanting to use them for the provision of finance because of their location in so many communities. However, the rationale for using this mechanism in favour of other mechanisms is not clearly made.

A1. The rationale for selecting SACCOs responds to two main factors (i) use of existing country systems: Government of Rwanda intends to address affordability of off-grid electricity services by incentivizing their demand through existing country systems, primarily SACCOs; and (ii) geographic coverage: to successfully achieve off-grid access, the financial institution or the supplier of the equipment must be present in the communities to explain the technology and to complete the loan process and delivery. In Rwanda, over 90 percent of the population lives within five kilometers of a SACCO, making them the only financial organizations with a comprehensive branch network in rural communities. This presence results in a strong knowledge of local community-members and thus increases the likelihood of loan issuance to a variety of household types.

Q2. Where else has this model been used? Was it successful? If so, what lessons have shaped the approach in Rwanda?

A2. We understand that this question refers to working with SACCOs / microfinance institutions as conduits for accelerating off-grid electrification, a model which has been used successfully in Bangladesh and India. Indeed, the design of the REF facility in Rwanda has been informed by lessons learned from these two cases, including: (i) having strong Government commitment is essential to drive rural electrification using off-grid technologies; (ii) the deployment of funding toward off-grid electrification through microfinance institutions takes advantage of their widespread geographic coverage and customer relationship; (iii) microfinance institutions shall enter into agreements with off-grid solar companies to ensure the provision of after sales services to their customers; (iv) the provision of off-grid electricity services through low monthly payments can accelerate electrification by addressing customer affordability for these services.

Q3. Were other models considered, M-KOPA, for example, and why were they found to be inappropriate?

A3. The REF facility has been designed to support three different types of solar models in Rwanda, including the pay-as-you-go solar model used successfully by M-KOPA and other companies (e.g., BBOX). The REF facility will (i) on-lend through SACCOs to households and micro-enterprises; (ii) on-lending through banks to households and small and medium enterprises; and (iii) provide direct financing to locally-registered off-grid solar companies offering pay-as-you-go payment options (e.g., model used by M-KOPA).

Q4. The administrative system being proposed seems quite inefficient and possibly unnecessarily costly, due to the levels of complexity involved in disbursing loans. The implementing partner, BRD, enters into sub-financing agreements with SACCOs, which then enter into service agreements with off-grid solar companies, households and micro-enterprises.

A4. The administrative structure proposed, using the Development Bank of Rwanda (BRD) as the wholesale institution and SACCOs, as well as banks as retail institutions, is the model the World Bank typically recommends for line of credit projects. A wholesale institutions is needed to manage all the different participating financial institutions (PFIs) and to ensure that loans are extended based on the technical and fiduciary requirements agreed upon. The spread BRD will take for this administrative function will be relatively small (in similar projects, it is usually around 2-3 percent), hence not adding significantly to the costs to SACCOs and banks while making the administration and management of the loan much smoother. The sub-financing agreements are necessary to clearly define the terms and conditions and requirements that SACCOs and banks need to comply with. A wholesale institution such as BRD, which is specialized in lending, is a much more efficient entity to enter into sub-financing agreements with PFIs than the Ministry of Finance or Central Bank, which would be the only other options. Hence, the proposed structure appears as the most efficient if the wholesale institution is well functioning, which is the case with BRD. As for the service agreements between SACCOs and off-grid solar companies, it is important to note that the major reason for the slower rollout of solar lending programs in Africa has been the lack of an integrated approach to consumer finance involving a measurable and enforceable partnership between the financial institution and the solar supplier. Customer awareness, customer acquisition, logistics, service, and recovery are all integrated processes that have to be defined and agreed jointly. Service-level agreements (SLAs) with defined processes, metrics, resolution mechanisms, and targets are how this is done in the vendor-finance sector globally. When working in nascent markets, the process of creating SLAs is a constructive way of achieving the end goal of sustained and increasing sales and financing of solar equipment.

Q5. On page 49 it is stated that care will be taken to improve transparency and ensure that the profit margins are minimal. Might this not be a disincentive for the SACCOs which assume full credit risk for all the sub-loans they extend.

A5. SACCOs will be able to charge a spread that will fully cover the administrative and funding costs associated with the loans they will be making, and add a margin to reflect the credit risk they will be taking. This will allow them to make a profit off the loans they will be extending. The measures aimed at improving transparency will ensure that SACCOs and other participating financial institutions will not unduly profit from providing these loans, i.e. that the low costs associated with the SREP financing will be passed on to the final beneficiaries while still providing sufficient financial incentive to SACCOs to participate. 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. All the SACCOS that were appraised for the project indicated their eagerness to participate in the facility.

Q6. Regarding the risks identified, it seems that there is an additional risk that should be considered. The high transaction costs make the model vulnerable to competitive offerings in the market that could undercut the SACCOs.

A6. The transaction costs associated with the model proposed are relatively low as pointed out above (see answer #4). In addition, there is no other private sector financing currently available at similar terms which could provide competition to the funding that will be made available; existing private financing is limited and expensive. However, in the event that funding becomes available at similar terms, competition will help in lowering interest rates to the benefit of the final consumer. Moreover, lower costs can be achieved through mobile money payments and through the software platforms underpinning agency banking. The Rwanda SACCOs are undergoing a process of consolidation at a district level which should enable them to develop and roll out an agency banking model, becoming competitive with PAYGO pricing models while having a pre-existing advantage of local branch presence and strong community ties.

Q7. Regarding the SACCOs, we would be keen to understand more about their ownership and governance. Who are the owners and how are they governed?

A7. SACCOs are member-owned financial institutions. The governance arrangement of SACCOs consists of (i) General Assembly, (ii) Board, (iii) Management team, Credit Committee and Internal Audit Committee. The Board is composed of five members and oversees activities of the management team, credit committee and the internal audit committee. The General Assembly is the highest governing body and is based on a “one person, one vote” decision-making system. SACCOs are licensed, regulated and supervised by the National Bank of Rwanda (BNR), and are required to comply with prudential standards defined in the Microfinance Law and its implementing Regulation. In addition, SACCOs are also supervised by the Rwanda Cooperative Agency (RCA) on the cooperative aspect of SACCOs. Please see Annex 6 of the REF Project Document for more detail.