Component 2: Access to Finance for Stand-alone Solar System Businesses

Subcomponent 2A: Line of Credit to Stand-alone Solar Businesses

1. This subcomponent will facilitate access to debt financing in support of the stand-alone solar systems market. Through a combination of credit lines and risk-sharing instruments, it will channel short- to medium-term loans to the following three main categories of borrowers: (a) solar equipment distributors supplying products[1] to households and productive end users and (b) households and productive end users of solar equipment This will help(c) solar equipment distributors and energy service companies active in this market to scale up their operations as they become bankable and graduate from reliance on donor support and equity funding. Also, debt financing for this type of beneficiaries may be a better instrument than grant and equity financing, given the nature and the scope of financing needed to grow and make their business sustainable. This will also crowd in CFIs to the solar equipment sector.

2. Solar equipment distributors form a key part of the value chain. These companies need working capital to finance equipment purchases and receivables resulting mainly from PAYGO schemes. As such, they may need to borrow international currencies such as U.S. dollars or euros or, if feasible, the local currency to match their local currency cash streams. Loan tenors may vary from under one year for equipment importation through two or three years to cover PAYGO receivables to five to seven or more years to cover productive end users. Because equity/grant financing is not an adequate instrument to finance working capital, the line of credit will allow solar equipment distributors to rely on sustainable financing sources.

3. Productive end users of stand-alone solar systems are in scope for ROGEP because they contribute strongly to economic growth and generate employment. Productive uses of solar power may be found in the agriculture sector, for example, farms using solar water pumps and mills, in a variety of commercial and industrial SMEs that require a reliable source of power for machinery, and in the tourism sector. Productive end users might be key beneficiaries of commercial lenders as they may offer a superior established track record and have the capability to provide collateral as security for loans. They may also produce commodities priced in U.S. dollars or export products, giving them the capacity to borrow in U.S. dollars or euros.

4. Through this subcomponent, the World Bank will lend IDA SUF funds to BOAD. This will serve the eight countries in the WAEMU region. BOAD will lend the funds on sustainable terms covering funding costs, operating costs including hedging if required, and a profit element. The interest rates will be determined by BOAD in line with its other lending operations to CFIs and will use one or more of the following financing channels: (a) commercial banks, (b) leasing companies, (c) MFIs, and (d) solar energy debt funds. ROGEP will fund a feasibility study of a specialized debt fund to issue bonds in the WAEMU capital market to securitize solar equipment receivables. A decision whether to support a debt fund under the project could be taken at a later date, based on the outcome of the feasibility study and, if warranted, it could be incorporated into the project as part of a restructuring.

[1] Solar equipment distributors sell products that meet standards set by Lighting Africa. Energy Service Companies sell products, systems, and services that meet contractually defined KPIs.