Subcomponent 2B: Contingent Grant Facility for CFIs

1. The stand-alone solar systems market is still quite new and rapidly evolving. On the technical side, new products are being developed with higher efficiency, more battery storage, increased reliability, and longer product life. This reduces the payback period to the customer, relative to using kerosene lamps, for example. Commercial business models, PAYGO technology, and mobile payment systems are also evolving, and more consumers are using this technology. The stand-alone solar systems market in West Africa are less developed than those in East Africa and elsewhere. There is less information about market demand and customer credit history, and solar companies also have less track record than in other regions. Furthermore, the 19 countries covered by ROGEP vary widely in terms of country risk and the level of financial sector development.

2. Commercial banks, and other prospective lenders, are often reluctant to lend to SMEs in general and even more so for SMEs in the stand-alone solar systems market, which they may not be familiar with. Negative factors include perceived borrower credit risk, insufficient track record of the underlying technology and products, and insufficient collateral to secure loans. Banks prefer hard assets as collateral and find it hard to assess the value of receivables, especially when these are PAYGO receivables from many small customers. Moreover, it is not generally feasible for lenders to price this extra risk into their interest rates. The rates are already as high as borrowers in this market can bear, given the fundamental payback characteristics of solar equipment. Imposing higher rates on borrowers in such a business would increase the probability of default and thus be self-defeating. Commercial banks will simply not lend to borrowers with these negative factors, without a contingent grant facility.

3. Due to lack of a track record of these new and innovative solar technologies implemented using mobile money-based payment schemes, the CFIs are reluctant to extend debt financing to these businesses without appropriate technology risk cover. Common technology risks, after using LGQA products adopted by the International Electrotechnical Commission (IEC,) could include for instance equipment design and manufacturing. As the FI, BOAD will administer the contingent grant facility and will benefit five CIF-eligible WAEMU member countries. The line of credit agreement between BOAD and the CFIs will stipulate the events covered by the contingent grant facility if the solar companies cannot generate sufficient revenues, resulting in an inability to pay debt obligations.

4. The contingent grant facility will provide comfort to the CFIs to lend to companies providing solar technologies in innovative ways in Africa. By offering a contingent grant facility to cover technology risk, CFIs will be able to take on the risk of companies that employ innovative technologies with higher efficiency, and increased reliability, and innovative business models that will ultimately support end consumers with access to electricity through stand-alone solar systems.

5. The use of proceeds for the contingent recovery grant is to incentivize CFIs to lend to Stage 2 and Stage 3 Solar Companies that employ innovative technologies with higher efficiency by providing partial risk coverage for any financial losses incurring as a result of performance failure of the underlying technology. The facility will cover up to 50 percent of the loan principal of Stage 3 companies and 80 percent of the loan principal of Stage 2 companies in case of a default resulting from the non- or underperformance of the underlying technology. The higher level of cover for Stage 2 companies reflects the increased challenges they face to meet lender requirements for sufficient business track record and loan collateral.

6. Before any payouts from the Facility, CFIs will need to provide sufficient documentation to prove

the financial losses incurred to meet the eligibility criteria as stipulated in the downstream contingent recovery grant agreement between BOAD and the CFIs. The POM will specify that an independent third-party verification agent will review the claims made by the CFIs to benefit from the contingent recovery grant. The CFIs will be responsible to submit all evidence to determine whether the loan default was due to underperformance of technology. BOAD will be responsible for manage the Contingent Grant Facility and ensuring that the claims of the CFIs are reviewed by an independent third-party verification agent. BOAD will be required to provide evidence to the World Bank showing that claims of the CFIs are eligible for payouts. The underperformance of technology, along with the procedure for managing the facility, will be defined in the POM.

7. Table 2.7 provides additional details on the expected design of the contingent grant facility under subcomponent 2B, including targeting, eligibility, and required matching criteria.

Table 2.1. Implementation Guidelines for Contingent Grant Facility

Topics	Guidelines
Objective	• Demonstrate viability of business model • Facilitate access to follow-on investment
Eligibility criteria	• Locally registered 'Stage 2' or 'Stage 3'
Selection filters	• Scaling up • Additionality (requires ROGEP funding to happen)
Eligible use of funds	• Certified products and installers (where applicable)
Size of Collateral Support	• Up to 80% of loan principal for 'Stage 2' • Maximum support up to US$500,000 for 'Stage 2' • Up to 50% of loan principal for 'Stage 3'
Matching ratio	• Company equity required by the CFI
Connection with provision of TA	• Assistance with refining application, budget, and milestones and reaching the milestones in collaboration with ECREEE
How to promote a sustainable impact?	• Combined with TA support and enabling environment • Facilitate access to follow-on investment
M&E indicators	• Revenue growth • Unit sales • Affordability of product offerings • Access to follow-on financing/bankability • Household impacts (for example, access to energy) • Jobs created • Increased market competition
• Multiple awards possible?	• Yes, but clear additionality or lack of follow-on financing options

Roles and Responsibilities of Implementing Agencies and Stakeholders

8. The project will be implemented by the PIU in ECREEE and in BOAD by the Project Team set under the coordination of the Recipient's Enterprise and Financial Institutions Department (*Direction des Enterprises and des Institutions Financières*). Both organizations bring in their respective comparative advantages and will coordinate to ensure effective implementation. A POM detailing the implementation process of each implementing agency will be prepared and adopted. In general, ECREEE will undertake activities to develop a regional market for stand-alone solar products. This will include project management and monitoring, TA and analytical activities, capacity building and training, knowledge management and information dissemination, financial incentives, and removal of business start-up barriers in challenging

markets. BOAD will implement FI activities, which will include providing a line of credit to CFIs, the contingent grant facility, collateral support to early-stage solar entrepreneurs, and so on.

9. A feasibility study to establish a specialized debt fund with the objective of tapping the WAEMU capital market to finance solar equipment receivables will be conducted in coordination with ECREEE. The feasibility study will be further coordinated with the World Bank Group's Joint Capital Markets Program, designed to deliver on the World Bank Group's commitment to expanding domestic capital markets. Depending on the study finding, a specialized debt fund could be established at a later date.

Structure of the Credit Lines

10. For the credit lines to become operational, the financial institutions must meet the requirements set out in the Guidelines for Financial Intermediary Financing.[1] If any financial institution does not initially meet all the requirements, TA under an Institutional Development Plan will be required as a first step, before launching the credit line. An assessment of BOAD's performance confirmed its eligibility to borrow from the World Bank. The detailed assessment is provided in annex 6. The World Bank will lend euros to BOAD on IDA SUF terms.[2] These are the same as IBRD terms for middle-income countries.

11. BOAD will lend the funds to CFIs in euros, CFA francs, or other local currencies at interest rates sufficient to cover funding costs, administrative costs, currency and interest rate hedging costs, and an adequate return on capital. The CFIs will provide loans in euros or the local currency to the three categories of borrowers. The CFIs will set the interest rates and other terms depending on credit quality and degree of risk mitigation. BOAD will select CFIs conditional on World Bank 'no objection' in each case. The World Bank will determine whether each CFI meets its Financial Intermediary Financing policy requirements relating to operating capability including safeguards and financial strength. BOAD will prioritize CFIs that have a strong pipeline of solar equipment lending. There will be no fixed funding quota by country. Funding channeled to each country will depend on the demand for debt financing and readiness of commercial lenders operating in each country.

12. The ROGEP SOP1 will partner with IFC's SLGP 41038, an existing programmatic approach to risk sharing with CFIs. Under the SLGP, IFC will share the stand-alone solar companies' portfolio risk with local CFIs and provide comprehensive advisory services to enhance and strengthen the CFIs' capacity for risk taking and financing for stand-alone solar companies. The SLGP will tailor the offered percentage cover to the needs of the CFI in its specific markets but typically provides cover of about 50 percent of loan principal on a pari passu sharing basis. The SLGP is backed by a pooled first loss structure provided by the IDA18 IFC-MIGA PSW (IDA-PSW) Blended Finance Facility, which allows the SLGP to provide cover at rates affordable to CFIs. BOAD has identified potential CFI partners in all eight WAEMU countries. Five of these CFIs are eligible for cover under IFC's SLGP, as shown in Table 2.8.

Table 2.2. ROGEP-BOAD Proposed CFI Partners

Country	BOAD List of CFIs
Benin	Orabank (IFC SLGP eligible)

[1] *http://intresources.worldbank.org/INTOPCS/Resources/380831-1360104418611/Guidance_Note_FIF.pdf.*

[2] As of May 2018, IDA SUF funds in U.S. dollars are at an interest rate of LIBOR+0.7 percent with a 0.25 percent front-end fee and 0.25 percent commitment fee. A swap to a fixed rate loan can likely be arranged. Euro loans are available at a spread over EURIBOR.

Country	BOAD List of CFIs
	SGB Coris Bank International (IFC SLGP eligible) NSIA Banque (IFC SLGP eligible)
Burkina Faso	Orabank (IFC SLGP eligible) Fidelis Finance (Leasing) (IFC SLGP eligible) BDU Coris Bank International (IFC SLGP eligible)
Côte D' Ivoire	Orabank (IFC SLGP eligible) Fidelis Finance (Leasing) (IFC SLGP eligible) BDU NSIA Banque (IFC SLGP eligible)
Guinea-Bissau	Orabank (IFC SLGP eligible) BDU
Mali	Orabank (IFC SLGP eligible) BDM BMS Kafo (Microfinance)
Niger	Orabank (IFC SLGP eligible) Sonibank (IFC SLGP eligible)
Togo	Orabank (IFC SLGP eligible) NSIA Banque (IFC SLGP eligible) Coris Bank International (IFC SLGP eligible)
Senegal	Orabank (IFC SLGP eligible) BNDE CNCAS

13. Interest rate and currency risks will be hedged by BOAD or the CFIs depending on their relative capability, to achieve maximum cost-effectiveness. Most borrowers, being SMEs, will typically require fixed interest rate loans, as they lack the capacity to manage the interest rate risk associated with variable rate loans. Therefore, the variable rate loans offered by the World Bank under the SUF will mainly be converted to fixed rate loans by interest rate swaps. The World Bank itself can provide this service, as can BOAD and CFIs. The most cost-effective solution will be selected during implementation. The World Bank can provide U.S. dollar or euros under the SUF. Generally, euros will be more appropriate for BOAD and the WAEMU region generally. The foreign exchange exposure of lending in local currencies will be managed by BOAD and/or the CFIs that will arrange suitable hedges. The cost of currency hedging may potentially preclude local currency financing in some countries. The interest rates that solar equipment companies can bear are limited by the intrinsic payback period of such solar equipment, which is typically two to three years for smaller equipment but could be longer for larger items.

Figure 2.1. Outline of Implementation and Financing Arrangement of the ROGEP SOP1