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Energy for Rural Transformation (ERT) Project Phase III - ERT III

Financial Intermediation Component

Request for Expressions of Interest (EoI) from Financial Institutions

Background

Government of Uganda (GoU), with funding support from the World Bank, is implementing the Energy for Rural Transformation Project now in Phase III (ERT III) with the objective of increasing access to electricity in the rural areas of Uganda.

Uganda Energy Credit Capitalization Company (UECCC) is a Government company in place to provide financial, technical, and other support for renewable energy development in Uganda. As part of its mandate, UECCC provides a Credit Support Facility (CSF), which is a menu of technical assistance and financial instruments for facilitating private sector-led renewable energy projects/programmes.

UECCC is one of the Implementing Agencies for the Off-grid component under ERT III, responsible for the financial intermediation sub-component.

Access to finance for the small scale solar companies has been a challenge in line with the general experience of SMEs in Uganda.

To address this challenge, UECCC has put in place two financing facilities – a Line of Credit (LoC) and a partial credit guarantee – for Participating Financial Institutions (PFIs) to provide working capital loans to solar companies. The targeted solar companies are those employing the Pay As You Go, Pay Plan and Cash business models, to provide access to energy in rural areas.

The Line Of Credit (LOC) to PFIs:

The purpose of the LOC is to provide funding at attractive terms to PFIs for on lending to solar companies as working capital loans.

The working capital loans to the solar companies will cater for the following eligible purposes:

- Purchase/import financing for stock of Solar Home System ,
- Expenses relating to acquisition of the Stock including taxes, import dues, transport cost, clearing.

The Partial Risk Guarantee (PRG) Facility

The purpose of the PRG is to provide a risk sharing mechanism to encourage lending by PFIs to solar companies.

The key objectives of the Guarantee facility are:

i.) To increase Financial Institutions' lending to solar companies

ii.) To enhance the FIs understanding of the dynamics of the solar companies' business operations and increases the PFIs appetite to lend to the sector.

iii.) To address the collateral barrier faced by solar companies in accessing finance from FIs.

For further details on the LOC and PRG please refer to Annexes 2 and 3.

Selection of Participating Financial Institutions (PFIs), for both facilities

The selection of PFIs for both LOC and PRG will be done through a transparent method, using the criteria below. To be eligible, the Financial Institution (FI):

a) Must be licensed and supervised by Bank of Uganda to operate as a Tier 1 or 2 financial institution and must have been in operation for at least 2 years

b) Must comply with the following performance indicators:

PERFORMANCE INDICATOR	BENCHMARK
Total capital to risk weighted assets ratio	12% minimum
Liquid Assets to Total Assets ratio	20% minimum
Non-Performing Loans to Total loans and advances ratio	8%maximum
Liquid assets to total deposits ratio	30%minimum
Cost to income ratio	70 maximum
Single Credit Exposure Limit ratio	Max 25% of capital
Net Income after Tax	Positive net income in the last 2 years. [1]

c) Should have a proper senior management team approved by Bank of Uganda.

d) Must have a proper loan portfolio management systems, for its lending programs.

e) Should have an interest in the renewable energy sector (could be justified by an existing banking relationship, negotiations with solar companies; appointment of a focal point in the credit department, etc.,)

f) Preference will be given to FIs that express willingness to request non-traditional collateral to accommodate the business of solar companies including use of their Receivables as collateral.

[1] *PFIs that meet all criteria except positive net income, would need to demonstrate improved performance over the past 2 years. They could also provide additional supporting evidence of (i) support from parent company; (ii) acceptable operating profit margins; (iii) acceptable portfolio quality; and any other documents that would demonstrated quality of PFI application.*

After fulfilling the eligibility criteria, the PFI must continue to meet the eligibility criteria. UECCC will monitor the PFI's compliance annually and UECCC reserves the right to suspend the non-compliant PFIs until the PFI has taken specific steps to address the problem.

Application Process:

Financial institutions that are licensed by Bank of Uganda, and wish to be considered for the LOC and/or PRG are requested to submit the following documents:

i.) Duly completed Expression of Interest Application Form (*Annex 1)*

ii.) Audited financial statements for the past two years;

The selection of PFIs is expected to be completed in August and the launch of the financing facilities is anticipated for September.

ANNEX 1

Expression of Interest Application Form

1. Expressing Interest in:

Line of Credit	**Partial Risk Sharing Facility**	**Both**

Please tick the relevant box/boxes

2. Basic bank information

Bank Name	
Principal contact	
Address:	
Tel contact numbers	
Are you licensed by the Bank of Uganda	Yes( ) No ( ) If yes put your licensed number below ………..
Compliant with Bank of Uganda regulations?	Yes( ) No ( ) Please attach a declaration to this effect
Do you have a proper Senior management team approved by Bank of Uganda.	Yes( ) No ( )
Latest audited financial statements for the last 2 years	Attach certified copies.
Auditors' name	

3. Financial Information and Performance

Total capital to risk weighted assets ratio (%)	
Liquid Assets to Total Assets ratio (%)	
Non Performing Loans to Total loans and advances ratio (%)	
Liquid assets to total deposits ratio (%)	
Cost to income ratio (%)	
Single Credit Exposure Limit ratio (%)	
Net Income after Tax (%)	

4. Interest in the renewable energy sector

Are you interested in Renewable Energy Financing	Yes ( ) NO ( )
Do you have existing Renewable Energy loan portfolio.	Yes ( ) NO ( ) If yes How much in Ugx……………..
Expected volume of Solar Loan pipelines	How much in Ugx……………..
Do you have staff dedicated to Energy Lending	Yes ( ) NO ( ) If yes how many?..............

5. IT Systems

Do you have a loan portfolio management system (software) for your lending programs	Yes ( ) NO ( )
Does your system monitor loan portfolio real time	Yes ( ) NO ( )

6. Willingness to consider non-traditional collaterals

Are you willing to consider Solar company's receivable as collaterals?	Yes ( ) NO ( ) If yes, does your credit appraisal system currently allow for this?............

ANNEX 2

Description of Line of Credit (LOC)

The details presented in this Annex are for general information only and are not binding on the UECCC or the PFIs. Participating Agreements will be signed between UECCC and the PFIs and will spell out the details of the LOC implementation.

Terms and conditions of the LOC from UECCC to PFIs

Purpose of the LOC:

The purpose of the LOC is to provide funding at concessional interest rates to PFIs for on-lending to solar companies as working capital loans.

The working capital loans to the solar companies will cater for the following eligible purposes:

i.) Only new loans extended by the PFIs upon the effectiveness of the LOC and upon signing Participating Agreements will be eligible.

ii.) Eligible purposes will include the following:

- Purchase/import financing for stock of Solar Home System ,
- Expenses relating to acquisition of the stock including taxes, import dues, transport cost and clearing.

1) ***Currency***

The LOC from UECCC to PFIs will be denominated in Uganda Shillings and the PFIs on lending activities to solar companies will also be denominated in Uganda shillings.

2) ***Maximum facility limits per PFI***

The LOC amount to PFIs will be credit capped based on their financial strength and perceived absorptive capacity to a maximum of 10% of their core capital or UGX 20 Billion whichever is lower. Loans will however be provided on a 'first come, first serve' basis.

3) ***Loan period***

The LOC from UECCC to will have a maximum loan period of 42 months (3.5 years) including a grace period of 6 months.

Additionally Loans period to PFIs will be on a matched maturity basis with the loans from the PFI to Solar Companies. The actual loan period for a given transaction will therefore be determined based on the PFI's sub loans to Solar Companies.

4) Repayment terms

The repayment terms from PFI to UECCC will not be a matched maturity basis with the PFI sub loans to the solar companies.

PFIs will pay interest on a quarterly basis to UECCC, payable every 31st March, 30th June, 30th September and 31st December throughout the loan period inclusive of the grace period.

Principle repayment will be in equal quarterly instalments, payable every 31st March, 30th June, 30th September and 31st December throughout the loan period, exclusive of the grace period.

5) Interest Rate

The LOC from UECCC to the PFIs will be priced at 5% per annum on the outstanding principle balances. The on lending rate from the PFIs to solar companies will be determined by the PFIs subject to a margin cap of 10%.

In case of a default, default being any amount past due beyond 30 days a penal interest rate of 2% per month on the amount in default will apply and will be compounded for subsequent defaults.

6) **Promissory Notes.**

The PFI will execute Promissory Notes covering each instalment of the principal repayment plus interest in favour of UECCC, with specified maturities in conformity with the agreed amortization schedule. Lender's Club Agreements may also be exceptionally accepted in lieu of Promissory Notes with prior consent of UECCC.

General Terms and Conditions of the PFI sub loans to solar companies.

The PFIs will on lend the Line of Credit or facility received from UECCC as working capital sub loans to solar companies in accordance with their credit management and administration policies and procedures, taking into account the eligibility criteria for solar companies and general features, terms and conditions of the sub loans as indicated below:

<u>Eligibility criteria for Solar Companies</u>:

- **i.)** The company should have been operational in Uganda for at least 2 years.
- **ii.)** Proof that the solar components sold by the company are certified by Lighting Global (International Solar PV Standard).
- **iii.)** Only solar home systems are eligible. The Lighting Global definition of a solar home system applies. This includes Pico solar systems (below 10Wp), solar home system kits and standalone solar home systems ranging between 10 -100Wp.
- **iv.)** Business model - Pay As You Go or Pay Plan or Cash. The methods of payment could also include cheque, cash and card.
- **v.)** Proof of the company having rural presence or plans to establish outlets or agents in rural areas **-** current and planned outlets, branches, agents and franchises.
- **vi.)** Copies of Audited financial statements for immediate past two years.
- **vii.)** Solar companies to provide a declaration form under their letter heads stating compliance with World Bank fiduciary requirements.
- **viii.)** Solar companies to also provide a declaration that from a social and environmental perspective they "*shall be responsible for collection, transportation, and environmental safe disposal of residual waste (batteries, lamps, and related waste) after the useful life of the accessories in consultation with the national Environment Management Authority (NEMA)*."

This is the general criteria that must be met by a solar company before a PFIs consider the company for detailed appraisal. Additional Guidelines to be considered by PFIs during detailed appraisal of solar companies is provided under **Enclosure A**.

<u>General features, terms and conditions of the PFI sub loans to solar companies</u>

1) **Loan currency**

   Sub Loans from PFIs to solar companies will be denominated in UGX, which is also consistent with the currency line of credit from UECCC to PFI.

2) **Maximum loan amount to a solar company.**

   The loan amount to a particular solar company will be subject to discussion between the PFIs and solar company taking into account the PFI's overall policies, procedures and internal environment as well as the realities of the borrowing solar company. Loans to a single solar company however, are subject to a cap/limit of UGX equivalent to USD 1,500,000. Loans above this cap will require the prior approval of UECCC.

3) **Maximum loan periods.**

Loan periods for the sub loans from PFIs to Solar companies will generally be determined by PFIs in consultation with Solar Companies subject to a maximum loan period of thirty six months.

4) **Repayment terms.**

PFIs and solar companies will agree on sub loan repayment terms taking into account the PFI's overall policies, procedures and internal environment as well as the solar company's repayment capacity.

5) **Interest rate.**

Interest rate on the sub loans from PFIs to solar companies will be based on the cost of funds from UECCC to the PFIs and a margin of up to 10 percentage points.

6) **Loan Security.**

Solar companies lack or have inadequate levels of traditional collateral such as land and buildings. One of the objectives of the LOC therefore is to introduce PFIs to use of non-traditional security such as stocks and receivables (loan book) of solar companies selling systems using Pay As You Go and Pay Plan Models.

In addition, partial risk guarantees sourced from Development Partners and Government Programmes such as the Financial Intermediation component of the ERT-III Project implemented by UECCC provide a credit enhancement tool to facilitate PFI's use of non traditional collateral.

PFIs may therefore consider non-traditional collateral in the form of a floating charge/debenture on the solar company's receivables and/or stocks. UECCC has designed a generic receivables financing tool to enable PFIs use receivables as collateral (Enclosure A). The tool is just a guide. PFIs may freely determine the level of receivable and stock to consider as collateral.

PFIs may also access a Partial Risk Guarantee (PRG) from UECCC of up to 50% on a case by case basis to cover PFIs sub-loans to solar companies. The PRG may be accessed together with the line of credit or as a stand-alone where the

PFI uses its own funds or in combination with the LOC, subject to UECCC pre approval of the PRG cover.

Roles and Responsibilities of UECCC

(i) UECCC will select FIs that express interest in participating in the LOC using the set eligibility criteria for PFIs.

(ii) The selected FIs will sign a Participating Agreement with UECCC to participate in implementation of the LOC.

(iii) UECCC will allocate funds to PFIs on a first come first serve basis in accordance with the terms and conditions of the facility.

(iv) In approving applications, UECCC will ensure that PFIs provide a statement of compliance with World Bank's Environmental and social safeguards and fiduciary requirements obtained from PFIs as provided by solar companies.

(v) UECCC will receive and process PFI applications for disbursement in accordance with the set disbursement procedures.

(vi) UECCC will carry out spot checks on the solar companies and final beneficiaries in collaboration with PFIs.

(vii) UECCC in will undertake awareness creation and promotional activities to promote the facility amongst the solar companies.

Roles and Responsibilities of PFI

(a) PFIs will sign Participating Agreements with UECCC to participate in the implementation of the LOC.

(b) PFIs will receive loan applications from solar companies and will be responsible for fully appraising the solar companies and will bear the underlying credit risk from the on lending activities.

(c) PFIs will submit applications to UECCC for profoma allocation of funding after preliminary appraisal of the sub loan to the solar company but before approval by the PFI credit committees, using a prescribed form under Enclosure B. PFIs will approve sub-loans to solar companies only after obtaining a proforma allocation of funds from UECCC (valid for 30 days). On receipt of the allocation from UECCC, PFIs will be expected to complete the loan approval process and submit a request to UECCC for a disbursement.

(d) PFI will apply to UECCC for disbursement of the facility upon approval of the sub-loan by their Board/credit committee using a prescribed disbursement request form.

(e) The PFIs are expected to on lend funds drawn down from UECCC to the solar companies within a maximum period of 90 days failure of which the funds may be recalled by UECCC.

(f) PFIs will on-lend proceeds of the facility to eligible solar companies under sub-loans at interest rates commensurate with prudent banking practices, subject to a margin cap of 10% above the rate from UECCC to the PFIs.

(g) In approving sub-loans, PFIs will require solar companies to provide statements of compliance/declaration from a social and Environment and fiduciary perspectives.

For compliance with World Bank's social and Environmental PFI will require solar companies to provide a form stating that "*shall be responsible for collection, transportation, and environmental safe disposal of residual waste (batteries, lamps, and related waste) after the useful life of the accessories in consultation with the national Environment Management Authority (NEMA).*"

(h) PFIs will obtain information from the solar companies on the solar installations undertaken using a reporting template to be provided by UECCC and submit this information to UECCC on a quarterly basis.

(i) In collaboration with UECCC, the PFIs will undertake awareness creation and promotional activities to promote the facility amongst the solar companies.

Implementation arrangements

The UECCC will act as a whole sale financier for the PFIs which will on-lend to the solar companies.

The UECCC and the PFIs will jointly be responsible for implementing the line of credit/facility using the defined operating guidelines and reporting.

UECCC will disburse funds to PFIs using Real Time Gross Settlement (RTGS) within a maximum Turn Around time of 4 days upon receipt of duly completed disbursement request forms.

ANNEX 3

Description of Guarantee Facility (September 2017 to June 2021)

The details presented in this Annex are for general information only and are not binding on the UECCC or the PFIs. Master Guarantee Agreements will be signed between UECCC and the PFIs and will spell out the details of the Guarantee Scheme.

Purpose of the Partial Risk Guarantee (PRG):

To address the inherent and perceived credit risk associated with FI lending to solar companies arising from the different business models, different levels of proficiency and inadequate collateral on part of the solar companies and inadequate quality controls of the solar products.

1.0 ELIGIBILITY FOR THE PRG

Eligibility criteria for the FIs

To be eligible, the Financial Institution (FI):

a) Must be licensed and supervised by Bank of Uganda to operate as a Tier 1 or 2 financial institution and must have been in operation for at least 2 years

b) Must comply with the following performance indicators:

PERFORMANCE INDICATOR	BENCHMARK
Total capital to risk weighted assets ratio	12% minimum
Liquid Assets to Total Assets ratio	20% minimum
Non-Performing Loans to Total loans and advances ratio	8%maximum
Liquid assets to total deposits ratio	30%minimum
Cost to income ratio	70 maximum

Single Credit Exposure Limit ratio	Max 25% of capital
Net Income after Tax	Positive net income in the last 2 years[2]

c) Should have a proper senior management team approved by Bank of Uganda.

d) Must have a proper loan portfolio management systems, for its lending programs.

e) Should have an interest in the renewable energy sector (could be justified by an existing banking relationship, negotiations with solar companies; appointment of a focal point in the credit department, etc.,)

f) Preference will be given to FIs that express willingness to request non-traditional collateral to accommodate the business of solar companies including use of their Receivables as collateral.

After fulfilling the eligibility criteria, the PFI must continue to meet the eligibility criteria. UECCC will monitor the PFI's compliance annually and UECCC reserves the right to suspend the non-compliant PFIs until the PFI has taken specific steps to address the problem.

Eligibility criteria for Solar Companies:

i.) The company should have been operational in Uganda for at least 2 years.

ii.) Proof that the solar components sold by the company are certified by Lighting Global (International Solar PV Standard).

iii.) Only solar home systems are eligible. The Lighting Global definition of a solar home system applies. This includes Pico solar systems (below 10Wp), solar home system kits and standalone solar home systems ranging between 10 -100Wp.

iv.) Business model - Pay As You Go or Pay Plan or Cash

v.) Proof of the company having rural presence or plans to establish outlets or agents in rural areas - current and planned outlets, branches, agents and franchises.

[2] *PFIs that meet all criteria except positive net income, would need to demonstrate improved performance over the past 2 years. They could also provide additional supporting evidence of (i) support from parent company; (ii) acceptable operating profit margins; (iii) acceptable portfolio quality; and any other documents that would demonstrated quality of PFI application.*

vi.) Copies of Audited financial statements for immediate past two years.

This is the general criteria that must be met by a solar company before a PFIs consider the company for detailed appraisal. Additional Guidelines to be considered by PFIs during detailed appraisal of solar companies is provided under **Enclosure A**.

Eligible FI Working Capital Loans

FIs working capital loans to the solar companies that qualify for Guarantee cover must be for the following eligible purposes:

i.) Only new loans extended by the PFIs upon the effectiveness of the guarantee Facility Agreements, and those loans that would not benefit from any other third-party guarantees, will be covered by the Guarantee.

ii.) Eligible purposes will include the following:

- Purchase/import financing for stock of Solar Home System ,
- Expenses relating to acquisition of the stock including taxes, import dues, transport cost and clearing.

PRG Features and Terms

Type of Guarantee

The guarantee facility will be transaction-based, on a case by case basis, to be accessed by PFIs from UECCC through a Master Guarantee Agreement.

1. PRG Coverage

The Guarantee Facility will cover 50% of the principal repayment default loss of working capital loans granted by PFIs to solar companies.

2. **PRG Pricing**
   PFIs will pay a one off Guarantee fee of 1.5% for the period of the facility upon approval of the PRG cover.

3. **PRG Currency**
   The guarantees will be denominated in Uganda Shillings (UGX) and thus any claims under the facility will be in UGX. Only PFI loans denominated in UGX will be eligible for cover.

4. **Maximum PRG Exposure per transaction.**
   Eligible PFI loans per transaction are up to a maximum of UGX equivalent of USD 1.5Million. Therefore, the maximum amount of loan principal to be guaranteed per transaction is capped at an equivalent of USD 750,000.

5. **Loan Default and PRG Call.**

   The PFIs will call on the guarantee upon occurrence of a loan repayment default. A loan repayment default will be constituted by a period of 182 days after repayment of interest or principal has been missed.

6. **PRG Claims**

   The PFI will submit a guarantee call notice (using a prescribed Guarantee Claim form) to UECCC. the following documents are to be attached in support of the claim: (1) PFI report on a Follow up visit to the Borrower made subsequent to the date of non-payment, (2) PFI financial analysis of the Borrower made subsequent to the date of non-payment, (3) two Demand Notices delivered to both the Borrower and any Guarantor, and (4) if Collateral represented by assets of the Borrower have been pledged, copies of: (i) a 30- Day Statutory Notice that has been served on the Borrower, and (ii) following expiry of the above 30 days, evidence that the Collateral has been advertised for sale.

7. **PRG Payment**
   The amount to be paid under the guarantee facility will be 50% of such principal loan loss (guaranteed principal only that is outstanding at the repayment default date).

   UECCC will pay verified guarantee claims within 30 working days from the date of receipt of a valid claim that is accompanied by all the required documents.

8. **Post-claim Recoveries**

The PFI will maintain the recovery efforts for the honoured guarantee claims and proceeds from the recovery will be shared on a pro-rata basis between UECCC and PFI.

9. Reporting Requirements

PFIs will be required to report to UECCC, quarterly, details of the loan portfolio under guarantee, including outstanding amounts and performance of individual loans using a prescribed form.

UECCC will periodically verify the accuracy of the reports submitted by the PFIs and their compliance with the Guarantee Facility Agreement.

10. Cancellation of the PRG

UECCC will cancel the guarantee once it becomes clear that the PFI is not complying with the covenants in the Guarantee Agreement.

11. Non-retrospective Access

Only new eligible loans approved after sanction of guarantee cover by UECCC will qualify for cover under the PRG facility.

12. Non-disclosure

PFIs must not disclose to the borrowers (solar companies) that their loans are guaranteed as this may result into strategic defaults (moral hazard) by the companies.

13. Dual Guarantees

A PFI loan covered by another guarantee facility provided by other entities such as Development Partner, NGO or other Government Agency up to a level of 50% will not be covered by the PRG.

14. Co Guarantees

In case of a PFI loan covered by another guarantee facility provided by other entities such as Development Partner, NGO or other Government Agency to a level below 50%, the UECCC PRG will co finance the Guarantee to cover the difference between the existing guarantee cover and the maximum level of 50% of the PRG facility.

15. Non-transferability

UECCC guarantee is not transferable by the recipient PFI to any third party.

2.0 IMPLEMENTATION ARRANGEMENT

2.1 Master Guarantee Agreements

Master Guarantee Agreements will be executed between UECCC and each PFI to provide for the terms and conditions of the PRG as well as implementation arrangements.

2.2 Application for PRG Cover by PFIs

PFIs will, prior to approving loans that require the PRG cover, apply to UECCC for approval using a prescribed guarantee cover application form (**Enclosure C**). Complete applications with all the required information will be processed by UECCC within a turnaround time of 10 working days.

2.3 Guarantee Sanction

A Guarantee sanction by UECCC will be through issuance to the PFI of a Guarantee Certificate upon payment of the guarantee fees. PFIs will be required to disburse the sub loan to the borrower (Solar Company) within 45 days from the date of issue of the Guarantee Certificate, failure of which the Guarantee will lapse.

2.4 Cash Reserving for Guarantee transaction sanctioned by UECCC

UECCC will place a cash reserve for each PRG cover with an FI of good standing acceptable to the PFI.

2.5 Submission of Guarantee Claims

PFIs will submit to UECCC a duly completed guarantee claim form where a default has occurred, with all the required information not later than 60 days after the occurrence of the default.

2.6 Guarantee Payments

UECCC will pay complete guarantee claims within a turnaround time of 30 working days from the date of receipt of a verified valid claim.

2.7 Guarantee Reporting

PFIs will submit quarterly reports to UECCC as stipulated in the terms of the Guarantee and in compliance with the Guarantee Facility Agreement.

ENCLOSURES

Enclosure A: Generic Receivables Financing Tool

Enclosure B: Application form for proforma allocation of working capital facility to PFIs

Enclosure C: Guarantee Cover Application Form

ENCLOSURE A

Generic Receivables Financing Tool

UECCC has designed a Generic Receivables Financing Tool for solar companies selling systems on a Pay As You Go and Pay Plan Models, including criteria for appraising and discounting the Receivables and as well as a Guide for appraising the solar companies.

One of the main reasons for Financial Institutions not providing enough lending to solar companies is related to the fact that solar companies do not have enough collateral for getting loans.

Solar companies employing Pay As You Go and Pay Plan Models have significant Receivables (loan Book) that may be collateralised to constitute part of the security for the loans.

Based on the above, the following sections present a tool for use by PFIs to collateralize receivables, including criteria for appraising and discounting the receivables. The tool is generic and each PFI will need to adopt it to suit the PFI's overall policies, procedures and internal environment as well as the realities of the borrowing solar company. PFIs may freely determine the level of receivable and stock to be consider as collateral.

This section also includes Guidelines for appraising solar companies that PFIs should incorporate into their internal appraisal procedures. The Guideline apply to Solar companies employing the Pay As You Go ,Pay Plan and cash business Models.

a) Appraisal of Receivables.

In appraising the receivables portfolio of solar companies for collateralisation, PFIs may be guided by the following criteria:

Quality of the Receivables: The overall quality of the receivables, analysed using classification of the Portfolio as follows.

Aging of the Portfolio	**Classification**	**Percentage**
0 to 29 days	Normal	
30-89 days in arrears	Portfolio At Risk	should not exceed 20%
≥90 days	Non-Performing Loans	should not exceed 10% and should not be considered in the securitization

Repayment mode for the receivables: There should be a clear mode of payments such as Pay As You Go through partnership with a mobile money service provider or pay plan through a Financial Institution account.

b) Discounting Criteria for Receivables

Collateral value of the receivables may be calculated by discounting the portfolio value, based on the portfolio quality, as follows:

Portfolio discounting guide

Aging of the Portfolio	**Discount factor**	**Percentage value as collateral**
0 to 29 days(Normal)	0.5	50%
30-89 days in arrears (Substandard & Doubtful)	0.2	20%
≥90 days NPL	0%	0%

c) Valuation of Receivables for collateralisation

Outcome of the appraisal of the Solar Company's receivables positive? (please tick one)

Yes ( ) No ( )

Portfolio category	**UGX amount in the category(a)**	**Discount Factor(b)**	**Collateral value (a*b)**
0 to 29 days(Normal)		0.5	
30-89 days in arrears (Substandard & Doubtful)		0.2	
TOTAL	*SUM (ABOVE)*		*SUM (ABOVE)*

d) Implementation arrangements for collateralisation of receivables.

The computed collateral value above constitutes a sound form of collateral that PFIs may consider as security for the working capital facility taking into account their internal credit procedures and risk appetite.

Floating charge/ debenture over the receivables

The PFI may collateralise the receivables through use of a floating charge/ debenture over the Solar Company's receivables until the loan is repaid in full.

Collection account

PFI may require solar companies to open collection accounts with them to enhance the PFI control over the receivables.

Monitoring of the receivables

PFIs should monitor the receivables as these are current assets and by nature the level and quality keep on changing. The solar company should submit periodic reports to the PFI on the level and quality of the receivable using the portfolio classification guideline provided under this tool.

Stock of the Solar Companies as additional collateral.

PFIs may also consider using stock of the solar companies employing Pay as You Go/Pay Plan as additional collateral for the loans. As with the receivables, PFIs may collateralise the receivables through use of a floating charge/debenture over the Solar Company's stock until the loan is repaid in full.

Collateral for Solar Companies selling systems on cash basis

Solar Companies selling on cash basis do not have a portfolio of receivables to collateralise. For this category of solar companies, PFIs may consider collateralisation of stock through use of a floating charge/debenture over the stock of the solar company.

Guidelines for appraising Solar Companies.

The guidelines below will be used by PFIs to appraise solar companies, in addition to the PFIs standard criteria for appraisal. The guidelines apply to solar companies that sell Solar systems on Pay As You Go, Pay Plan and cash basis.

i.) General Information on solar company

- Type of company – whether Subsidiary, holding company etc. If a subsidiary of a foreign company, the subsidiary company must provide information about the parent company including operational and financial information.
- Certificate of Registrations/Incorporation
- Trading license
- Certified copy of Memorandum and Articles of Association (if applicable),
- Company or Organizational Profile –the nature of business
- The company should have been operational in Uganda for at least 2 years.

ii.) Technical information

- List of solar products and specifications, list of suppliers and their addresses.
- Proof that the solar components sold by the company are certified by Lighting Global (International Solar PV Standard).
- Solar home systems constitute part of the company's products. The Lighting Global definition of a solar home system applies. This includes Pico solar systems (below 10Wp), solar home system kits and standalone solar home systems ranging between 10 -100Wp.

iii.) Operational Information

- Business model - Pay As You Go or Pay Plan or Cash
- Mode of payment by clients - Mobile money or bank account.
- Proof of the company having rural presence or plans to establish outlets or agents in rural areas - current and planned outlets, branches, agents and franchises.
- Demonstrable evidence of a database for tracking performance/operations.
- Proof that the company has satisfactory technical capabilities, including List and CVs of key technical staff of the solar company.

- Proof of a satisfactory consumer protection plan, including warranties within a stipulated period and adequate after sales service.

iv.)*Credit Management*

- A credit management system for approving loans and tracking receivables for solar companies employing Pay As You Go and Pay Plan Business Models.

v.) Financials

- Current Bankers and copy of Bank statements for the past 6(six) months.
- Copies of Audited financial statements for immediate past two years.
- Debt/ Equity ratio of not more than 6:1 or 600 per cent including the loan under consideration. Equity to include Shareholders' Loans (Quasi Equity) on condition that the loans are not repayable during the tenure of the UECCC/PFI Loan.
- Evidence of a Minimum Gross Profit Margin of 30%, consistent over the previous 2 years.

vi.)Environmental management

- Statement that the solar company complies with World Bank's Environmental and social safeguards and fiduciary requirements. A standardised statement of compliance form will be provided by UECCC.

ENCLOSURE B

Application form for proforma allocation of working capital facility to PFIs.
To be completed by PFIs and submitted to UECCC

This form is to be submitted to UECCC by PFIs upon completion of appraisal of the solar company pending approval by PFI's credit committee. The purpose of this form is to enable the PFI confirm availability of funds at UECCC before presenting the loan to the PFI credit committee for approval, since the fund will be given on a first come first serve basis.

PFIs must complete all fields of the form.

Name of PFI……………………………Address……………………………..	
Line of Credit/Facility Details	
Facility Amount Required	
Purpose of the loan	
Loan Period (months)	
Grace period (months)	
Guarantee by Development Partner if any	
Information on Applicant Solar Company	
Name of the beneficiary Solar company	
Years in Operation	
Solar Company's business model (please tick one)	PAYG ( ) Pay Plan ( ) Cash ( )
Current Portfolio (Volume of Receivables) of the Solar Company	
Current inventory level (stock) of solar company	
Certification of products by Lighting Global	(Attach evidence)
Solar Home Systems (SHS) are part of the product range of the company. SHS includes Pico solar systems (below 10Wp), SHS kits and standalone SHS ranging between 10 -100Wp.	Describe products
Solar company rural presence or plans to establish outlets or agents in rural areas - current and planned outlets, branches, agents and franchises.	List outlets, branches, agents and franchises.
Existence of technical capacity (management and solar technicians) at the solar company	Yes ( ) No ( )
A database/system for tracking performance/operations at the solar company	Yes ( ) No ( )
Provision of Warranties and after sales service by the solar company	Yes ( ) No ( )
Audited Financial Statements of the solar companies for the last 2 years	Attach copies

Proposed Security by the Solar company to PFI (list all)	
PFI Supporting Documents (attachments)	
Audited Financial Statements of the PFIs for the last 2 years	
Statement of Compliance by the PFI with World Bank's environmental and social safeguards and fiduciary/anti-corruption requirements.	

ENCLOSURE C:

Application Form for PRG Cover

UGANDA ENERGY CREDIT CAPITALISATION COMPANY PARTIAL RISK GUARANTEE FOR SOLAR WORKING CAPITAL LOANS

PFI APPLICATION TO UECCC FOR A GUARANTEE

This form is to be submitted to UECCC by PFIs upon completion of appraisal of the solar loan pending approval by the PFI's credit committee. The purpose of this form is to enable the PFI to obtain approval by UECCC for a Partial Risk Guarantee for the solar loan that has been appraised. Approval of the PRG by UECCC is subject to availability of funds as Guarantees will be extended to PFIs on a first come first serve basis.

Please attach copies of relevant documents as requested or as deemed necessary.

PFIs must complete all the fields in the form.

Date ___________________________

Managing Director

Uganda Energy Credit Capitalisation Company

P. O. Box 29725

Kampala.

The undersigned Participating Financial Institution (PFI) hereby applies to UECCC under the Guarantee for Solar Working Capital Loans for the transaction described below:

1. APPLICANT PFI

a. Name of PFI: ____

b. Address: ____

____

c. Name and title of person(s) to contact: ______________________

____

d. Telephone number: _______________________________________

e. Facsimile number: _______________________________________

f. E-mail address: ____

2. BORROWER - DATA

a. Name of Borrower____

b. Address: ____

____

c. Telephone number: ________________

d. Facsimile number: ______________________

e. E-mail address: ____

f. Type of Solar business: Pay As You Go ( ) Pay Plan ( ) Cash ( )

g. Date of establishment: ___________________

h. Number of Years in Solar Vending Business (*at least 2 years*) ________

i. Names and titles of principle owners: _________________________

____

____

j. Names and titles of principle managers: ______________________

____

____

k. Number of employees: ___________________________________

l. Names and qualifications existing solar technical staff___________________

m. Quality Assurance: Evidence of Certification of solar company products by Lighting Global (*attach evidence*).

n. Solar Home Systems (SHS) are part of the product range of the company. SHS includes Pico solar systems (below 10Wp), SHS kits and standalone SHS ranging between 10 -100Wp. (*Describe product*)

o. Customer Protection: Evidence of company providing Warranties (*attach copy*)

p. Does the solar company have rural presence or plans to establish outlets, agents or franchises in rural areas (*list outlets, branches, agents or franchises*).

3. BORROWER (SOLAR COMPANY) – FINANCIAL INFORMATION

a. Borrower must have audited financial statements (*attach audited financial statements for the last two years plus latest interim statement if any*).

b. Attach PFI's most recent analysis of Borrower's financial position based on financial statements or other criteria. Does the Borrower have a banking relationship with the PFI?. [ ] Yes [ ] No

if yes for how long? ______________

c. Do any shareholders of the Borrower own 20% or more of its capital stock? [ ] Yes [ ] No

If Yes, indicate their names and percentage of stock interest.

____

4. LOAN TRANSACTION

a. Purpose of Working Capital loan

i.) Purchase/import financing for stock of Solar Home System [ ]Yes [ ] No

ii.) Expenses relating to acquisition of the stock including taxes, import dues, transport cost and clearing. [ ]Yes [ ] No

b. Amount and date of Loan Facility conditionally approved by PFI for Borrower: ____

c. Proposed loan interest Rate (%)____________________________________

d. Indicative amortization schedule for the Loan _________________________________

Note that maximum loan period for eligible loans is36 months.

e. Interest rate and fees applicable to Loan Facility: _______________________

f. Estimated total interest due on Loan Facility: __________________________

g. Final maturity date of Loan Facility: _________________________________

h. Currency of Loan Facility (*Only UGX loans are eligible for Guarantee*): ___________________

5. REQUESTED UECCC GUARANTEE AND RELATED SECURITY

a. The Guarantee Amount requested (*should not exceed 50% of the principal Loan amount*):___________________________

b. A one off Guarantee Fee payable to UECCC (1.5% of the Guaranteed Amount): _______________

c. List the Security required for the Loan Facility:

   Traditional Security

   Non Traditional Security

d. Any guarantee to be accessed from other sources for the subject loan (% of principal). _______ ______________________ if the PFI loan is already covered by another guarantor up to 50% of the principal amount it is not eligible

6. COMPLIANCE WITH WORLD BANK'S ENVIRONMENTAL AND SOCIAL SAFEGUARDS AND FIDUCIARY/ANTI-CORRUPTION REQUIREMENTS

Statement/Declaration by the PFI of Compliance with World Bank's Environmental and Social Safeguards and Fiduciary/Anti-corruption requirements (*sample statement to be provided*).

DECLARATION BY THE PFI

Defined terms are those utilized in the PFI's Master Guarantee Agreement with UECCC. If the PFI believes that any additional information should be supplied to provide the UECCC with a complete profile of the subject transaction, such information should be attached.

The PFI hereby agrees to pay the Guarantee Fee determined by the UECCC within ten (10) business days following notification by PFI of approval of the loan by the PFI credit committee. UECCC will issue a Guarantee Certificate on payment of Guarantee fee by the PFI and in any case not later than 10 days following payment of Guarantee fee.

The PFI certifies that the representations made and the facts stated in this Guarantee Application, including all accompanying information, are complete and true to the best of its knowledge and belief, and that it has not omitted any material facts. The PFI furthermore agrees that: (1) it has not otherwise financed the subject transaction, (2) the representations and facts contained in this Guarantee Application and accompanying information shall form the basis of, and be incorporated in, the Guarantee, if issued, (3) proceeds recovered from any Security will be shared on a pro rata basis.

Authorized signatories:

Name______________ Title: ____________Signature ___________Date ________

Name______________ Title: ____________Signature ___________Date _______