



BDF REQUIREMENTS

Introduction

BDF is an independent Company that was established in collaboration of the Government of Rwanda and Rwanda Development Bank (BRD LTD) with an aim at encouraging banks, MFIs and SACCOs to grant MSMEs highly needed credit by applying different guarantee mechanisms and Advisory services.

The National SME Policy mandated that BDF implement the “Access to Finance” objective under a centralized framework, manage the consolidation and coordination of different Government guarantee funds and grants available for SME financing. The BDF works on the basis of managing the consolidated fund for its guarantee practice and leveraging this fund to achieve the maximum guarantee cover for eligible MSMEs to the participating financial institutions.

In addition, in order to improve and make more efficient the guarantee approval process, while enhancing its attractiveness to the PFIs, BDF has introduced the Portfolio Guarantee/ Delegated Authority Risk Coverage model that will significantly reduce the burden of excessive reporting requirements and administrative procedures for utilizing the guarantees by lenders.

4th February 2012

1. PARTIES

- PFI
- BRD DEVELOPMENT FUND, (hereafter the « BDF »)

2. AMOUNT OF THE PORTFOLIO CAP, PURPOSE AND EXTENT OF RISKS COVERED

2.1 Portfolio Cap

Amount: Rwandan Francs (RWF) 10 Billion

Availability Period:

PFI has a two (2) year period to include Loans and build the targeted portfolio as from the Signing Date.

After the Availability Period:

At the elapse of the availability period, BDF will carry out an on-site risk based review of the portfolio upon which it is renewable. Loans included in the Portfolio are guaranteed beyond such availability Period and for the entire BDF maturity period.

2.2 Purpose & target borrowers

The specific objective of this agreement is to facilitate and up-scale financing extended by PFI to small and medium enterprises (SMEs) in Rwanda as defined by the National SME Development Policy.

PFI shall exclusively include in the Portfolio only Eligible Loans, complying with section 3.3 ("Eligible loans") below.

2.3 Extent of risks covered

Risk Coverage Ratio: The portfolio covers a range of the Definitive Loss on a Defaulting Loan as detailed:-

- Extended range from **50% to 75%** for investment loans This is dependent on the targeted beneficiaries as detailed below.
- **50%** for working capital loans
- **30%** for working capital loans of Agriculture campaigns

Targeted groups for extended range above 50% to a maximum of 75% risk coverage ratio

Only the following targeted groups are eligible to receive risk cover above 50% to a maximum of 75% at the discretion of the Bank:

- **Women**
- **Youth** - Young people aged 18 – 35 (Reference: National Identity Card showing Date of Birth)
- **People Living With Disabilities** – (Reference: Registered with the National Council of People Living With Disabilities)
- **Vulnerable Genocide Survivors** – (Reference: Registered with the National Commission for the fight against Genocide)
- **Veterans** – (Reference: Certificate of Demobilization and registered with the Rwanda Demobilization and Reintegration Commission)

(In circumstances where the targeted individual is in partnership, joint venture or business with an individual(s) who are not eligible, then the targeted individual should own at least 51% of the enterprise)

The Definitive loss means :

- amounts in principal remaining due and payable as at the Determination Date,
- plus due and unpaid interest calculated at the contractual rate (excluding any increase in the interest rate due to late payments) of the Defaulting Loan as at the Determination Date, not exceeding one (1) year of interest.
- minus all amounts recovered by the Beneficiary Bank under the Defaulting Loan and in the context of enforcement proceedings on all related security interests, collaterals, charges or pledges of any kind, guarantees, or any other instrument which has the same purpose or effect, under the Defaulting Loan.

Guaranteed Amount:

- Maximum amount guaranteed for investment loans in the agriculture sector is limited to **Five Hundred million Rwandan Francs (Rwf 500,000,000)**.
- Maximum amount guaranteed for working capital loans for agricultural campaign is limited to **Five Hundred million Rwandan Francs (Rwf 500,000,000)**.
- Maximum amount guaranteed for investment loans in non-agriculture sectors is limited to **Three Hundred million Rwandan Francs (Rwf 300,000,000)**.
- Maximum amount guaranteed for working capital loans is **Five million Rwandan Francs (Rwf 5,000,000)**

Guarantee Term/Maturity:

- A maximum of ten (10) years for Investment loans
- A maximum of three (3) years for working Capital loans
- A maximum of one (1) year for agricultural campaign working capital loans

BDF Guarantee Commitment:

- The Portfolio Guarantee commitment covers all the eligible amounts of each guaranteed loan within the limit of the portfolio cap.
- The guarantee does not cover :
 - Any fees whatsoever
 - Interest corresponding to late payments
 - All outstanding contractual interest exceeding one (1) year interest
 - expenses, costs and indemnities relating to the relevant client Loan

3. ELIGIBILITY CRITERIA

The available amount within the Portfolio cap will be exclusively earmarked for guaranteeing Loans entered into between PFI and its Client beneficiaries that meet the following eligibility criteria:

3.1 Eligible Financial Institution

To participate in the BDF Portfolio Guarantee program, PFI must meet the following criteria;

- Be fully licensed by the Central Bank
- Demonstrate commitment to excellence and a good understanding of BDF's requirements (Credit underwriting, documentation, guarantee applications, reporting, and claims

processes)

- Provide dedicated staff to specialize in BDF financial access programs
- Sound Financial competence and position with continuing good character and reputation demonstrated by good asset quality, solid Capital Adequacy, no BNR supervisory action, bankruptcy and legal proceedings.

3.2 Eligible Client Beneficiaries

Any local Borrower – individual, cooperative, association, company is eligible provided:

- (i) it is involved in a productive economic activity or sector and is not engaged in sectors listed in Appendix 1 (Exclusion List);
- (ii) it requests a loan from PFI; and
- (iii) is an SME which is registered or holds a licence or an equivalent authorization.

3.3 Eligible Loan(s)

To be considered as Eligible Loans the following criteria shall be satisfied:

- **Fresh/new loans:** only fresh loans can be guaranteed (restructured, renegotiated, rescheduled or refinanced loans are not eligible and shall be excluded).
- the **Inclusion Date** shall take place during the Availability Period;
- it shall not be a Defaulting Loan and no payment default has occurred in respect of this Loan at the time of inclusion in the Portfolio;
- **Amortization schedule:** only instalment Loans are eligible meaning loans that are repaid over time with a set number of scheduled payments (Bullet payments are also accepted). It should be granted as a repayable term loan.
- **Currency:** loans shall be denominated in Rwandan Francs
- **Documentation:** loans shall be documented in a loan agreement between PFI and the Client Beneficiary;
- **Purpose:** For investment loans their purpose is primarily to finance capital expenditures / fixed assets which can be depreciated over a period of more than one year.
- (i.e. the acquisition and/or the creation of asset(s) which can be depreciated over a period exceeding one (1) year) in any economic sector, excluding activities and/or sectors listed in Appendix 1 (Exclusion List);
- **Combination with other guarantees provided by other Development/ Finance Institutions:** The BDF Guarantee cannot be combined with another institution's guarantees.
- **Debt reduction:** If at any time the principal amount of a guaranteed Loan which is not a Defaulting Loan is reduced in accordance with a decision of the Bank to this effect, then such reduction will reduce the outstanding guaranteed amount by the same amount.

4. CONDITIONS OF UTILIZATION

4.1 Inclusion of Loans in the BDF Portfolio

Conditions of inclusion of Loans in the BDF Portfolio:

- such Loan shall comply with the criteria of Eligible Loans
- if a Loan is an Eligible Loan, the Bank is allowed to automatically attached a BDF guarantee to it and include the loan in the BDF Portfolio.
- PFI will simply inform BDF of every new loan that it has attached to our portfolio so that a specific guarantee code is allocated to the loan.
- PFI can even make the 1st disbursement but contact BDF 72 hours after with the loan details and request for a guarantee code
- Upon receipt of the Bank's request for a guarantee code, BDF will only check PFI's analysis of loan eligibility and unless significant error is noted, BDF will approve the guarantee in a maximum of 3 working days.

Client details requested for guarantee code

- Name of the Client /borrower
- Legal Personality – Individual, Coop, Company
- Gender – Male/Female
- Age – Mainly to identify Youth beneficiaries
- Economic Sector – Business Activity
- Province and District
- Loan Approval Date – Date of 1st disbursement
- Loan Amount
- Term/Maturity
- Interest Rate
- BDF guarantee amount (Principal + 1 yr interest)*coverage rate
- Is the loan eligible for a BDF Guarantee? Y/N
- Nature & value of Clients' collaterals
- Projected number of jobs created

4.2 Trigger for claims

Defaulting loan:

The Guarantee may be called in the following events:

- A default or actual loan loss triggers a payout. When there is a payment default by the Client Beneficiary on the final maturity date of the Loan
- The trigger for a claim shall occur when a loan is classified as non-performing and in Class 3 as per the BNR loan classification regulation
- PFI has accelerated such Loan following the occurrence of an acceleration event, event of default (or any event with similar consequences however contractually defined) and the accelerated principal amount and interest have not been paid on their accelerated due date
- the Client Beneficiary is insolvent or insolvency proceedings are initiated against it.
- The guarantee may be called by PFI only once per each defaulting loan.

(The trigger events targeted by this clause concern exclusively defaulting loans as defined above. Hence payment defaults, without any of the above mentioned occurrences will not be considered as trigger events under this scheme.)

4.3 Procedure for Claims:

PFI may submit a claim:

- After 60 days but not later than 120 days from the classification of a loan as non-performing
- After 30 days but not later than 90 days from the actual write-off of a loan when the PFI has accelerated such Loan in event of default

4.4 Payment of guarantee

PFI shall submit to BDF a formal Advance Payment Request and BDF will make:

Advance Payment

▪ Within thirty (30) days from the receipt of the Advance Payment Request, BDF shall pay, by way of an advance, fifty per cent (50%) of the outstanding guaranteed amount.

▪ **The Beneficiary Bank shall send together with the Advance Payment Request the following documents:**

- the Loan agreement and its amortization schedule
- a memorandum describing the basis on which the Bank considers that the relevant Loan is a Defaulting Loan together with all documentary evidence;
- evidence of the debt owed to the Bank as at the Determination Date; and
- as the case may be, (i) the acceleration letter in respect of the relevant Loan or (ii) a formal demand to pay on the final maturity date of the Loan or (iii) any documentary evidence as to the opening of Insolvency Proceedings against the Client

Balance Payment

▪ BDF will pay the balance within 90 days from the date of receiving the claim upon verification of all procedures.

▪ When it is established that all useful measures against the Client have been exhausted to recover the outstanding amounts under the Loan (including calls on or enforcement of all related security interests, collaterals, charges or pledges of any kind, or any other instrument which has the same purpose or effect, under the Defaulting Loan), then BDF shall receive its pro-rata share if the recovered amount exceeds the banks portion.

Enforcement Proceedings

PFI shall be diligent and take all useful measures to recover its debt under the Defaulting Loan and promptly enforce the security granted, by the Client. Any waiver by the Bank to enforce its rights will require a prior written express approval of BDF

5. FEES

PFI shall pay the following guarantee fees:

- One percent (1%) on the outstanding guaranteed amount for each loan annually
- BDF to transmit invoice with guarantee code when a BDF Guarantee has been attached to a loan
- PFI should pay the guarantee fees monthly based on the previous month performance. Not later than the first week of the next month.
- PFI to furnish BDF with outstanding balances for preparation of invoices annually
- BDF's pricing on its Guarantee scheme has been reduced to the maximum to provide banks with a clear incentive to facilitate SMEs access to financing.

6. RISK MANAGEMENT

- **Guarantee Code:** Every loan that is attached with a BDF guarantee will have a unique guarantee code for tracking purposes
- **Notification of Default:** PFI shall notify BDF in writing of the existence of a Defaulting Loan not later than twenty (20) Business Days following the default Date.
- **Absorption speed and capacity:** PFI has a possibility to include loans in the BDF Portfolio for a 2 year period after which a review of the loans will be done however, BDF reserves the right to halt the process depending on the speed of utilization.
- **On-site risk based review:** BDF will carry out an on-site review of the PFI every 24 months matched with a renewal process however, BDF also reserves the right to conduct an on-site audit at its sole discretion when need arises.

7. INFORMATION UNDERTAKINGS - REPORTING

- (i) Name of the client
- (ii) The corporate form or legal status of the client
- (iii) The Gender (applies to individuals)
- (iv) The age (applies to individuals)
- (v) The economic sector
- (vi) The Province where the project is undertaken
- (vii) The district where the project is undertaken
- (viii) The loan amount approved
- (ix) The disbursed amount
- (x) The amount yet to be disbursed
- (xi) The reimbursed amount
- (xii) The total Outstanding Debt Amount
- (xiii) The principal remaining due amount
- (xiv) The due and unpaid principal
- (xv) The due and unpaid interest
- (xvi) The number of days for which either principal or interest have been due and unpaid;
- (xvii) The date of signature of the loan
- (xviii) The date of 1st disbursement
- (xix) The interest rate and amortization type
- (xx) The credit risk classification of the loan (e.g. performing, sub-standard; doubtful; etc. – according to and in compliance with BNR's loan classification regulation)
- (xxi) The term/maturity of the loan
- (xxii) The first (1st) repayment date
- (xxiii) The last repayment date
- (xxiv) The Guarantee Code
- (xxv) The BDF risk coverage ratio/ percentage
- (xxvi) The BDF outstanding guaranteed amount
- (xxvii) The default rate
- (xxviii) The nature and amount of all securities and collaterals (indicate whether the amount reported is the initial estimated amount of the above mentioned securities, or the estimated value at

the reporting date);

(xxix) The date at which the Bank called the guarantee which is a Defaulting Loan in such event

(xxx) The estimated number of jobs created thanks to the investment financed through the loan

The information above shall be transmitted to BDF electronically in form of an excel spreadsheet. The undertakings set out in this Clause shall remain in full force and effect for the entire term of the Agreement.

8. REPRESENTATIONS

PFI shall make the following representations:

▪ **No misleading information:** Any information and documents provided by PFI to BDF are true and accurate and are up to date as at the date they are provided or, as the case may be, as at the date to which they refer and they have neither been distorted nor are likely to be untrue or misleading in any material respect, due to an omission, the occurrence of a new event or as a result of disclosing or not disclosing information.

▪ **No insolvency proceedings:** PFI is not insolvent and no insolvency proceedings have been initiated against it.

▪ **Supervisory action:** There is no known supervisory action being taken by the BNR against PFI that would diminish its requisite power and authority to execute and deliver the Agreement and to perform the obligations arising from it.

9. UNDERTAKINGS AND OBLIGATIONS

PFI shall take the following undertakings:

▪ Authorization given to BDF to proceed with monitoring site visits and auditing missions of client beneficiaries;

▪ PFI undertakes to promptly meet BDF and discuss in good faith the consequences of default when the default rate on the BDF portfolio is equal to or greater than five percent (5%) or

▪ when the aggregate of the BDF Outstanding loan portfolio is lower than fifty percent (50%) of the portfolio Cap within twelve (12) months after the Signing Date

▪ **No Corruption:** PFI undertakes to insert in the Loan agreements, provisions pursuant to which the Client represents that the Project (in particular during the negotiation and performance of the agreement financed by the relevant Loan) did not give rise to any Corruption.

▪ PFI undertakes to do the following:

- To diligently appraise and evaluate loan applications
- Vigilantly monitor the performance of the clients
- Provide to BDF, if so requested, all information, including private data, concerning each of its Client Beneficiaries ;
- Authorize BDF to verify or to arrange for the verification of the manner in which the Bank complies with its obligation of vigilance in respect of Clients Beneficiaries.

10. TERMINATION

10.1 Termination Event under the Agreement

Each of the events and circumstances set out in this Clause constitutes a Termination Event of the Agreement at BDF's initiative:

- **Payment Default:** PFI fails to pay on the due date any amount due pursuant to the Agreement, unless the payment is fully made within five (5) Business Days following its due date.
- **Breach by the Bank of its undertakings and obligations:** The Beneficiary Bank breaches any of the provisions of the Agreement and in particular, without being limited to, any of its undertakings
- **Misrepresentation:** Any representation relating to the agreement inaccurate or misleading at the time it was made or considered to be made
- **Insolvency:** the Bank is insolvent
- **Insolvency proceedings** have been initiated against the bank
- **Illegality:** It becomes illegal or impossible for the bank to perform its obligations
- **Absence of required authorizations:** Failure to obtain authorizations within the required time frame

10.2 Client Termination Event

Each of the events and circumstances set out in this Clause constitutes only a termination event of a client beneficiary under BDF portfolio:

- Lack of Eligibility
- Failure to Exercise its Rights: PFI fails to be diligent and monitor the performance of loans with BDF guarantee.
- Corruption
- Reports delivered under this Agreement are false, inaccurate or misleading
- Use of the Loan: for a purpose other than financing the project

11. MISCELLANEOUS

11.1 Governing Law

Rwandan law

11.2 Jurisdiction

Any dispute arising from the Agreement (including any litigation concerning the existence, validity, interpretation or termination of the Agreement), which cannot be settled amicably, will be submitted to the jurisdiction of the Rwandan Commercial Court or Rwanda Court of Arbitration.

11.3 Partial invalidity

If, at any time, any provision of the Agreement is or becomes invalid, the validity of the other provisions under the Agreement shall not be affected.

11.4 Assignment

PFI may not assign or transfer, in any manner whatsoever, all or part of its rights and/or obligations under the Agreement without the prior written consent of BDF

11.5 Cancellation of the preceding agreements

The Agreement, as of the Signing Date, represents the entire agreement between the Parties relating to the subject matter hereof, and therefore supersedes and replaces all previous documents, agreements or understandings which could have been exchanged or communicated.

11.6 Amendment

No provision of the Agreement shall be amended, unless such amendment shall be expressly agreed to in writing between the Parties.

12. DEFINITIONS

For the purpose of this Term Sheet:

"Advance Payment" means the amount paid by BDF to the Bank in accordance with section 4.4 above.

"Advance Payment Request" means the payment request for an Advance Payment in the event of a Defaulting Loan.

"Agreement" means the Portfolio Guarantee agreement to be entered into between PFI and BDF.

"Authority(ies)" means any government or anybody, department, commission exercising a public prerogative, administration, court, agency or state, governmental, administrative, tax or judicial entity.

"Availability Period" means the time period allowed for building-up the target portfolio.

"Balance Payment/Repayment" means the amount paid, after an Advance Payment, by BDF to PFI or, as the case may be, repaid by PFI to BDF.

"Borrower" means, as applicable, SMEs or very small businesses like individuals, Cooperatives, companies, associations (either registered or not or holding a license or an equivalent authorization or not) or physical persons with a private practice.

"Corruption" means the following:
the promise, offering or giving, to an official, directly or indirectly, of an undue advantage of any nature, for the official himself or herself or another person or entity, in order that the official acts or refrains from acting in the exercise of his or her official duties;

"Defaulting Loan" means a Loan as described in section 4.2 above.

"Definitive Loss" means :
amounts in principal remaining due and payable as at the Determination Date,
plus due and unpaid interest calculated at the contractual rate (excluding any increase in the interest rate due to late payments) not exceeding one (1) year of interest,

"Determination Date" means the date of occurrence of any of the events listed in section 4.2 above.

"Estimated Loss" means the estimated loss accounted for by the Bank under a Defaulting Loan as amounts in principal remaining due and payable plus due and unpaid interest (excluding any increase in the interest rate due to late payments) of the Defaulting Loan as at the Determination Date, not exceeding one (1) year of

GRANT FACILITY: Rural Investment Facility (RIF 2)

RIF is restricted to the agriculture sector and aims to encourage banks to finance productive investments in the agriculture sector through the provision of a performance based grant covering part of the investment costs.

Eligibility	Individuals; Cooperatives, companies, associations
Terms & conditions of utilization	<ul style="list-style-type: none">▪ An applicant can obtain support only once during the implementation of RIF 2.▪ Those that received support under RIF 1 can obtain a second grant under this project.▪ An applicant is entitled to obtain other forms of support provided by BDF in parallel.
Exclusions	<ul style="list-style-type: none">▪ Persons not eligible : Senior GoR officials in MINAGRI, MINECOFIN, BNR and BDF involved with RIF 2 or their immediate family members;▪ Projects funded by an investor from equity or loans outside the banking sector;▪ Recurrent and operational expenses of projects including audit expenses (i.e. working capital)▪ Minor fixed asset of a value of less than the equivalent of USD 500 per item
Categories of investment	<ul style="list-style-type: none">▪ Primary Agriculture Production- Horticulture, Livestock, Aquaculture▪ Processing of Agriculture Product▪ Agriculture support services including seed production
Eligible investments	<ul style="list-style-type: none">▪ Acquisition of fixed assets including vehicles, equipment, machinery, land for production, processing, storage, etc▪ Construction of building for economic activities in rural areas▪ Construction or improvements in physical infrastructure▪ Capacity building, technical assistance and training costs to enhance technical or marketing of the investor.▪ In the case of a production loan for cattle, the ceiling for cattle introduced after the Mid-term review of the RIF I of USD 7 500 will remain in place.▪ 30% of the total amount for RIF 2 applications can be related to vehicle acquisition.
Maturity	Only investment loans with amortization schedules exceeding 12 months are eligible for RIF
Project size limits	
Primary Agriculture Production	▪ 1-50 Million Rwf
Processing of Agriculture Product	▪ 2-150 Million Rwf
Support Services	▪ 2-150 Million Rwf

Grant

Primary Agriculture Production

- Loan <10M -25%
- Loan >10M- 20%

Processing of Agriculture Product

- Loan <50M – 25%
- Loan >50M -20%

Support Services

- All loans 15% of the investment loan

Responsibilities of PFI

- Submit to BDF a grant funding request with relevant information
- Provide reasonable assurance to BDF that the project fulfills the eligibility criteria and is:
 - technically feasible and financially viable;
 - has a projected cash flow that will enable repayment within a maximum duration of six years;
 - does not have any negative impact on the environment

Obligation of BDF

- Verify the grant request and if approved, disburse the grant fund not later than 30 workings
- Monitor the performance of the grant beneficiaries

Interest rate charged

BDF recommends that PFI applies an unexaggerated interest rate given that the credit risk would have been reduced by the grant accorded to their client.

Disbursement modality to Client

▪ The potential beneficiary submits his loan application to PFI which reviews its eligibility for RIF II. In case the loan is approved, the bank submits a grant request on behalf of the client beneficiary to BDF. The approved grant amount will be paid out to the bank through the designated loan account through which the bank receives loan repayments. The portion of the grant received is then off set from the loan amount. i.e. if a beneficiary receives a grant of 25%, he/she will pay to a maximum of 75% of the loan and will be notified that he has completed the loan payment with the grant offsetting the balance.

▪ Note that the client only receives the grant portion after paying up to the maximum of the loan minus the 25%

▪ Because this is a performance based grant program, if the client defaults on his/her loan for a period exceeding six (6) months, then the grant facility is cancelled and the bank refunds the grant to BDF and the client would have to repay the entire loan.

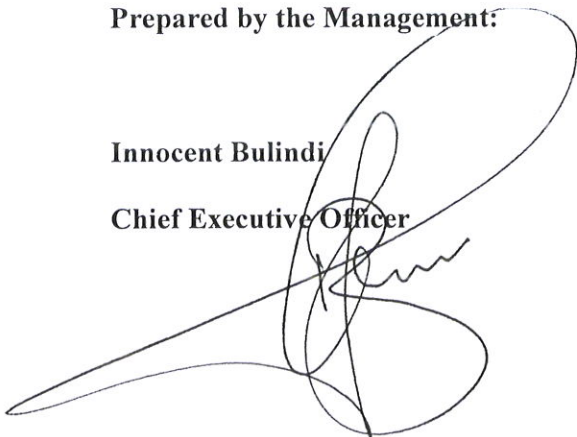
Monitoring and Reporting

PFI will provide to BDF a quarterly report on the performance of the grant beneficiaries.

- A report format for use is attached

Prepared by the Management:

Innocent Bulindi
Chief Executive Officer



Approved by the BOD

Jeffrey Lee

Chairman

