

September 15, 2016

Energy Access Practitioner Network call summary: Financing Access – the Practitioner Perspective

Background

Accessing the right kind and amount of capital at the right time remains one of the key bottlenecks to scaling-up decentralized energy solutions. Highlighting this ongoing need, in 2015, [sector funding requests](#) represented by a group of Energy Access Practitioner Network members collectively amounted to over US \$1 billion.

As part of its continued effort to advocate for the financing needs of its members, the Practitioner Network hosted this conference call to delve deeper into the practitioner perspective on the challenges and opportunities in raising capital. An in-person networking event will follow this call later in the month (further details in the Announcements below) featuring several leading investors active in the distributed clean energy space, who will have a chance to reflect upon and respond to the discussion.

Practitioner presentations on financing the off-grid sector

Willem Nolens, SolarNow, willem@solarnow.eu

- SolarNow is a solar company in Uganda offering 24-month credit repayment on home systems starting at 50W and productive systems up to 5kW.
- The company focuses on the upper end of the energy ladder, because it represents a larger opportunity for growth despite the lower sales volume.
- It is important to customize the systems for this upper segment – standardized solutions do not work as well, since clients have unique needs.
- The organization was founded in 2011 utilizing the dealer model, which was not effective. SolarNow then transitioned to a franchise distribution model, which was an improvement but was still very difficult. It was challenging to maintain a high level of quality. It now employs a fully controlled branch network model.
- SolarNow has 38 branches within Uganda and 300 staff members. The company's current revenue is close to \$500,000 per month, and they are looking to break even in Uganda and hope to expand internationally next year.
- SolarNow has seen very positive impact, in particular with their productive systems. Clients that use a system for productive purposes are very likely to upgrade their systems.
- SolarNow's clients, even those who do not necessarily need to rely on credit to afford their system, like the credit system because it acts as a warranty. In order to successfully offer credit, SolarNow puts an emphasis on quality of both systems and services. In their perspective, quality is 10% in the product and 90% in the people – including assessments, installation and maintenance. The SolarNow sales force is very technically oriented, which ensures the satisfaction of clients. This, in turn, helps lead to additional clients through word of mouth.

Graham Smith, Off-Grid Electric, graham@offgrid-electric.com

- Off-Grid Electric is a solar home system provider offering a pay-as-you-go solution, including installation and ongoing service in addition to the sale of the product itself. Off-Grid Electric



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offers a variety of different payment terms in respect to length of repayment, as well as ongoing service and support for a minimum of a five-year period regardless of how long the client is paying off the system.

- The energy access sector as a whole has seen a tremendous amount of growth in the past few years, with different elements of financing maturing faster than others. In terms of sources of finance and use of financing, this has often resulted in a situation of fitting a square peg into a round hole. For example, sometimes companies utilize equity for a use that would be better addressed through debt, and vice versa.
- Financing the off-grid sector is an evolving landscape. It is important to find the appropriate financing source for the appropriate use, such as utilizing debt for financing products as opposed to expansion. Local sources of finance, such as retail banks, are also a good potential area for further partnerships.

Piyush Mathur, Simpa Networks, piyush.mathur@simpanetworks.com

- Simpa Networks provides solar home systems to homes and small shops without reliable electricity in India, where there are 75 million homes without reliable electricity and are forced to rely on kerosene and other technologies to bridge the gap. Often, these customers are grid-connected but have poor energy reliability and access.
- Simpa Networks offers solar systems for a small, upfront payment and then customers pay for service over time with a pay-as-you-go scheme. These payments also go towards ownership of the system.
- Simpa Networks has about 400 people on payroll, covering over 35 million people. It also has off-payroll collection agents who deliver service, interact with customers and deal with collections.
- Simpa Networks has employed all types of financing across equity, debt and grants, and has tried to achieve purity in capital structure.
- It is important to try to match the right form of capital with the right use. Simpa Networks currently has a diverse combination of funders, such as development institutions including the Asian Development Bank ([ADB](#)), CSR funds such as from [GDF Suez](#), and venture capitalists.

Moderated Discussion and Q & A

Moderator: Fiona Messent, [UN Foundation, \[fmessent@unfoundation.org\]\(mailto:fmessent@unfoundation.org\)](#)

Question for SolarNow: Your relationship with [SunFunder](#) has grown over the years after initially securing small crowdfunding inventory loans, to the most recent \$2 million loan through their Structured Asset Finance instrument – what do you think has been the key to securing SunFunder as a returning investor?

Willem Nolens: SolarNow's relationship with SunFunder is a long-term relationship, which began with a very small amount at first and has evolved and grown based on trust.

- The most important thing that attracted SunFunder to SolarNow is SolarNow's in-depth credit assessment for each customer. From the beginning, SolarNow has treated the credit aspect of the business as microcredit, and performs an expensive credit assessment for each client, assessing their ability and willingness to pay. As a result, SolarNow has lost less than 0.5% of its portfolio, with an excellent payment track record.



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- At a certain point SolarNow found itself fundraising for loans all the time, being short on equity and giving away its balance sheet as collateral. At this point SolarNow switched to a Special Purpose Vehicle (SPV) structure which became operational at the second quarter of this year. With this structure, SolarNow can give complete transparency to investors, with very predictable cash flows. This increased transparency has been appreciated by investors, who can in turn provide lower interest rates.

Question for Off-Grid Electric: Several big name investors including [Vulcan Capital](#), [Solar City](#), and [DBL Partners](#) are some of OGE's backers. How did you go about connecting with these organizations?

Graham Smith: There is no single, straightforward approach for getting investors interested. Off-Grid Electric has been able to connect with investors, even those who were not initially interested in the energy access sector, by displaying the impact opportunity associated with this kind of work. By displaying impact, Off-Grid Electric believes it is easier to have substantive conversations beyond simply the financial returns.

- In the last couple of years, there has been a large flow of capital into the sector because operators have been able to demonstrate that they are building track records that warrant investment.
- While individual organizations can do interesting things in reaching out to individual investors, there is much more to be done in collectively shining a light on the industry as a whole, especially so that more local investors also get interested.
- It will be important to engage well-known investors and have them look to the long-term with the sector. It would also be good to see the sector create stronger connections with debt capital, and certainly at a larger scale.
- Another issue for connecting with investors is geography. An organization is often limited in the investors it has access to by its location. There is limited movement and exchange of information between the hubs, even between offices of the same company in different cities. For example, between one bank location and another, there is often very little information sharing. As a result, a company has to reintroduce and reestablish a connection with the bank even at a different branch. This is a hindrance to organizations seeking financing and Off-Grid Electric would like to see this change.

Question for Simpa Networks: What do you think was the most critical ingredient in Simpa Networks securing its first round of equity investment from the Asian Development Bank (ADB) at that scale, particularly given it was the first of its kind for ADB?

Piyush Mathur: Simpa Networks began its relationship with ADB in 2013, and was able to engage them by demonstrating that Simpa had created a robust business model capable of scaling. Simpa's field operating model is able to balance access and service to the customer with the financial returns. Simpa also had strong customer feedback and a dedication to quality.

- ADB saw that this model would be capable of solving a socioeconomic problem that has been very difficult for the government to solve in the past 60 years.
- ADB also recognized the special role that development finance institutions can play. ADB was one of the first to recognize that, because this sector is capital intensive, large institutions can play a role in the development of the sector from a very early stage.

Participant question for all panelists: In terms of structured finance instruments, how do you think the industry could better focus on expanding these instruments and mobilizing financing?

Graham Smith: Lenders and operators are coming from different perspectives, and there is work to be done on bridging that gap. For operators, it is about how they look internally at operation and customer performance. They need to internally look at risk and the reliability of payments. For lenders, there is work to be done on education.

- There are elements that can be picked from other industries that have successfully grown and used structured finance and can be replicated for the sector. However, there need to be things that are specific to the off-grid industry.
- There also needs to be progress in increasing the amount of capital that is available. There should be different approaches towards risk mitigation. This could be through credit guarantees, hedging instruments, effects mitigation, or insurance in other forms. Doing so creates markets in countries where the country risk premium previously seems extreme.
- A lot of tools already exist in the toolkits of different organizations, but they might not be applied as best or as frequently as they could. Learning how to utilize these tools in more efficient ways, and sharing that information with other organizations, is important. There needs to be more sharing of information and a sense of commonality.
- Overall, it should be made faster, easier, and utilizing a more standard approach. Making it more expedient is critical, so organizations are not spending all their time running around trying to find money. This takes away from operations and lead time.

Piyush Mathur: Considering where the energy access sector is at the moment, many businesses are young and do not have enough in terms of track record, so it is hard for investors to determine the underlying credit risk. With this sector, it is a different type of business and different type of risk than what traditional lending institutions are accustomed to. Any financing has to be structured and tailored to our sector, and specifically to a given business model.

- The biggest challenge today is not so much structuring, but how we engage traditional lending institutions in investing and understanding our sector and our risk profile. The sector needs to engage them and get them comfortable enough to lend with off-grid organizations on a commercial basis.

Willem Nolens: It is all about profitability. Banks and other investors hate to see companies that are not profitable. Many companies in our sector are growing fast but the economics are not well thought through. This is not necessarily sustainable and investors feel that. There are concerns about where the sector is going and who has the potential to be profitable. The best solution is to build profitable entities that are bankable.

- Efficiency is becoming more important. Companies are forced to increase efficiency because there are more players in the market. Investors want to see much more clarity and comparison between companies.

Participant question for all panelists: Do the funders see the existing models as scalable? Scalability has an impact on profitability, and the other way around. What can borrowers and investors do take these models to scalability?

Piyush Mathur: Yes, it is scalable. While it is difficult in a capital-intensive system to be profitable at an early stage, it is still possible to give confidence to lenders by demonstrating profitability. Everyone in the sector is working towards a stage where the sector can be regarded as commercially and traditionally bankable. It is a gradual journey, but everyone is

shooting for the same thing: to get to the mainstream and be funded by mainstream institutions.

Willem Nolens: Currently, the sector can benefit more from a player or two that is profitable and can speak about it. This would open up a larger pool of capital than we have had so far and the entire sector would benefit. As it stands, there is not enough information available about profitability and efficiency. There is an opportunity here to make the sector much more transparent.

Graham Smith: Scalability is relative in different markets. Scaling in one country is very different from being operational in multiple or cross-markets. “Scale” needs to be defined and understood across the board accordingly.

Announcements

Practitioner Network announcements:

Practitioner Network Investor-Practitioner Networking Event, September 29, 5-7PM, Washington, DC
Members and partners will have the opportunity to hear from and interact with investors active in the off-grid/ energy access space, including representatives from Deutsche Bank, IFC and SunFunder. Please RSVP to Meredith Watkins, mwatkins@unfoundation.org, by September 27 to attend.

Practitioner Network [Investment Directory](#) re-opening for updates and new submissions

The interactive investment directory profiling Practitioner Network members’ financing needs will be opened for updates to existing profiles as well as new profile submissions in October. Members who are already featured will receive unique log-ins to update their company’s data per their convenience, and new participants will have an opportunity to create a profile and receive their log-in accordingly. More details forthcoming.

Practitioner Network 2016 annual survey

The Practitioner Network’s fifth annual survey is now closed after receiving the highest participation rate to date. Results will be analyzed and shared publicly with members and beyond later in the year.

Member announcements:

[Unlocking Solar Capital Africa \(November 1-2, Nairobi, Kenya\)](#)

[GOGLA](#) and [Solarplaza](#) are glad to announce our upcoming event entirely focused on connecting solar project development and finance & investment across the entire African solar sector, including off-grid lighting and household electrification. GOGLA members can receive a 15% discount on registration by using the promotion code **USCGOGLA-10** during registration.

[Pre-IOREC B2B Off-grid Matchmaking](#)

The Alliance for Rural Electrification ([ARE](#)), in collaboration with [RECP](#), will host an Off-grid Matchmaking Event the day before IOREC, on September 29 in Nairobi. The event, which will feature structured B2B and B2Finance matchmaking sessions, will allow participants to network and identify business partners and financiers, as well as advancing existing projects at different stages of maturity. It will be complemented by opening remarks from a high-level speaker, and presentations on the business services offered by ARE and the RECP. Only a few spots available. [Register here](#).

IOREC III Conference & Exhibition (Nairobi, September 30 – October 1)

ARE will organize an off-grid exhibition parallel to the [IOREC](#) conference to give the private and public sector an opportunity to showcase services, products and projects, and to offer participants networking opportunities. There are still a few booths left, which are offered at **discounted rate to members of the Energy Access Practitioner Network**. [Contact: Jens Jaeger](#).

Post-IOREC III Project Site Visit (Kenya, October 2)

Two off-grid site visits are organized by ARE partners/members after the IOREC III Conference:

- 1) University of Southampton's Energy Research Group ([SERG](#)) is offering an off-grid site visit to a PV mini-grid in Kitonyoni. [Register here](#).
- 2) Strathmore Energy Research Centre ([SERC](#)) is offering an off-grid site visit to their training Academy and a 12 kW solar-wind hybrid nano-grid. To register contact: [Immaculate Murunga](#) and [Geoffrey Ronoh](#).