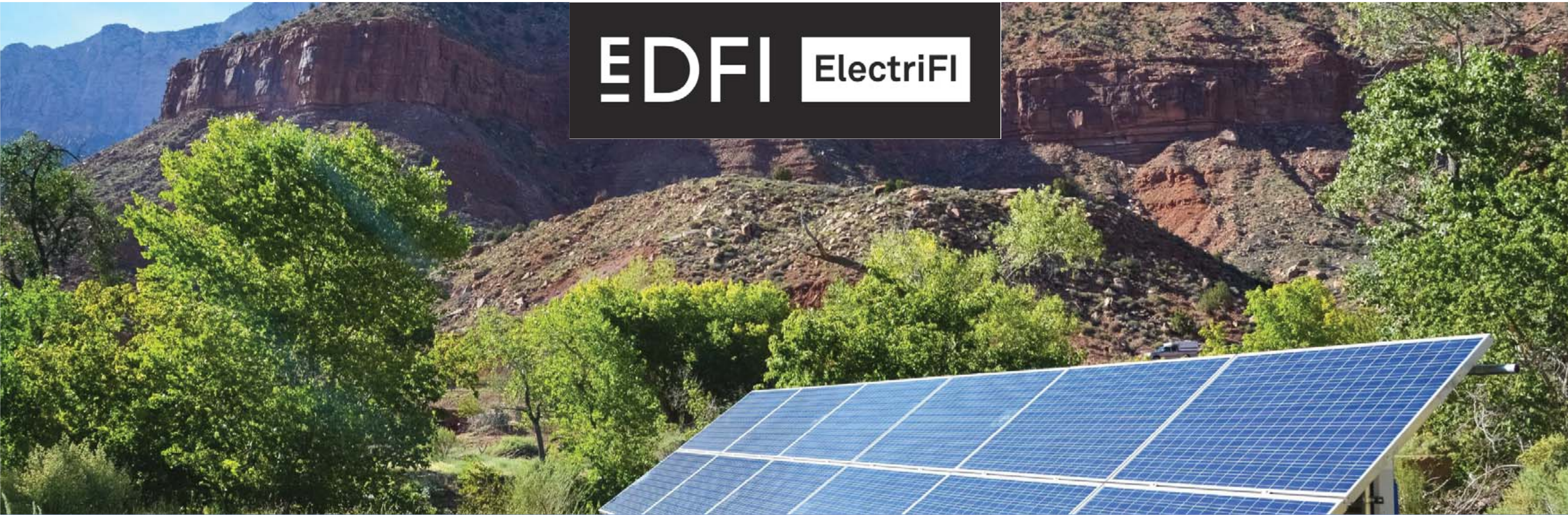


EDFI MC ElectriFI Intro & PAYGo Workshop

Jean-Denis Collin
Guillaume Cruyt
22nd September 2022

This Programme is funded by the European Union
POWER AFRICA
Sweden Sverige

Agenda

1. ElectriFI Mandate Presentation & Portfolio
2. PAYGo Market Overview & Horizon
3. ElectriFI Contribution to the PAYGo Market

ElectriFI Mandate & Portfolio

Who are we?

EDFI Management Company was created by 15 European DFIs to manage investment solutions on their behalf.

A shared vision

To improve people's lives in countries where the need is greatest through growth in private sector enterprises that deliver high development impact.

A common platform

European DFIs programs achieve a critical mass and efficiencies by offering joint facilities and a multi-stakeholder governance model with DFI participation in all decision-making bodies.

EDFI European Development Finance Institutions → EDFI Management Company

Established in 1992

Established in 2016

A range of development finance solutions

Focus on investments that crowd-in capital from European DFIs and other investors and address market failures and suboptimal investment situations.

Initiatives

EDFI ElectriFI

EDFI AgriFI

EDFI T&C guarantee

EDFI MSME platform

EFP

ICCF

Partners

EDFI ElectriFI

EDFI Management Company (MC)

EDFI MC seeks partnerships to crowd-in capital and accelerate market development

Market Development Facilities

EDFI AgriFI

- 1 facility: Global (€ 40m), established in 2018 + Country Windows (2021)
- Sector: sustainable agriculture & forestry
- € 21m committed in 8 investments (2021)
- € 2.5m average ticket size
- 62% co-investment with European DFIs
- In sub-delegation with FMO

EDFI ElectriFI

- 2 facilities: Global (€ 121m) and Country Windows 1& 2 (€ 93m + € 44m), established in 2016 and 2020.
- Sector: clean energy
- € 90m committed in 41 investments (2021)
- € 2.9m average ticket size
- 41% co-investment with European DFIs
- In sub-delegation with FMO

Risk-Sharing Facilities

EDFI T&C guarantee

- 1 facility: Global (€25m)
- Offering is transferability and convertibility guarantee support for pillar-assessed DFIs investing in renewable energy projects
- As financial intermediaries to Proparco

EDFI MSME platform

- 1 facility: Global (€80m)
- enhance the lending capacity of local financial intermediaries who will then give loans to MSMEs

Co-financing facilities

EDFI EFP

- Co-investment facility by EIB & several EDFI members (€243m),
- Established in 2003
- Not-sector specific
- €541m committed in 41 projects
- 11 European DFIs currently involved + creation of COVID-19 window in 2020.

EDFI ICCF

- Co-investment facility by EIB, AFD & several EDFI members (€335m)
- Established in 2011
- Sector: IPP projects in renewable energy
- €480m committed in 35 projects
- 10 European DFIs currently involved

EDFI ElectriFI

EDFI ElectriFI

A closed-ended facility focused on access to energy in frontier markets

Investing where others cannot

- Investing in early-stage private companies and projects;
- Generating new/improved electricity connections;
- Or generation capacity from sustainable energy sources;
- In emerging markets.

Some of our investees

SISTEMA.bio CREATING VALUE FROM WASTE

solarise africa

VIRUNGA POWER

REDAVIA RENTAL SOLAR POWER

PowerGen

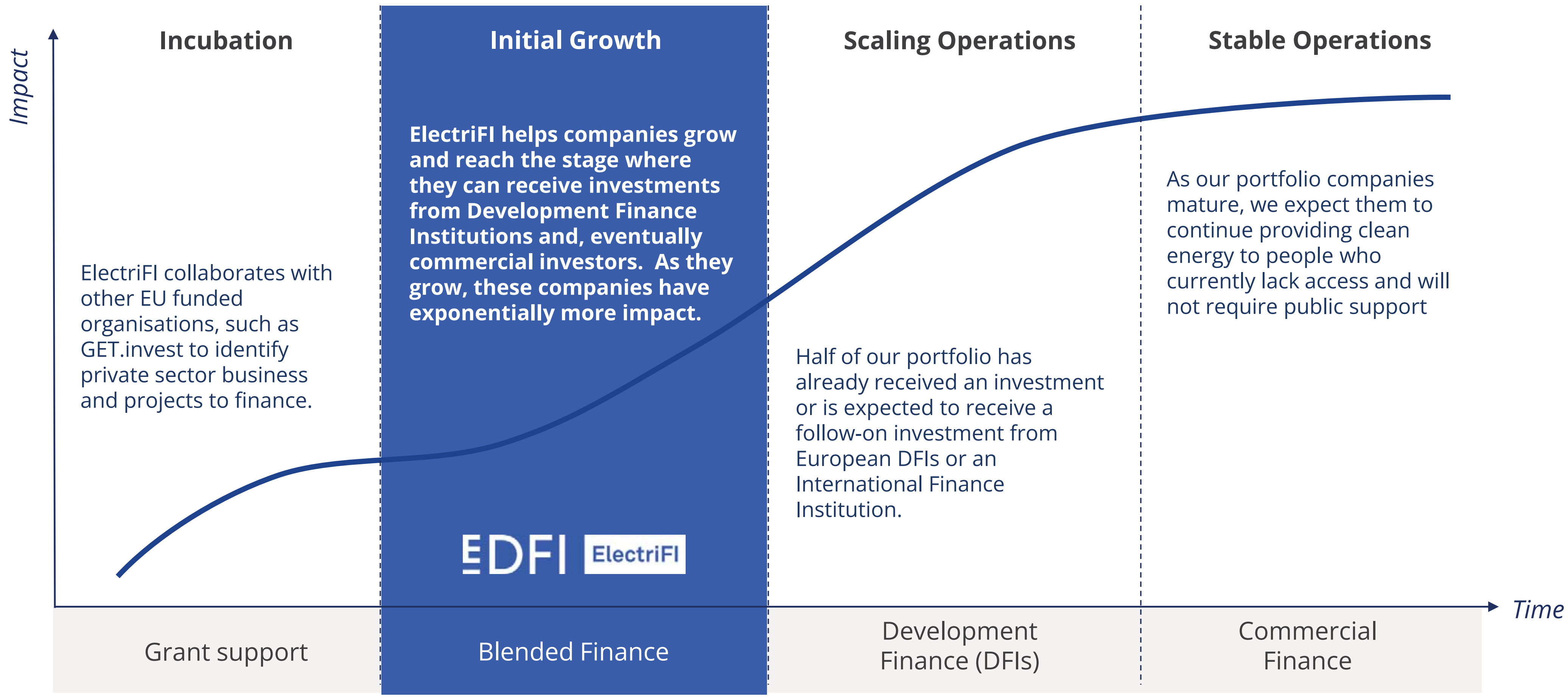
nuru congo connecté

arnergy

solarpanda

Nithio

EDFI ElectriFI catalytic role



EDFI ElectriFI unique value proposition

A blending facility dedicated to accelerate clean energy access bu de-risking private sector projects.

Impact first

Investing in clean energy access for developing countries

75% of ElectriFI's portfolio is invested in sub-Saharan Africa

Go-to-place for catalytic investments

Investing where others cannot

ElectriFI's investments have leveraged an extra EUR 280 M

Fit for purpose & scalable

Offering flexible products that meet the sector's need

More than 50% of the portfolio is invested in equity and quasi-equity

Additional & collaborative

Building and accelerating markets through partnerships.

41% of the investments are co-investments with EDFI members

EDFI ElectriFI

Eligibility criteria and offering

Renewable energy

Investing in clean energy access for developing countries

Business model

SHS, IPP, Mini-grid, C&I, others (energy efficiency, cooking stoves,...)

Commercially viable

Financially viable with a clear path to profitability, scalable and/or replicable

ESG standards

Commitment to high international standards and sound banking principles.

Track record

Credible professional track-record, alignment of interest. Early investor, not seed capital

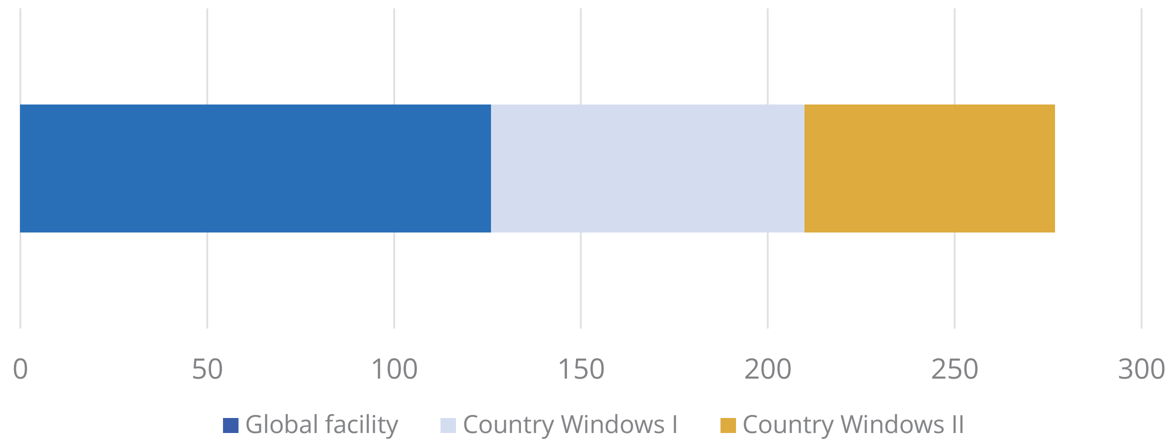
Offering

Flexible structuring debt to equity, price adaptive to market / funding circumstances. Investments EUR 0,5m-10m up to 50% of funding round

Global & Country Windows

EDFI ElectriFI offers a global reach as well as a tailor-made approaches for increasing access to clean energy in developing countries.

EDFI ElectriFI manages a total **EUR 277 million**



Incl. Management fees

EDFI ElectriFI

2 Country Windows

Launched in 2018:

- Benin: EUR 5 million
- Pacific region: EUR 8 million
- Cote d'Ivoire: EUR 10 million
- Nigeria: EUR 30 million
- Zambia: EUR 31 million

Launched in 2021:

- Kenya: EUR 47.6 million
- Uganda: EUR 5 million
- Eswatini: EUR 5 million
- Burundi: EUR 9.3 million

Key figures

Portfolio overview

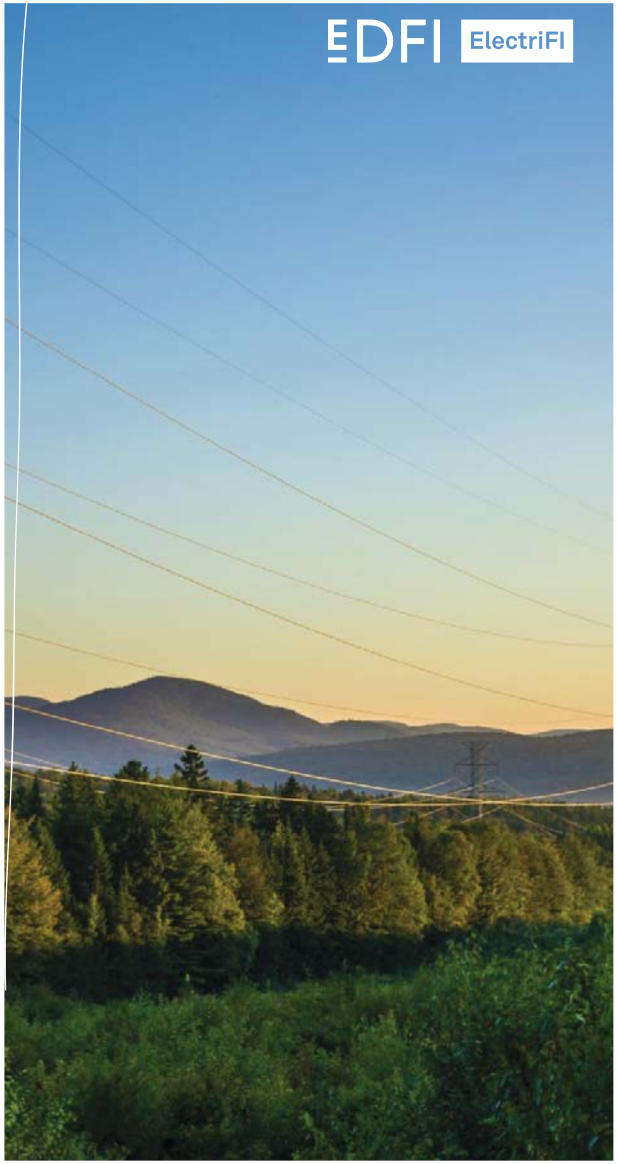
EUR 108 million
committed

37 companies and
projects supported

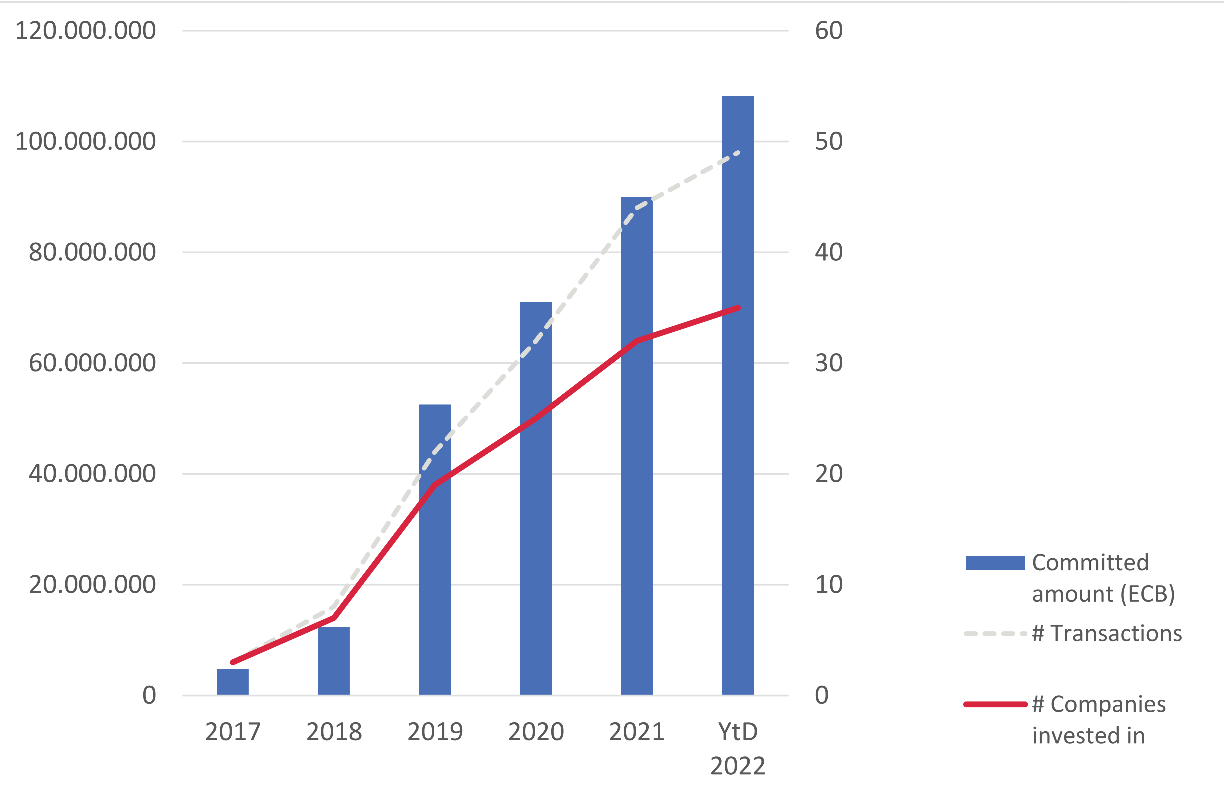
50+ transactions

> 60% equity
and quasi-equity

3,5 leverage factor

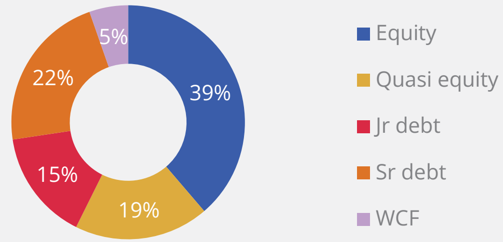


Portfolio overview (Sept. 2022)

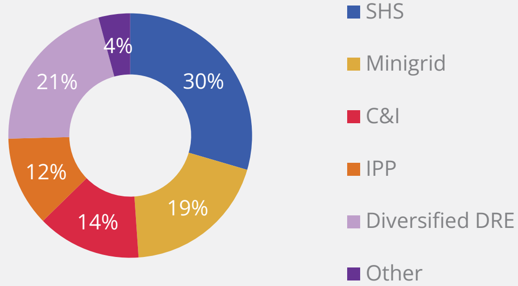


EDFI ElectriFI

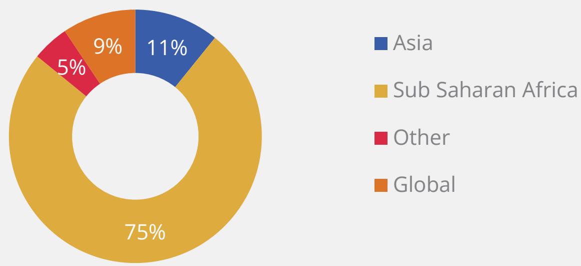
Breakdown by financial instrument



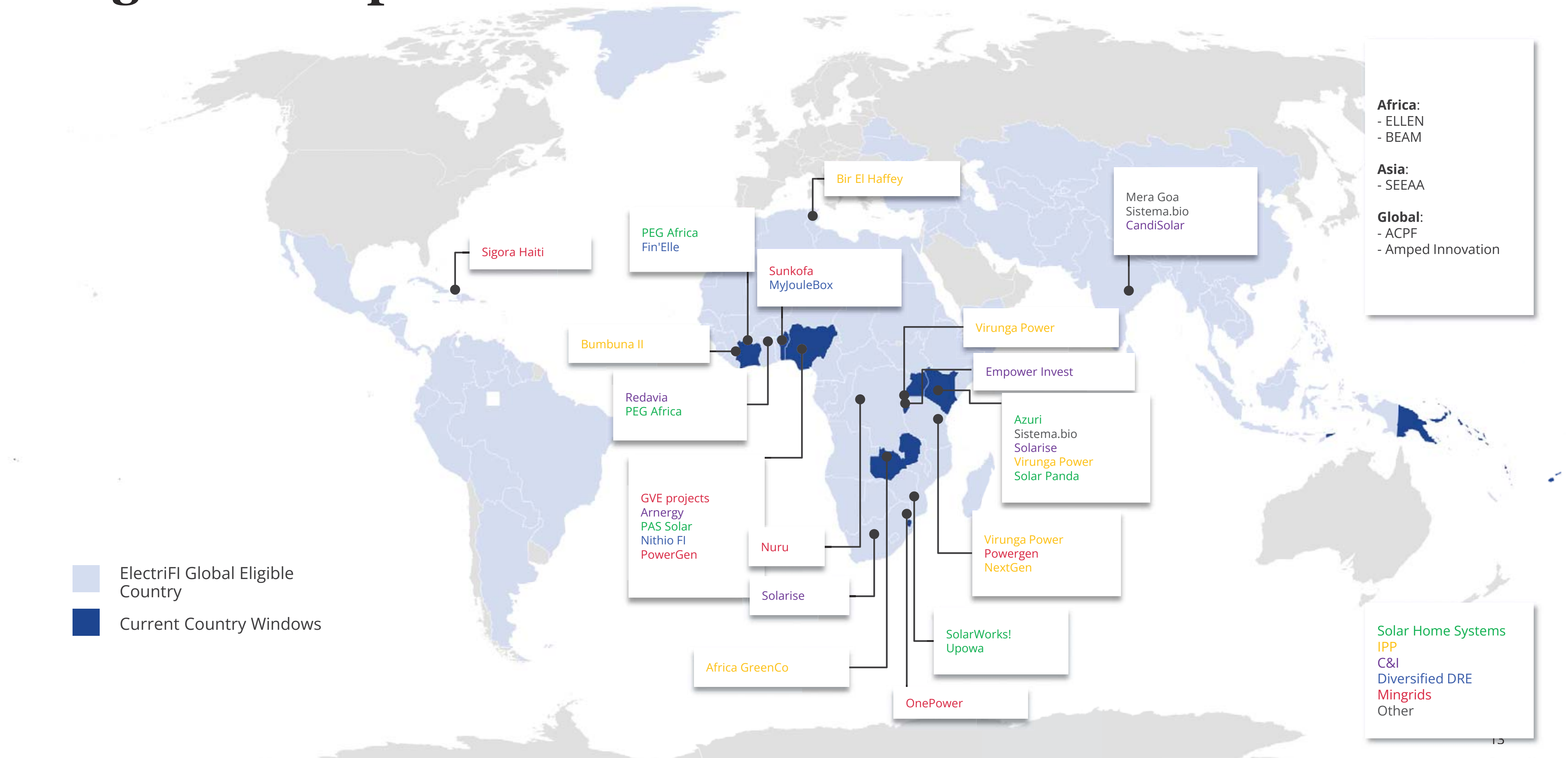
Breakdown by business model



Geographical breakdown

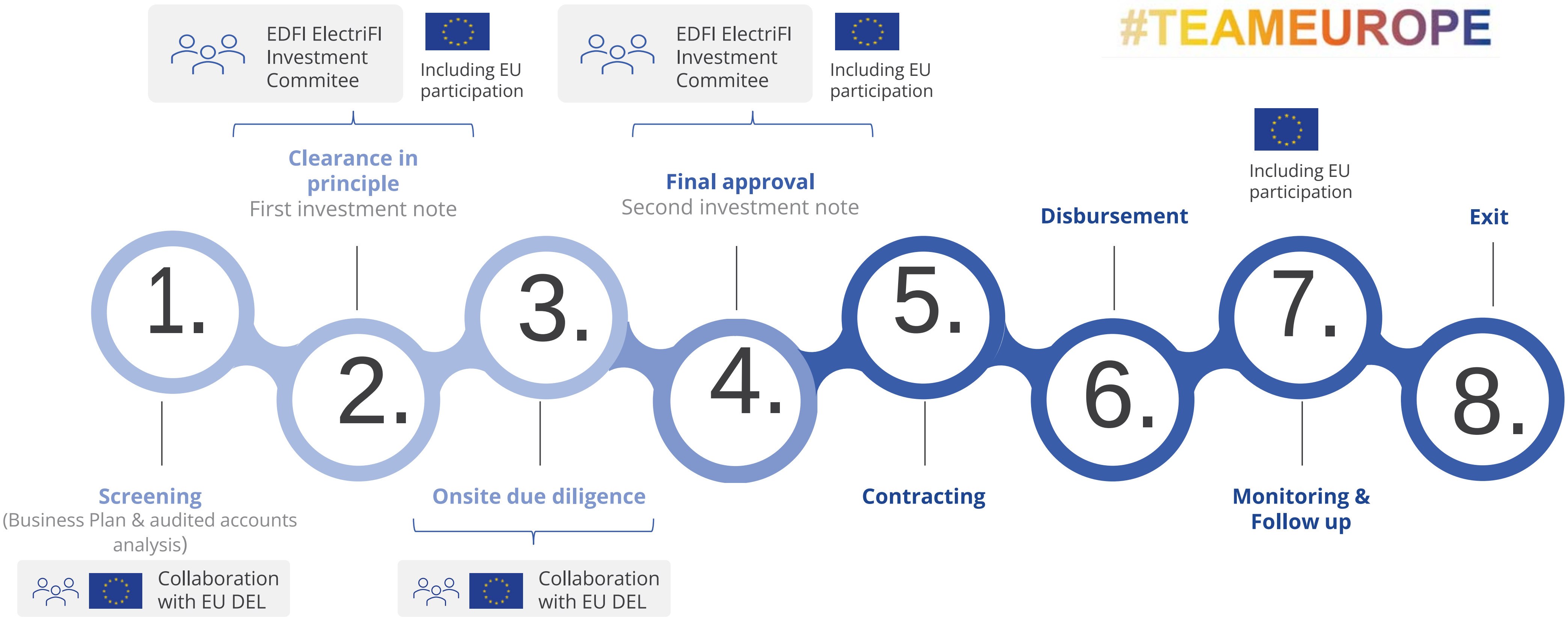


A global footprint



An inclusive investment process

A standard 2–steps approval to contracting, with an onsite due-diligence



ElectriFI's Investments in Solar Home System

Investee company	Instrument	Total commitment	Countries of operations
Equity – total commitment EUR 12m			
BEAM (BBOXX non recourse exposure)	Equity	USD 8m	Global, Nigeria, Burkina Faso, Togo
Solar Panda	Equity	USD 4m	Kenya
Senior secured debt – total commitment of EUR 11m			
SolarWorks! BV	Senior secured 5 years loan	USD 4m	Mozambique and Malawi
UpOwa Cameroon SASU	Senior secured 5 years loan	EUR 3m	Cameroon
E-longLife Energies Nouvelles (ELLEN)	Senior secured 6 years loan	EUR 4m	EFi : Mali and Niger DFC : Chad
Junior debt - total commitment of EUR 8m			
PEG Africa Ltd	Junior unsecured 7 year loan	USD 6.5m	Ghana, Senegal, Côte d'Ivoire, Mali
Azuri (SPV)	Junior secured debt	EUR 1.5m	Kenya
Revolving working capital – total commitment of EUR 6m			
Amped Innovation	Senior Revolving working capital facility	USD 6m	USA
Grand total SHS exposure EUR 37m			

PAYGo Market Overview & Horizon

PAYGo Market Overview & Horizon

Observations: SHS current market observations

Market Observations: A Complex Industry

A decade into the solar PAYGo launch, for all its success in reaching millions of energy poor, the business model has proven to be remarkably difficult. The companies in the sector need to be comfortable with banking, IT, distribution, supply chain, Forex, telecom, vulnerable client, market needs, and more. Several PAYGO businesses have struggled and some have failed. The difficulties observed derive from a combination of four obstacles:

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A) Heavy cost structure and high burn rate

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A) Heavy cost structure and high burn rate

+

B) Addiction to external funding

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✚

B) Addiction to external funding

✚

C) Lack of equity forcing overleveraging

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D) Limited financing literacy

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A) Heavy cost structure and high burn rate

+

B) Addiction to external funding

+

C) Lack of equity forcing overleveraging

+

D) Limited financing literacy

=

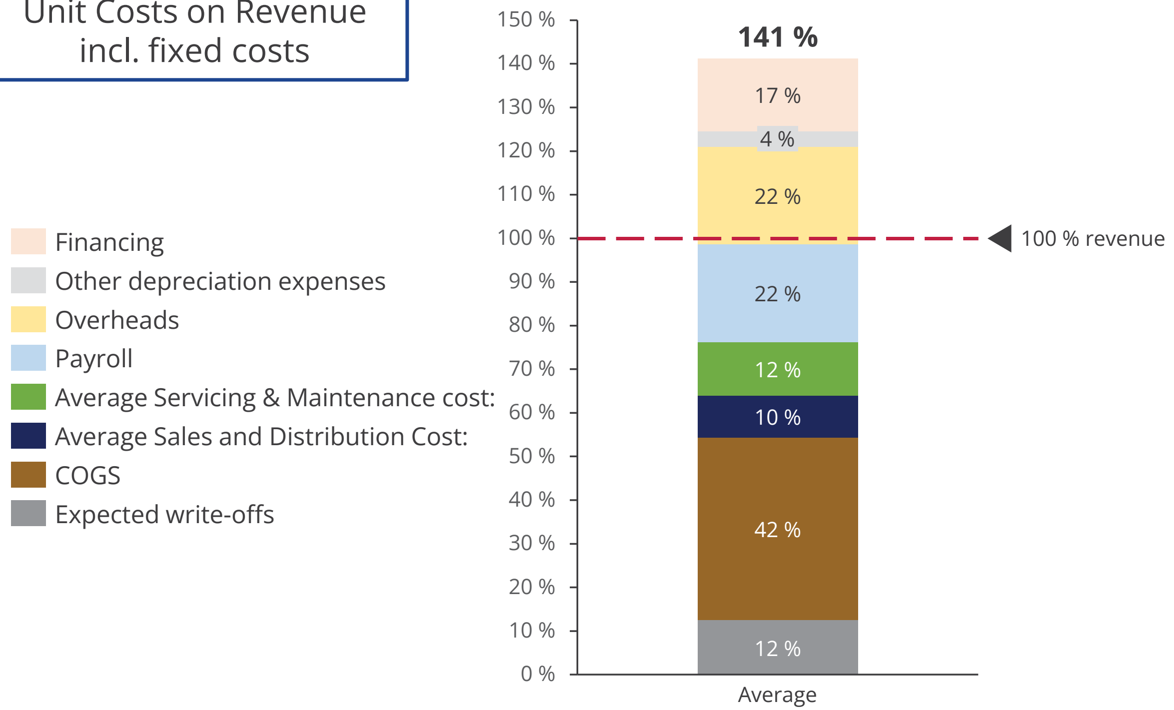
Industry viability is questioned

EDFI ElectriFI

Observations: Heavy cost structure & high burn

The heavy cost structure and resulting burn rate of the industry is too high and prevents companies from achieving the scale needed to become profitable.

Unit Costs on Revenue incl. fixed costs

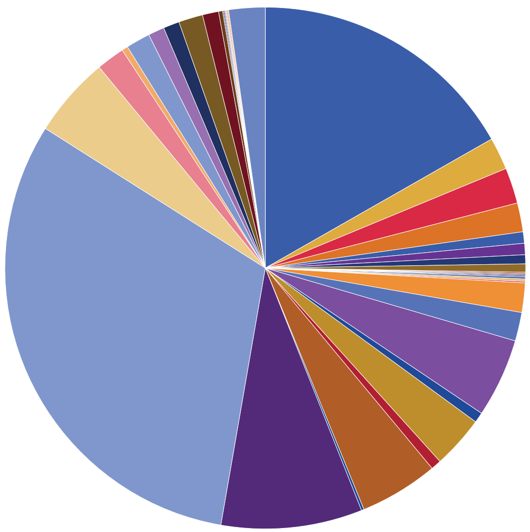


- Most companies cover their variable costs but never reach the scale needed to cover their fixed costs.
- Heavy cost structures are driven by expensive EU/US based teams, trial & error type R&D, and unfitting financing.
- Incapacity to cover all costs leads to a continuous burn rate, leading to continuous capital needs, eventually leading to investor withdrawal and, ultimately, company default.

Observations: Addiction to external funding

Heavy cash burn rates create an addiction to growth which leads to poor financial decisions and complex shareholding structures that prevent founders from focusing on operations.

SHS Company Shareholding

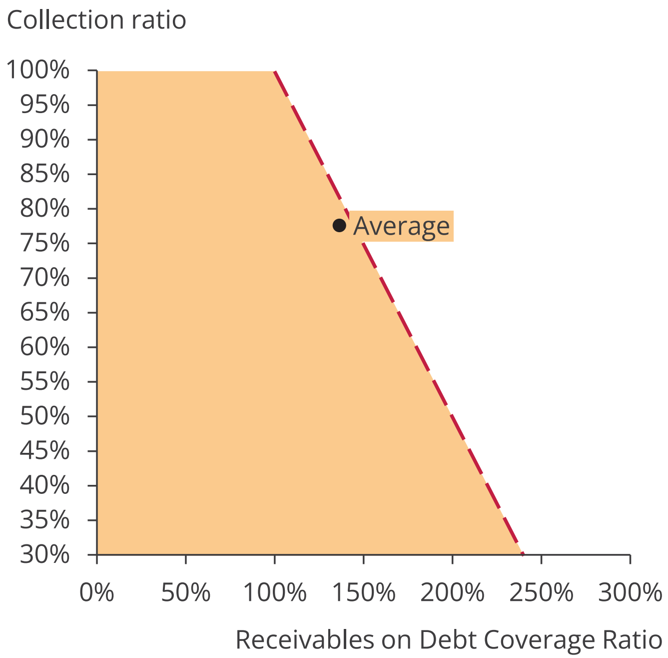


- Company burn rates are forcing companies to constantly seek capital to avoid defaulting on their road to profitability.
- The focus on growth creates an addiction to funding, forcing businesses to make poor financial decisions.
- The pressure to secure financing results in micro transactions and expensive bridge loans populating and complexifying company balance sheets.
- Complicated shareholding structures complexify the decision process and prevents founders from focusing on operations.

Observations: Lack of equity forcing overleveraging

Lack of patient equity forces companies to finance their growth with debt which results in overleveraging and drives cash out of companies when they need it the most, further contributing to the cash burn rate.

Receivables on Debt Coverage Ratio



- Lack of deep-pocket lead equity investor leads to fragmented shareholding and limited follow-on capacity.
- The absence of strong equity partners pushes companies to turn to debt as principle financing source.
- Excessive debt is putting companies in situations where the collection on their receivables does not cover their debt obligations.
- Excessive debt is driving cash out of companies when they need it the most, further contributing to the cash burn rate.

Observations: Limited financing literacy

Limited financing literacy on both the founder and investor sides have contributed to burdensome financial decisions with unforeseen outcomes and expensive errors

- Limited grasp on the complexity of the PAYGo model has pushed investors to fund companies with unclear paths to profitability and inappropriate investing instruments.
- Company defaults have highlighted the challenges that occur when dealing between multiple senior secured and junior debts with different tenors.
- Lack of references and market intelligence hinder investor capacity to properly assess and monitor companies, resulting in unforeseen outcomes and expensive errors.
- Continuous need for urgent capital and a lack of timely communication can break trust between management and shareholders, resulting in further development obstacles.

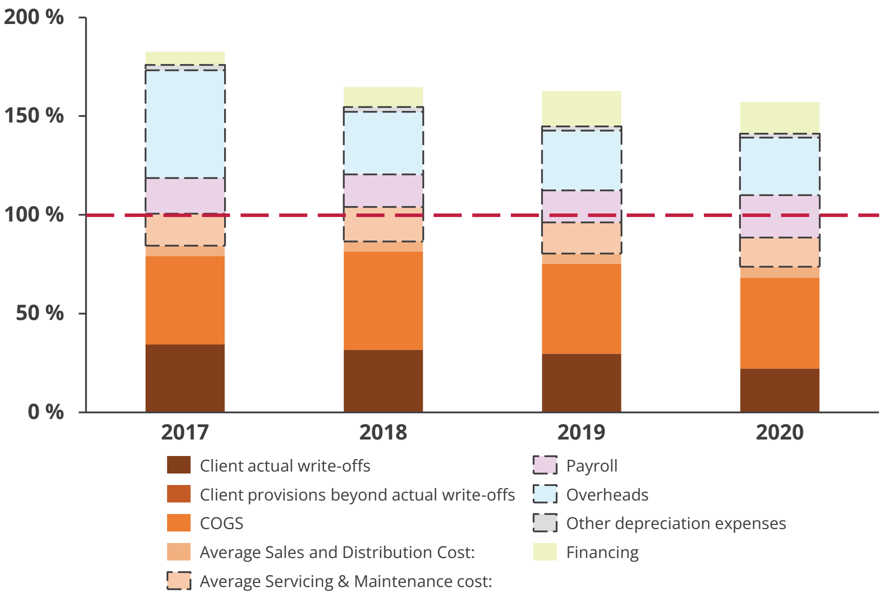
PAYGo Market Overview & Horizon

Horizon: SHS market trends and evolution

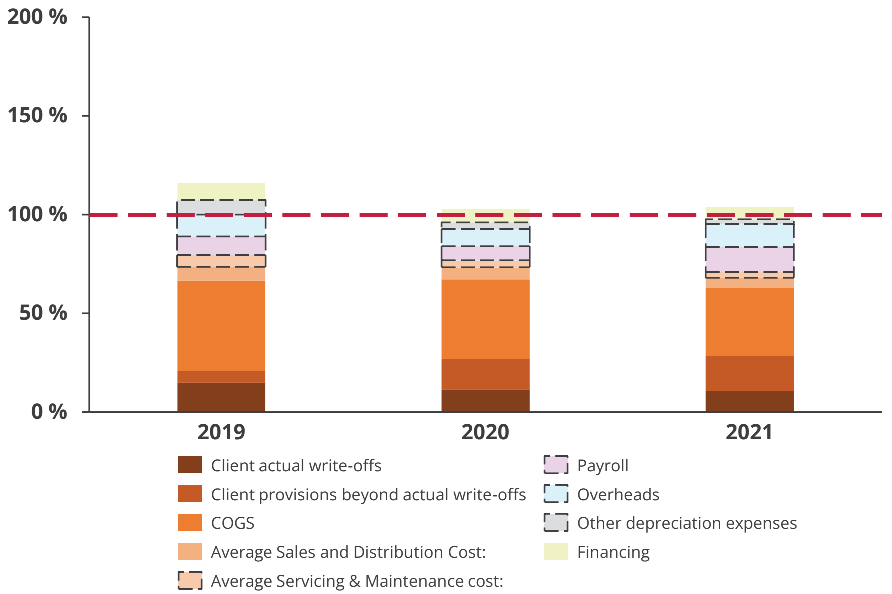
Horizon: Industry steers towards leaner structures

Expensive lessons from the past are being learnt and assimilated. 2nd generation companies are focusing on minimising their costs, reducing their cash burn ratio, and having a clearer path to profitability.

1st generation companies suffer from a **significant amount of fixed expenses and a high cost to profitability**. It translates to high liquidity needs, a tighter capacity to scale and, ultimately, a high risk of defaulting.



2nd generation companies learn from past mistakes to minimize their costs. **Focus is shifted on early profitability and controlled cash burn rate** which reduces their capital needs.



Horizon: Improving funding practices

Founders are assimilating the lessons learnt from past defaults by improving cash runway management, simplifying their balance sheets, and sharing good practices when participating in latest initiatives.

- The importance for the founders to manage their cash runway has been highlighted by the defaults observed among the 1st generation companies. Doing so helps anticipate funding needs which can prevent micro-transactions and expensive bridge loans.

- Need to simplify the 2nd generation balance sheets to enable the founders to better focus on operations rather than funding needs and shareholder management.

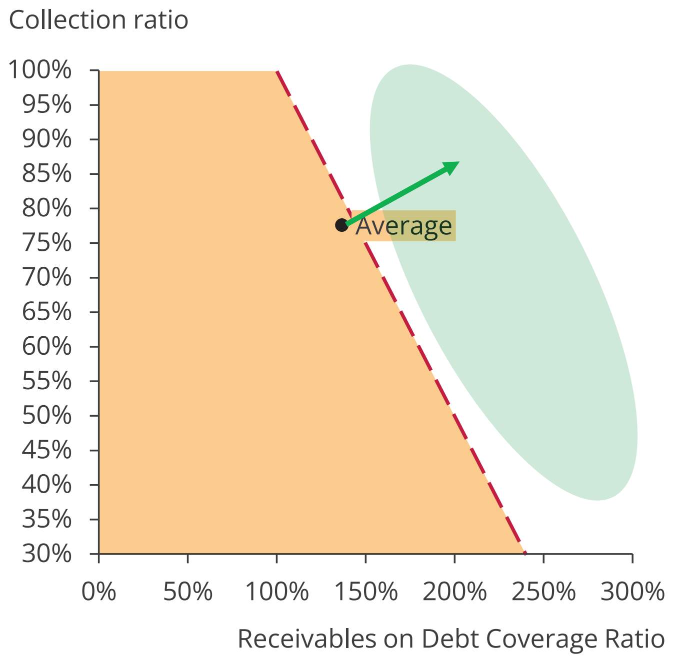
- Financing good practices can now be shared between industry stakeholders through programs such as the PAYGo PERFORM Initiative. Such practices are also being shared through investor-investee conversations based on accumulating market intelligence.

- Proper cash runway management also implies recognising when to wind down operations rather than negotiate additional capital in a weak position. Some companies have minimised losses by doing so.

Horizon: Industry seeks added equity investors

Equity shortage remains an issue in the industry but recent USD 260m Sun King Series D has highlighted the industry's potential and may attract new strategical equity investors to the market.

Receivables on Debt Coverage Ratio



- Strong equity partners are needed in the industry to reduce overleveraging.
- A positive market trend seems to be building following the recent news of the Sun King USD 260m Series D*.
- New strategical equity investors may be drawn to the industry now that the potential for profitable Exits has been demonstrated.
- ElectriFI's mandate and gained experience puts the fund in a position to play a role in solving the equity shortage of the industry.

* https://www.prnewswire.com/in/news-releases/sun-king-raises-260-million-led-by-general-atlantic-s-beyondnetzero-to-expand-global-access-to-affordable-solar-energy-838523340.html

Horizon: Improving financing literacy

Remaining investors should assimilate the lessons learnt from past setbacks by shifting their market focus and developing/accessing tools that can support their financial decisions and monitoring.

- Investors to focus on the appropriateness of the offered financing instrument, dependent on the size and current shareholding of the PAYGo companies.
- Investors to improve their market approach with special consideration towards lean structures, cash management, road to profitability and current shareholding.
- Investors to have/develop the tools needed to properly assess and monitor identified focus points.
- As with founders, programs such as the PAYGo PERFORM Initiative are being put in place which enable to share financing good practices between industry stakeholders.

ElectriFI Contribution to PAYGo

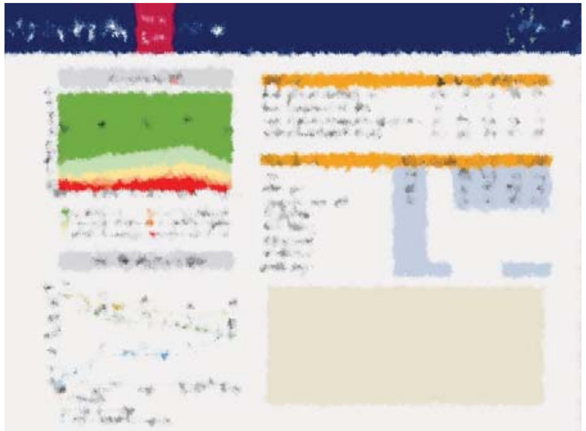
Contribution: ElectriFI boosting its market intelligence

ElectriFI is assimilating lessons learnt and increasing market intelligence through PAYGo PERFORM, an internally developed tool, and an AI tool developed by investee company Nithio.

ElectriFI is assimilating industry errors and lessons learnt by shifting market focus on leaner companies with a credible path to profitability. ElectriFI is improving its market intelligence by actively participating in the PAYGo Perform initiative and the Household Solar Funders Group (HSFG), developing an internal tool for assessing and monitoring PAYGo companies, and leveraging AI analytics from their investee company Nithio:

PAYGo PERFORM & HSFG

ElectriFI Tool



Nithio AI Tool

Contribution: Fund to play a role in the equity drought

Market intelligence and tools enable ElectriFI to perform deeper analysis, enhance monitoring, and refine financing literacy, putting the fund in a position to help solve the equity drought affecting the industry.

- The tools used by ElectriFI and the resulting market intelligence is transforming the approach towards new SHS companies by increasing the fund's capacity to perform deeper analysis.
- Among the enhanced analysis, a greater focus is put on company cash runway during due diligence and post approval, including during the contracting period.
- The tools enhance the fund's monitoring capacities while allowing cross-company comparison which enable to better anticipate issues and have informed discussions over investee operations.
- Increased market intelligence enhances ElectriFI's financing literacy, resulting in a deeper understanding of the appropriateness of financial instruments depending on a company's size and shareholding structure.
- The combination of ElectriFI's SHS experience and the tools developed or being used provide the fund with the capacity to play a role in solving the equity drought affecting the industry.

Toolbox: PAYGo financial analysis

Toolbox: Navigating the PAYGo Business Model

Objective

Decode the challenges and the connotation of PAYGo metrics to serve as a premise for building accurate PAYGo analysing and monitoring tools.

Rationale

- **Improve** the financial and operational analysis of PAYGo companies
- **Strengthen** the monitoring and reporting of existing portfolio
- **Facilitate** the assessment of new leads and investment appraisals
- **Structure** new transactions and milestones for disbursements
- **Develop** market intelligence and understanding of sector performance

The PAYGo Metric Challenges

Creating market standards, setting clear definitions and maximising metric granularity will increase the comparability of the metrics collected and enable a more accurate analysis and monitoring.

Comparable metrics foster market intelligence and enable for accurate analysis and monitoring

Company 1

KPI A	Def. I	Metric 3 / Metric 2
KPI B	Def. II	Metric 2 / Metric 1
KPI C	Def. IV	Metric 5 / Metric 4
KPI E	Def. V	Metric 1 / Metric 3

1	2	3
KPI A	Def. I	Metric 3 / **Metric 4**
KPI B	Def. II	Metric 2 / Metric 1
KPI C	**Def. III**	**Metric 4 / Metric 1**
KPI D	**Def. IV**	**Metric 4 / Metric 2**

Company 1

KPI A	Def. I	Metric 3 / Metric 4
KPI B	Def. II	Metric 2 / Metric 1
KPI C	Def. III	Metric 4 / Metric 1
KPI D	Def. IV	Metric 4 / Metric 2

Company 2

KPI B	Def. II	Metric 3 / Metric 1
KPI D	Def. IV	Metric 4 / Metric 2
KPI E	Def. VI	Metric 1 / Metric 3
KPI F	Def. VII	Metric 3 / Metric 5

1	2	3
KPI B	Def. II	**Metric 2** / Metric 1
KPI D	Def. IV	Metric 4 / Metric 2
KPI A	**Def. I**	**Metric 3 / Metric 4**
KPI C	**Def. III**	**Metric 4 / Metric 1**

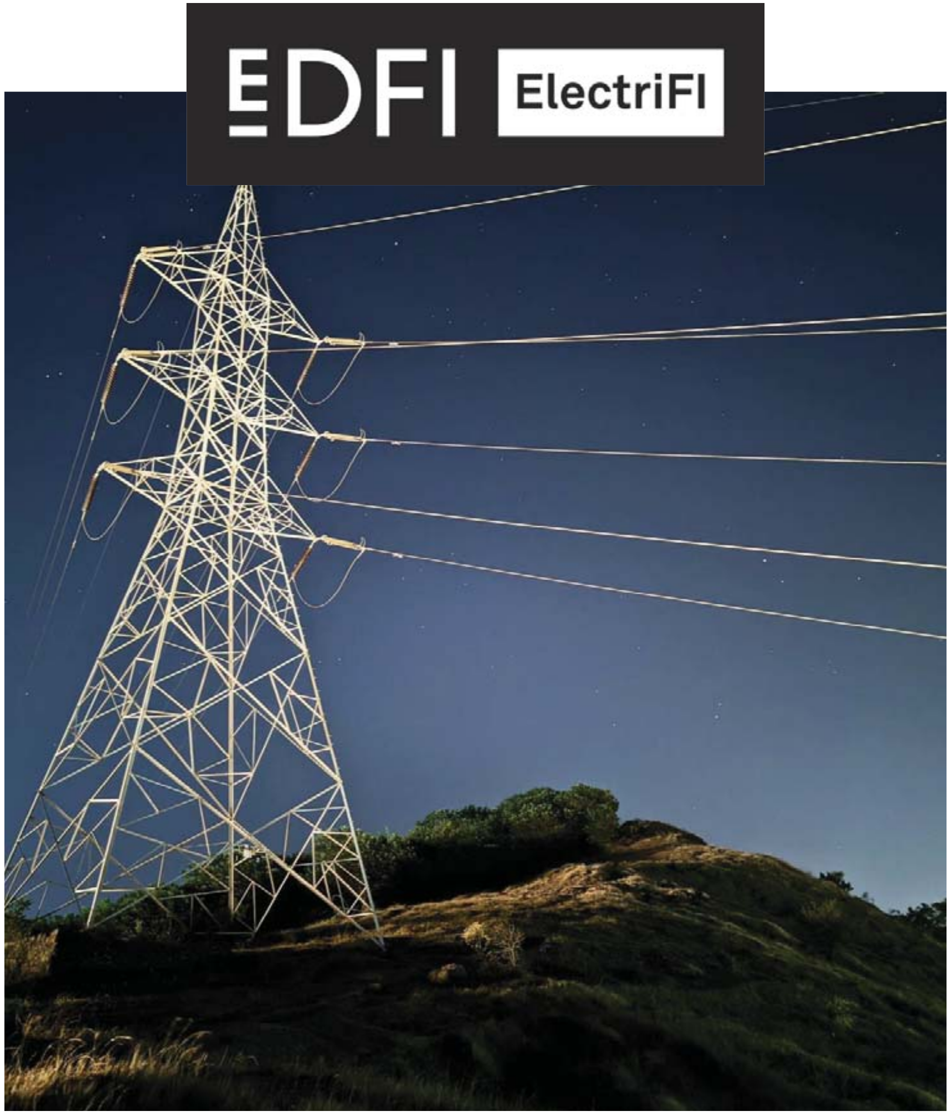
Company 2

KPI A	Def. I	Metric 3 / Metric 4
KPI B	Def. II	Metric 2 / Metric 1
KPI C	Def. III	Metric 4 / Metric 1
KPI D	Def. IV	Metric 4 / Metric 2

KPIs & UEs: Categorizing KPIs and UEs

PAYGo PERFORM can be a starting point on which to build KPIs and UEs that assess the size of a company & its growth strategy, the portfolio quality, and the unit metrics.

Size of the company and growth strategy	Credit period (contractual and effective) Receivables portfolio size Receivable growth rate (…)
Portfolio quality	Collection ratio Receivables at Risk 30/60/90/120 days Write-off ratio (…)
Unit Economics	Unit follow-on payments Unit Provision cost Unit financing cost (…)



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