SMEs and Clean Energy for Developing Markets

Challenges and Opportunities in Accessing Finance

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PEOPLE. PRINCIPLES. PROSPERITY.

Key Themes

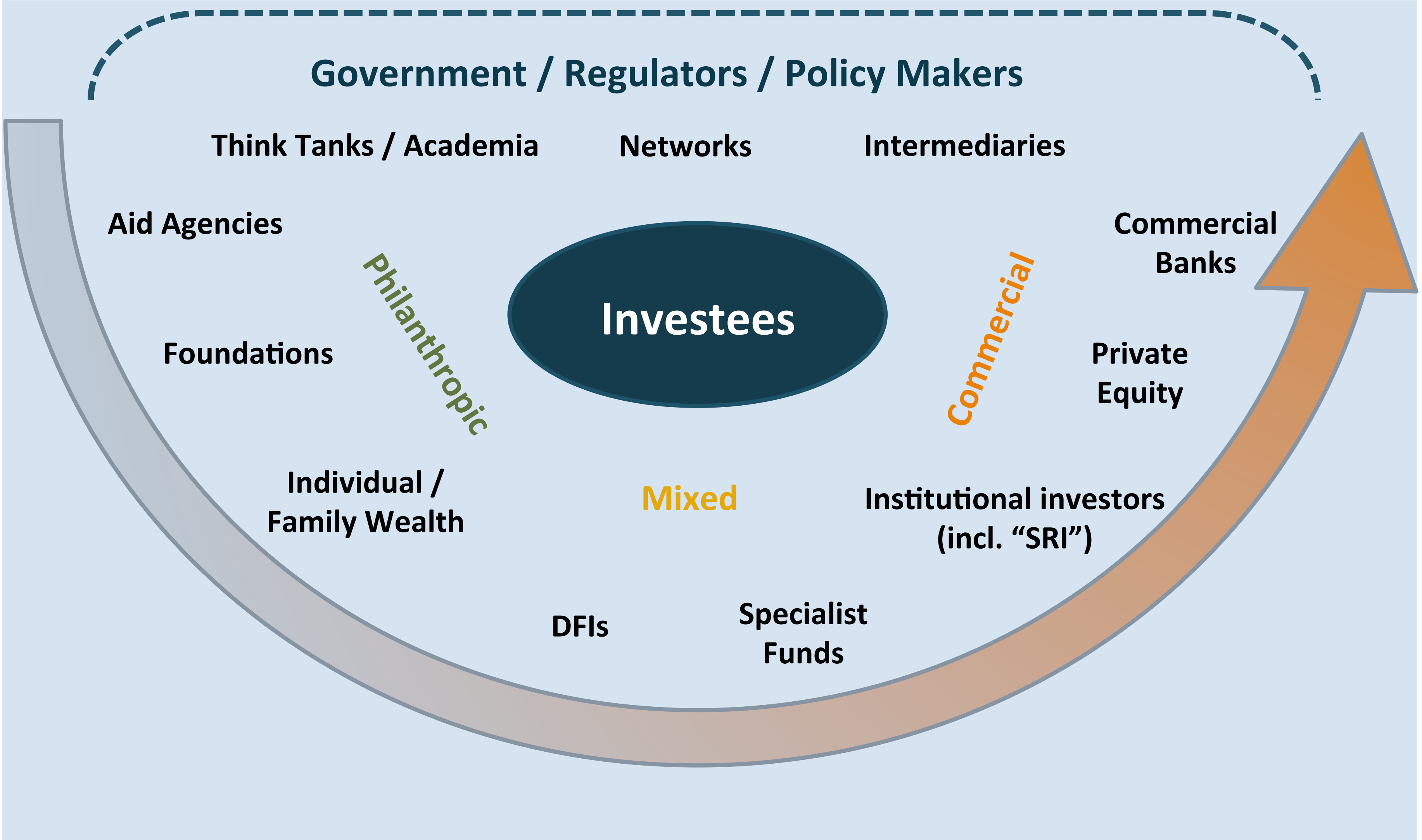
The Opportunity:

- There is plenty of money looking to invest in businesses that are commercial and improve the lives of mass populations in developing countries
- Clean energy businesses clearly have that potential

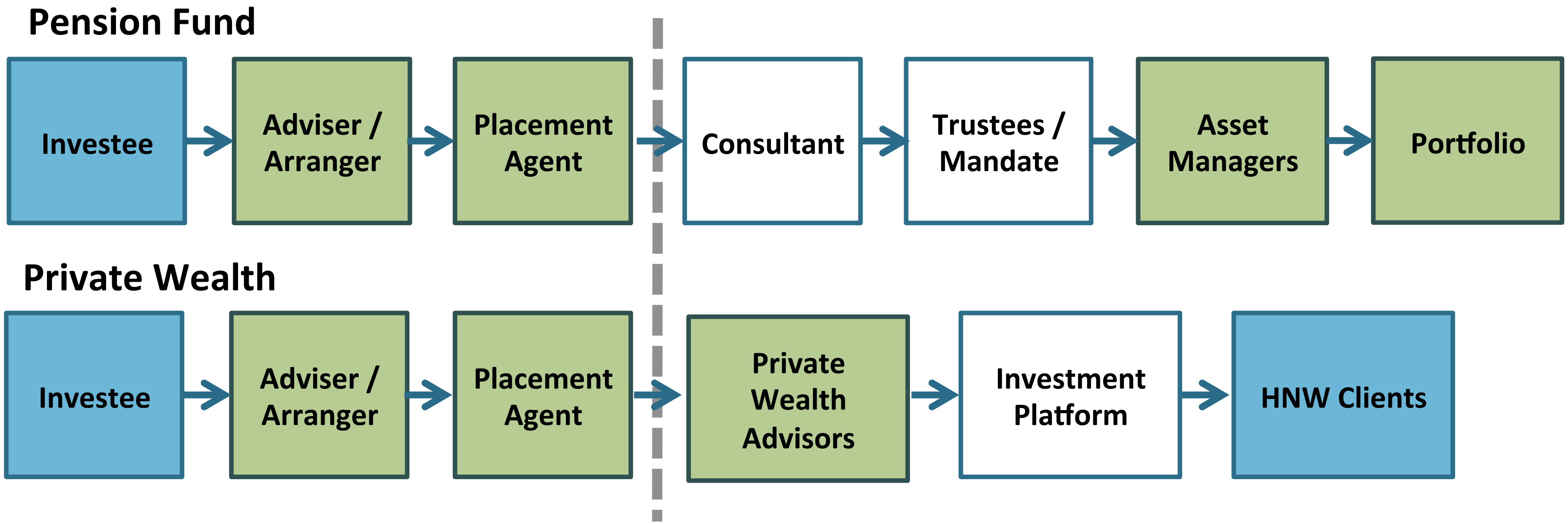
The Challenge

- This money is hard to access
  - ✧ The landscape is an extremely complex one
  - ✧ The players within it have many different agendas and even where there is aggregation it is often not optimally organised
  - ✧ Many investors substantially overestimate their real risk appetite

The landscape is a very complex one



There are many participants in any transaction … and some aren't present today



Exist
A few exist. Limited familiarity in the Impact space
Does not exist / No familiarity / interest in the Impact space

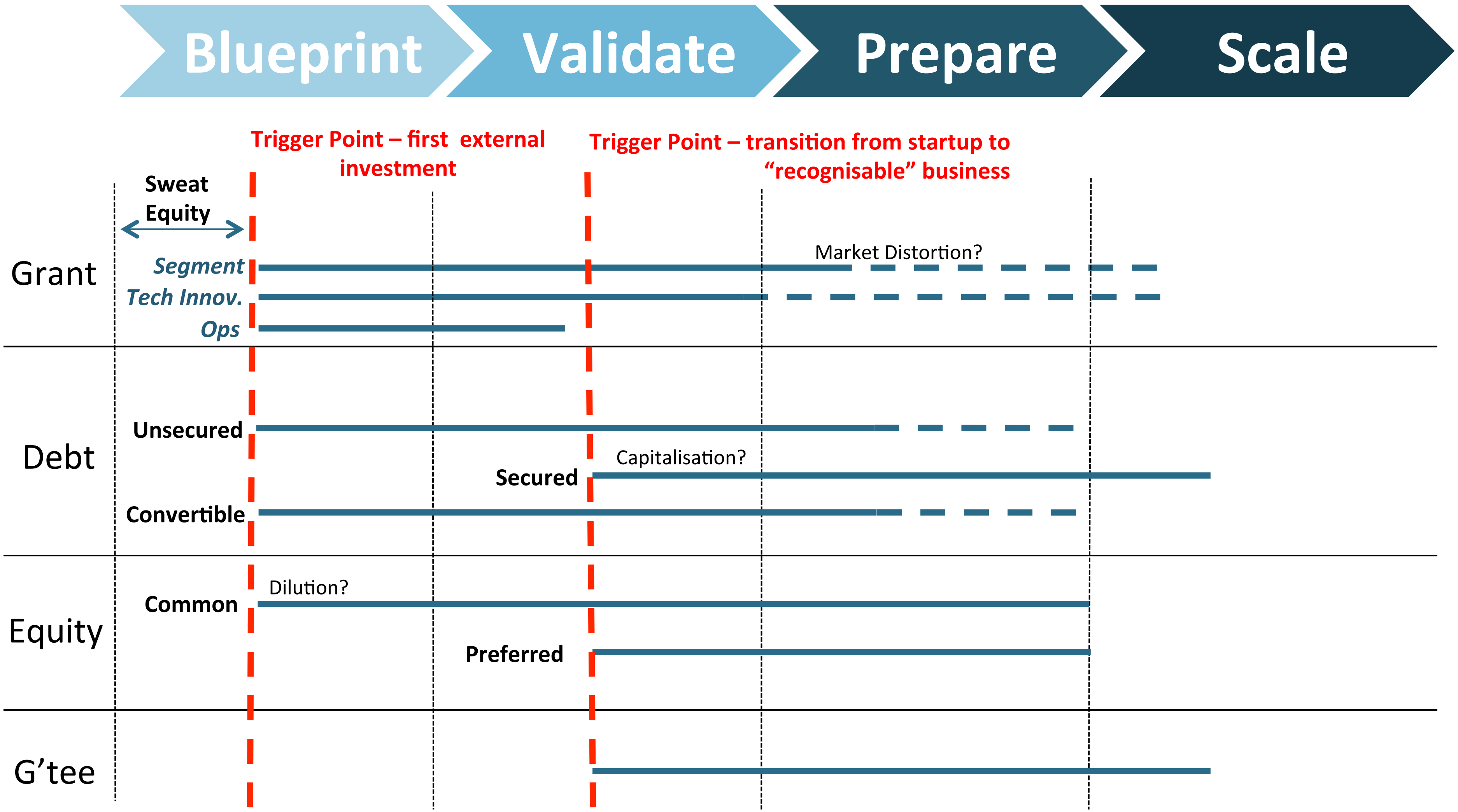
Agendas and investment criteria are highly diverse

In any investment, the following will be among the considerations:

- Sector / sub-sector – *an investor may support solar but not cookstoves*
- Geography – *many investors have severe restrictions*
- Type of investment – *equity/debt/grant/hybrids*
- Company lifestage
- Investment thesis – *some investors believe only locally based businesses should be supported*
- Level of commerciality / return
- Investment horizon / potential for exit

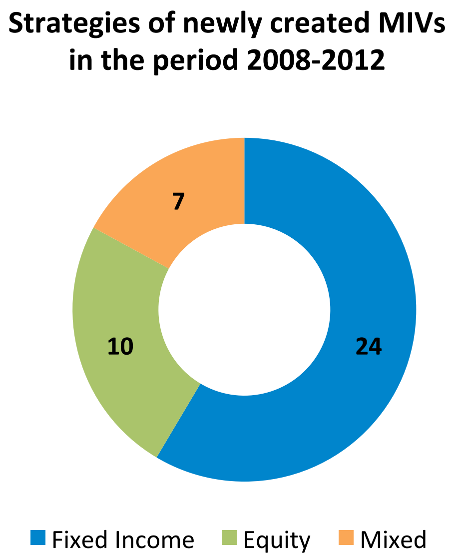
The more investors that are needed in any deal, the greater the odds of mismatches in their agendas and thus difficulty of execution

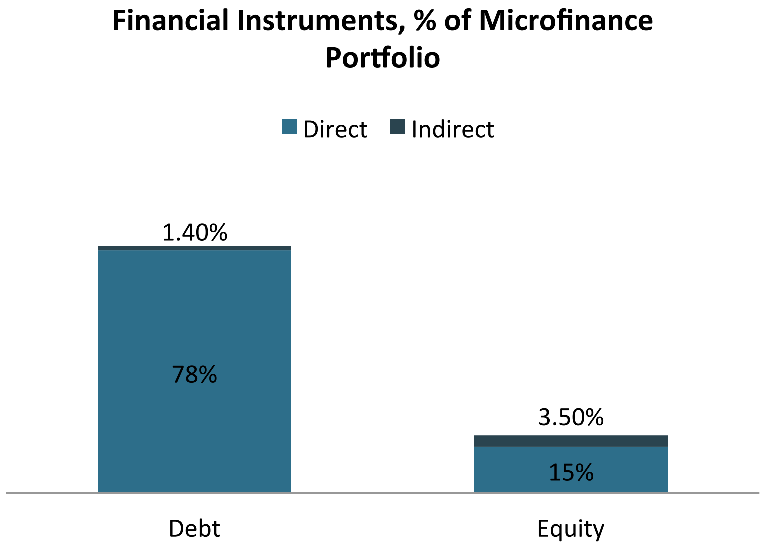
Particular kinds of capital are appropriate at different company lifestages



For a sector to grow both equity and debt investors need to be present

- The microfinance market, which is the most mature and successful impact investment market, has a good blend of capital types





- By contrast, from what we can presently see in the clean energy impact sector, there are several debt funds about to come onstream but a dearth of equity
- Yet debt providers will generally need to see equity in the capital structure of companies before they will invest

What's needed if the perfect is not to become the enemy of the good …

- The investment landscape needs to be made easier to navigate for companies which often do not have sophisticated finance functions at the lifestage at which they start seeking external investment
- This may mean, for example, investors having to free up some investment criteria to create more commonality of approach
- "Prime mover" investors (e.g. DFIs, large foundations etc) need to ensure that they are covering both the debt and equity elements of the capital structure when establishing / anchoring funds
- There need to be more specialist intermediaries and grant funding should be available to pay transaction costs for early stage companies
- Transaction lead times need to be radically shortened. Funds can take years to establish and the average equity deal-time is 12 months
- Meanwhile fast-growing investee companies have needs that are measured in a few months