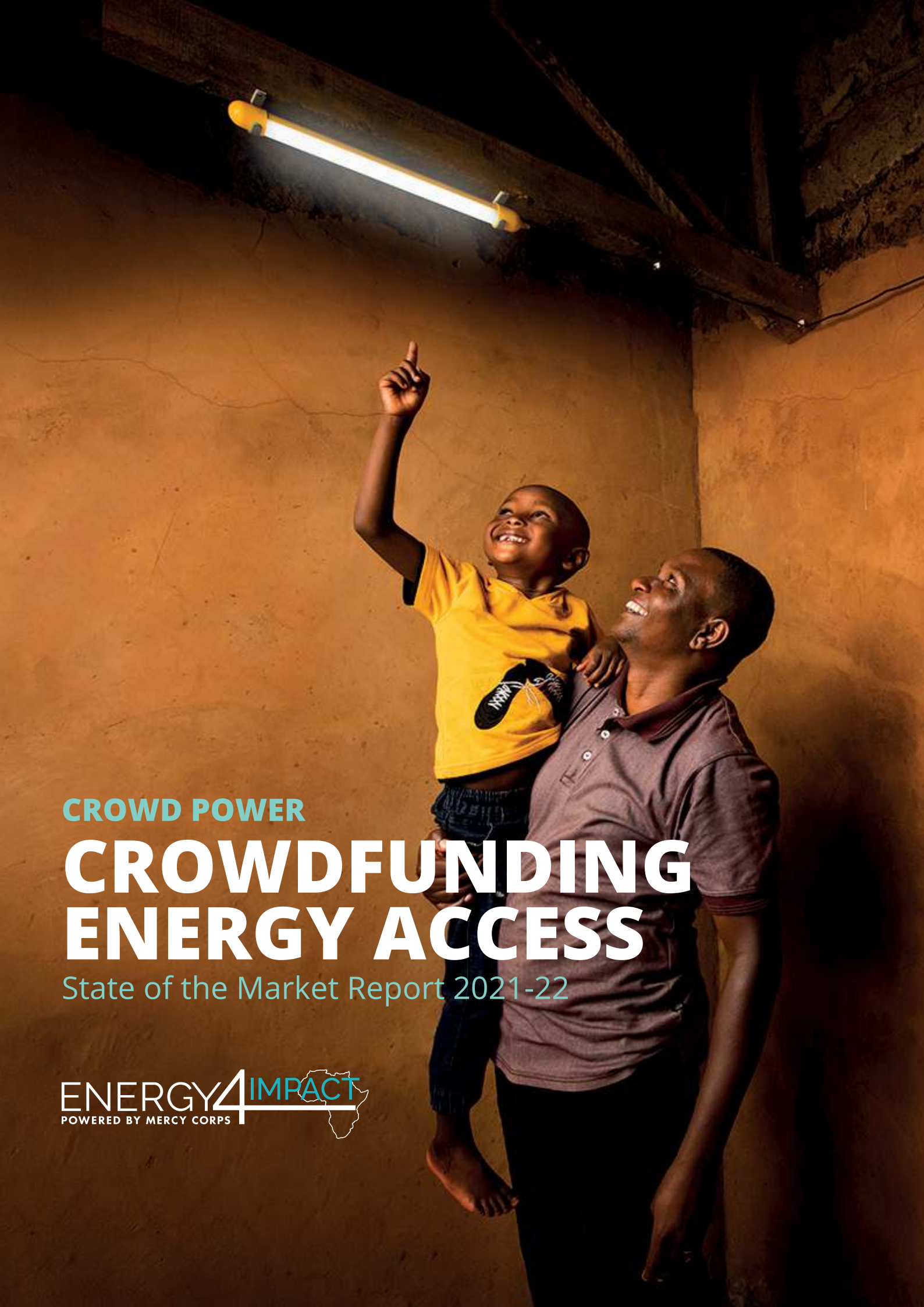

CROWD POWER

CROWDFUNDING ENERGY ACCESS

State of the Market Report 2021-22

ENERGY4IMPACT
POWERED BY MERCY CORPS

FEATURED
- bettervest
- Charm Impact
- RVO
- CEI Africa
- The Global Distributors Collective

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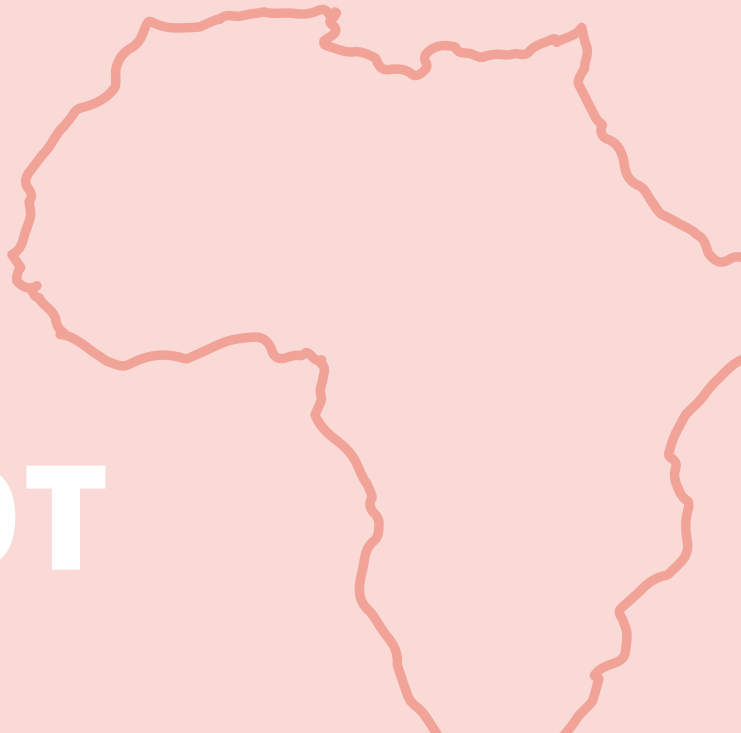
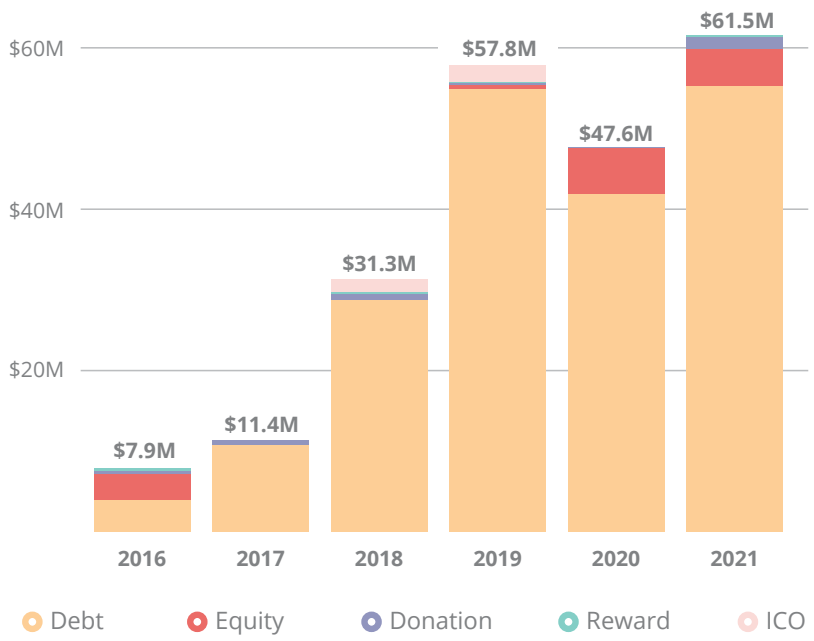
01
MARKET SNAPSHOT



Total volumes of energy access crowdfunding **2016 – 2021**



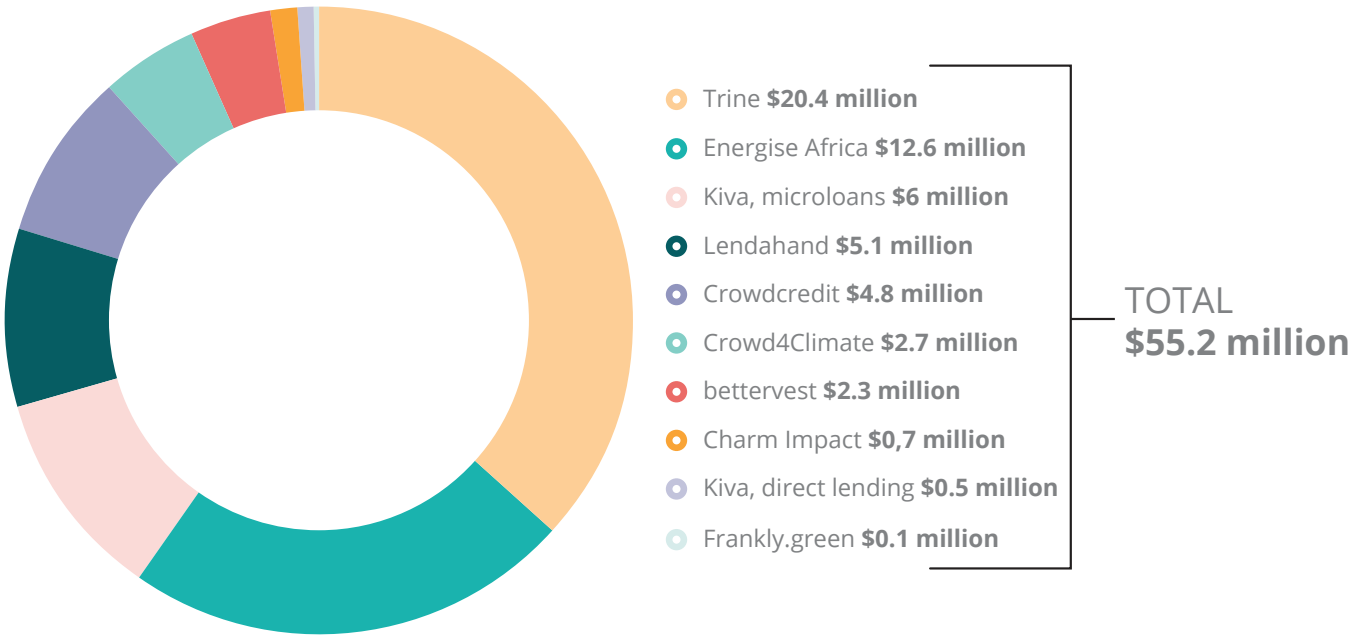
$61.5M

raised for energy access via crowdfunding in 2021

90%

of funds were raised on debt crowdfunding platforms

Debt crowdfunding volumes **by platform 2021**



Top **Trends**

29%

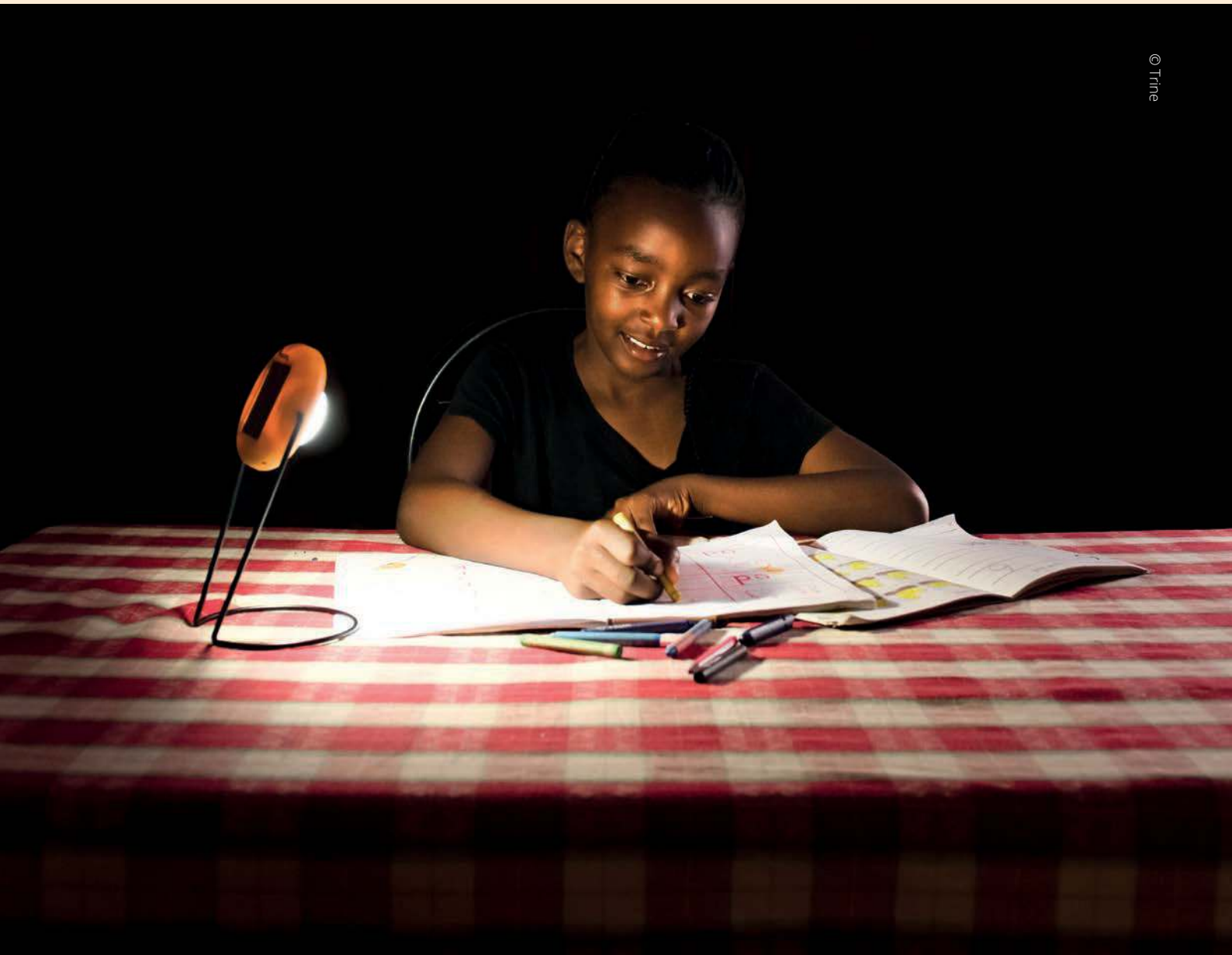
growth in total crowdfunding volumes compared to 2020

Crowdfunding accounts for over

14%

of total investment volumes in the energy access sector

The debt crowdfunding market is concentrated – 5 companies raised 45% of funds and 2 debt crowdfunding platforms represent 60% of volumes



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02

CROWD POWER – OVERVIEW

Crowd Power is a donor program that tackles systemic and operational challenges hindering the growth of crowdfunding in the energy access sector. It seeks to accelerate the sustainable growth of the sector through targeted support for equity and debt crowdfunding platforms and energy access crowdfunding campaigns.

Funded by the UK government's Foreign and Commonwealth Development Office (FCDO) since 2015, the program is implemented by Energy 4 Impact (E4I) through Transforming Energy Access (TEA), a research and innovation platform supporting the technologies, business models and skills needed to enable an inclusive clean energy transition. The current phase of the program runs until 2026.

Crowd Power focuses on three common challenges faced by the crowdfunding platforms:

- Lack of pipeline – It covers the upfront cost of due diligence of investees and set up-costs of new "de-risking" products for investees. It also occasionally provides match funding for crowdfunding campaigns.
- Lack of investors – It supports investor outreach activities, including incentives for new investors.
- Operating costs – It enables platforms to onboard investees more efficiently and identify the most cost effective interventions to attract investors.

In the current phase of Crowd Power, we aim to answer 4 key questions:

- What are the most cost-effective de-risking mechanisms for investors / investees?
- How can concessional capital be used to develop cost-effective solutions for small ticket lending, particularly for early-stage, locally-owned or women-owned businesses?
- What types of investor outreach offer best value for money? How can we bring in under-represented investor groups such as millennials, women and diaspora?
- What are the most efficient blended finance solutions for scaling up crowdfunding?

This is our 4th State of the Market report and is the first of a series of reports that we plan to publish in the next few years to inform crowdfunding platforms and energy access industry practitioners.

Since 2015, Crowd Power has supported over 70 energy access companies to raise over $17 million through 14 crowdfunding platforms. Crowd Power has supported over 300 campaigns.

Crowd Power has worked closely and successfully with Energise Africa to support its growth, and in 2021, Energise Africa ranked second among these platforms in terms of debt volumes.

03

CROWDFUNDING AS A SOURCE OF CAPITAL

Crowdfunding, particularly through debt-based models, has become an important source of financing in the energy access sector. It accounted for an average of 16% of total investment volumes from 2018 to 2021.[1] In 2021, energy access companies and projects raised $62 million on crowdfunding platforms; over $55 million of this was on debt platforms.

The energy access crowdfunding market has different characteristics to the overall energy access investment market. The energy access crowdfunding market is significantly less concentrated amongst the seven scale-up companies (Bboxx, d.light, ENGIE Energy Access, Sun King[2], Lumos, M-KOPA and ZOLA) that account for 72% of the $455 million raised by companies in the sector. These seven companies account for just 11% of crowdfunding volumes. The top seven companies fundraising via crowdfunding platforms are REDAVIA, Altech, Sun King, BBoxx, Daystar Power, Oolu and Solarise, which together raised 45% of the $62 million raised on crowdfunding platforms. This data suggests that crowdfunding is playing an important role in addressing the financing gap faced by companies raising less than $100 million each year.

Crowdfunding volumes in the energy access sector are on the rise, and 2021 marked an increase in volumes above pre-Covid levels. Volumes have grown seven-fold over the last five years ($7.8 million was raised in 2016) and doubled since 2018. 90% of volumes remain debt investments, a proportion that has hardly fluctuated over the years. Debt volumes seem quite resilient to external crises, such as Covid-19.

While the pandemic created uncertainty and led to a drop in volumes, investors largely kept cash in their platform "wallets", which may help explain the quick recovery of 2021 volumes. Rising concern about climate change is also increasing demand for triple-bottom-line investments, which will continue to create demand for impact investments.

Crowdfunding can be a powerful tool to resolve well-known market gaps, such as the lack of financing for earlier-stage companies in the energy access market. The speed and flexibility of crowdfunding also makes it attractive to companies in the scale-up phase. Debt crowdfunding, in particular, is an increasingly sustainable and profitable investment alternative for crowd-investors, and platforms are becoming trusted partners of traditional finance players. More support is needed to increase access to smaller ticket size investments, and to build initiatives that are frontier, and inherently more risky (e.g. local currency hedging). New donor initiatives, such as Crowd Power, can also support platforms to reach smaller companies by covering the costs of origination and due diligence.

Crowdfunding accounted for an average of

16%

of investment volumes in the sector from 2018 to 2021.

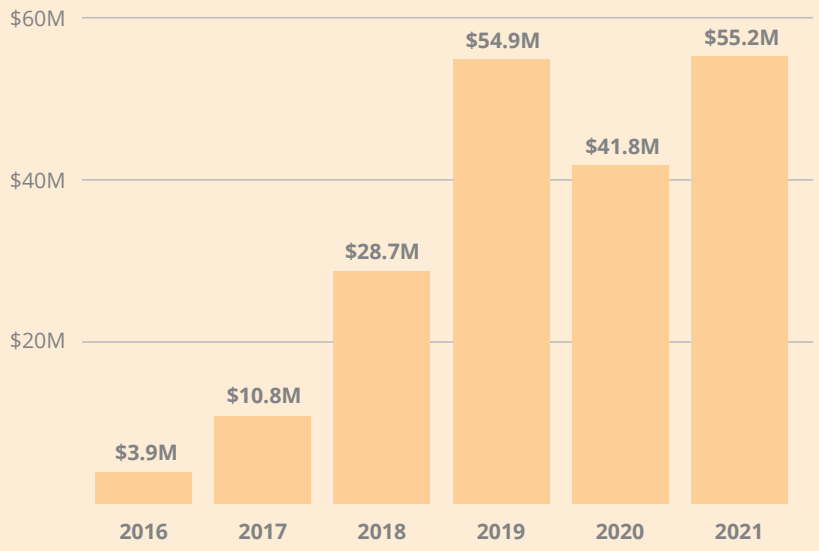
1. Based on aggregate data published by GOGLA.
2. Formerly Greenlight Planet.

04
DEBT CROWDFUNDING

Market update

Energy access-related debt crowdfunding volumes grew 32% from 2020 to 2021, from $41.2 million to $54.9 million, showing both a robust recovery from Covid and an increase above pre-Covid volumes. These volumes have doubled since 2018 ($27.7 million), demonstrating the potential of the sector. This growth is likely to be bolstered by new donor initiatives, such as the €49 million ($50 million) CEI Africa programme (further information can be found on *pg 34*).

Debt volumes, **2016 - 2021**



Crowdfunding accounted for an average of 32% in 2021.

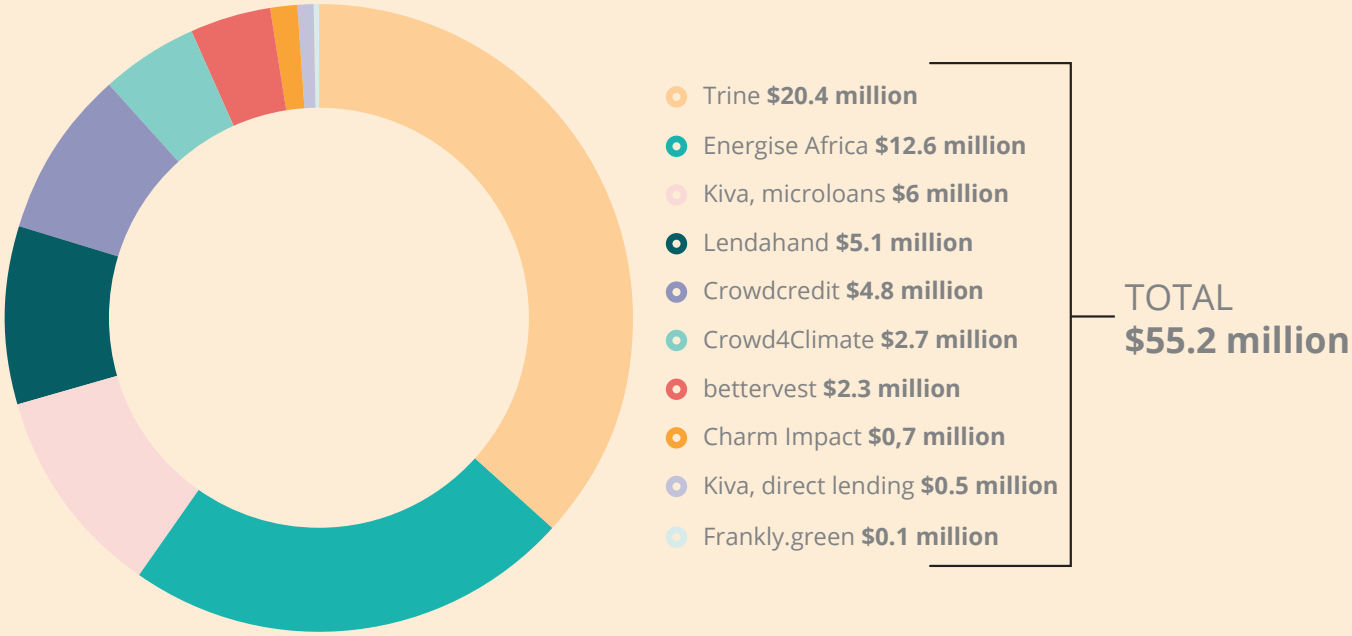
Platforms

Energy-access related debt campaigns experienced a strong recovery in 2021, with all platforms reporting growth rates above 20% compared to 2020.[3] There are two main types of debt platforms: (i) those providing direct loans to energy access companies, and (ii) those providing loans via microfinance institutions. Platforms providing direct loans accounted for 89% of all energy access-related debt activity in 2021.

Amongst direct lending platforms, there are platforms offering large tickets (more than $200k) to growth-phase companies (such as Trine, Energise Africa, Lendahand, bettervest and Crowd4Climate), and venture debt platforms offering tickets from $10k to $200k (such as Kiva, Charm Impact and frankly.green). Loans on venture debt platforms are typically unsecured. Growth-phase platforms account for 87% of debt crowdfunding volumes, while venture debt platforms account for less than 3%. Microloans account for 11% of activity.

3. Kiva is the exception to this, due to a review of the scope of "green energy" related loans on its platform, affecting its biggest P2P lending beneficiary, One Acre Fund.

Debt Crowdfunding volumes **by platform 2021**

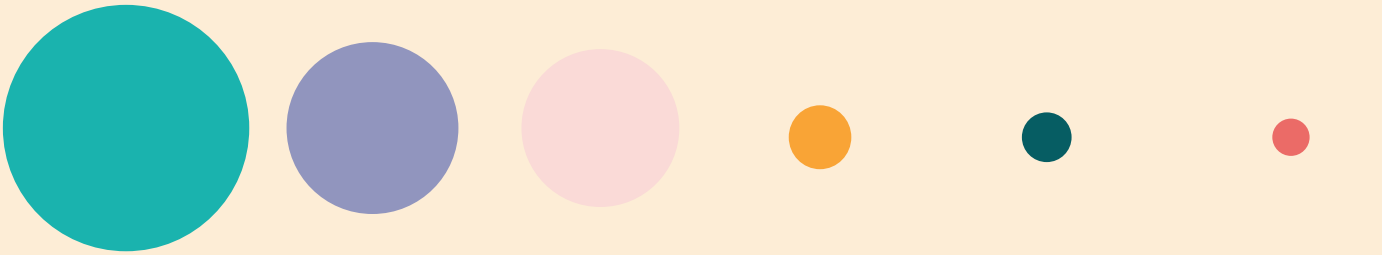


The average ticket size on growth-phase platforms was $550k in 2021, up from $396k in 2020. The average ticket on venture debt platforms increased to $110k, up from $86k in 2021. Crowd4Climate, an Austrian debt crowdfunding platform, had the highest average ticket size of $900k, although this was across just three campaigns. It will be interesting to see how loan types evolve over the next two years, as there is willingness among several platforms, as well as new donor initiatives from E4I and RVO, to support smaller ticket size loans. Donor capital is critical to increasing financial access, since it allows platforms to reach smaller borrowers by subsidising origination and due diligence costs.

Trine and Energise Africa out-performed the previous two years in 2021, raising $20.4 million and $12.7 million respectively. Trine remains the platform with the highest volumes, accounting for 37% of total volumes (down from 41% in 2020). The market remains concentrated amongst a handful of players; the top two platforms, Trine and Energise Africa, represent 60% of volumes. These two are specialist platforms, exclusively focused on energy access; other platforms, such as Lendahand, have a wider range of campaigns.


© bettervest

Average loan size and campaigns **by platform 2021**



Trine
$754,216
27 Campaigns

Energise Africa
$526,834
24 Campaigns

bettervest
$483,895
4 Campaigns

Lendahand
$141,274
36 Campaigns

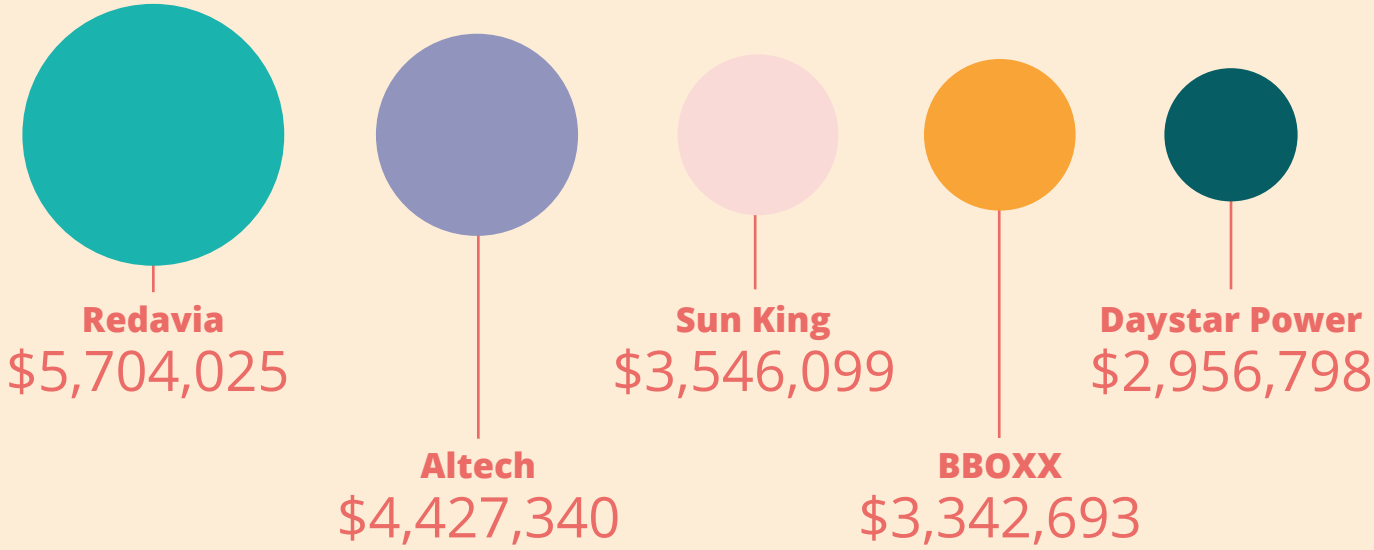
Kiva, direct lending
$112,500
4 Campaigns

Charm Impact
$84,619
9 Campaigns

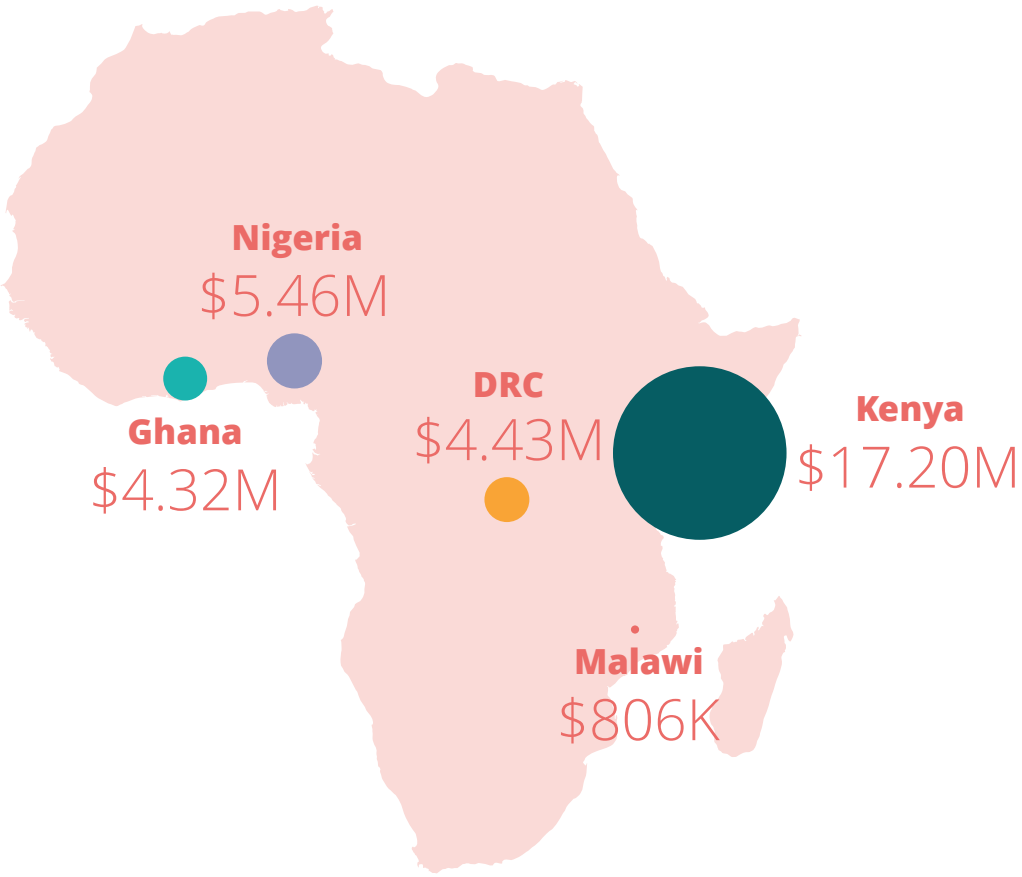
Campaigns

In 2021, there were 108 direct loans to energy access companies across 67 borrowers. Of these borrowers, 15 raised more than $1 million, and the top five borrowers raised 45% of the total debt. Sun King, Daystar Power and Bboxx have been the most significant borrowers over the past two years. Kiva's energy access-related microloan campaigns amounted to $6 million in 2021, and over half of these loans were through One Acre Fund.

Top 5 borrowing companies **via crowdfunding, 2021**



Top 5 countries **in 2021**



Gavriel Landau, Co-Founder, Charm Impact

SPOTLIGHT: CHARM IMPACT

Innovative finance tailored to local companies

Charm Impact is a UK-based debt crowdfunding platform, built to address the financial exclusion of locally-owned early-stage companies in the energy access sector. Charm Impact's borrowers cannot access finance through local financial institutions due to prohibitive collateral requirements, but are typically too large for microfinance institutions. Industry-wide, around three quarters of investment flows to just seven companies,[4] further expanding the financing gap faced by local entrepreneurs.

Charm Impact has financed 23 unsecured loans across seven countries since launching its first campaign in late 2019. It began raising finance in the UK through an online impact investing platform, which galvanised a group of approximately 50 loyal individual investors that provide debt finance to energy access businesses. Individual investors contribute between £2k and £100k on the platform. Charm Impact's investor base has also expanded to include institutional investors, which allows the platform to build innovative blended financing structures.

Charm Impact recently announced the launch of an impact bond in partnership with iGravity. The Charm Impact Bond (CIB) aggregates loans from a range of borrowers operating in different countries and deploying a variety of clean energy technologies. The $12.5 million bond will blend retail and institutional funding with subordinated philanthropic capital to de-risk the investment. The CIB is likely to significantly scale the amount of capital that Charm Impact can deploy to meet demand for early-stage, locally tailored debt within the energy access sector.

The platform is also working on initiatives to reduce currency risk exposure. With support from CLASP and funding from IKEA Foundation, it recently

> *"There is no willingness to adjust minimum ticket sizes, because most crowdfunding and institutional funders are fundamentally not structured to do it.*

4. World Bank | GOGLA: *https://documents1.worldbank.org/curated/en/099235110062231022/pdf/P175150063801e0860928f00e7131b132de.pdf*

© Charm Impact

announced a partnership to develop a €200k ($207k) currency first-loss pool, which will allow borrowers to fix an exchange rate for the life of the loan, based on the exchange rate on the day of loan disbursement. A portion of the currency first-loss pool will be allocated to each loan. In the event of a shortfall in the expected payment due to currency depreciation, Charm Impact will draw down on the pool to "top-up" repayments to investors.

Charm Impact has raised an additional £700k ($840k) in philanthropic capital, which will act as a first-loss pool to protect a portion of the loan principal for investors. This blended finance mechanism is intended to augment the risk-return-impact profile of the underlying investments, and to catalyse investment in early-stage, locally-owned clean energy companies. These will be deployed simultaneously, with the aim of increasing certainty for borrowers and reducing risk to investors in a scalable manner.

Charm Impact is leveraging blended finance to provide access to capital for historically excluded borrowers. These structures allow locally-owned energy access companies to build a detailed credit history and then obtain financing from larger ticket investors. Charm Impact's first borrower, Havenhill Synergy, a mini-grid developer based in Nigeria, borrowed $30k in 2019, and has since raised over $4 million.

Interview with Olga Dickmann, CFO and Manager of Business Development Africa, bettervest

Q&A: BETTERVEST

Democratising access to impact investments

bettervest is a German debt crowdfunding platform that offers loans to social enterprises operating in sub-Saharan Africa. bettervest lends upwards of $200k, which is at the lower end of growth-phase platforms. Impact is at the core of its projects, and for this reason, bettervest takes innovative and flexible approaches to transactions.

Q Bettervest raised $2.3 million for energy access projects in 2021, doubling since 2020. How has Covid impacted your activities, and was it responsible for the drop of volumes in 2020?

A Covid has impacted our activities in two main ways. First, on the investor side, there was a period of uncertainty which made investors reluctant to invest or reinvest. In April 2020, investments on our platform dropped by 87%, compared to the same month a year before. Secondly, there were fewer opportunities displayed on the platform. As international travel was limited, we could hardly source new deals and build the pipeline. When you look at other platforms, everyone was in the same situation. We learned the importance of being locally present and developing partnerships with existing or potential investees.

Q Did you take any specific action to make the crowd reinvest on the platform?

A Yes, Covid encouraged us to rework our strategy, especially our marketing strategy. We have tried several approaches. One approach was working with E4I to provide match funding and guarantees on the platform. It was very reassuring for investors to have a reliable name behind the campaigns. During this period, we also realised how dependent we were on the investments made on our platform, as they were our only source of income. This is why we have explored co-funding with other investors, to propose new solutions and remain active during Covid to fit with our impact goals.

Q How do you define 'impact', and how does it serve as the core of bettervest's strategy?

A There are three pillars that define our strategy and, therefore, our operations: democratising the investment market, reducing the human carbon footprint, and closing the financial gap in developing countries.

There is a well-known gap in financing small and medium-sized enterprises (SMEs) in Africa. There is money for financing big companies ($5 million or above), and some solutions for small amounts (<$20k), such as from microfinance institutions - but nothing in between. We aim to close the gap for SMEs with financial needs between $200k and $1 million, and even less. But we also finance larger ticket sizes.

This is especially important to us as a German platform, as the strength of the German economy is partly based on SMEs. As our structure is smaller than traditional financial institutions, our due diligence costs (as a percentage of the transaction costs) are higher. There is a tension here: to achieve our impact, we want smaller tickets, but to make this work, we also need as a private company to cover our costs for this ticket range. We are currently working on new solutions to do smaller tickets. For now, our minimum investment size ranges from $200k to $250k. Hopefully, soon, we will be active on these smaller amounts, starting at $50k to $100k.

© bettervest

Q The financing needs are indeed significant, and therefore require a strong and extended investor base. How do you plan to attract more investors, to significantly help close the financing gap?

A This is part of our marketing strategy. There are three key drivers for investors in disbursing their savings: risk, impact and financial return. All three are of equal importance. Recently, we have focused our communications on impact, since impact is our ultimate goal; we have completely redesigned our website, with a broader description of impact for every project. Eventually, we will work on our own methodology to measure and communicate about impact, using quantitative – and so collectable – data. But numbers are not everything, and we will also look at the stories behind them.

We have also worked on our risk mitigation mechanisms, implementing more securities and working on a credit default guarantee. We started communicating these measures and gave background information to investors. External communication is also key to attract more investors, as some people still don't know about crowdfunding. Early in 2022, we were on the Franco-German TV channel Arte, and in March, we were broadcasted on the German TV channel ZDF. After the broadcast, the number of new connections was so high that our website crashed, and it brought us many new investors.

Q What about the other key drivers, financial return and risk? To attract more investors, do you think that crowdfunding can be introduced as a sustainable and profitable financial product, and be perceived as such by investors?

A Yes. Again, impact, risk and financial returns are equally important to us. Our focus on impact is quite recent and, as for other lenders, financial return and risk are determinant when conducting our project selection.

The evolution of crowdfunding is interesting. When I started working at bettervest a few years ago, I always had to explain what crowdfunding was during the panels or conferences that I attended. Now, it is much more familiar, and people understand what it is. The sector is professionalising, and platforms have strengthened their credibility in the eyes of investors and other financial players. To me, it is crucial that platforms are perceived as serious companies, by the crowd, the financing sector and potential investees. There is still room for development, but there has been major evolution in the last few years. Only two years ago, for example, banks would never have spoken to crowdfunding platforms. Nowadays, more and more financial institutions see the advantages of working with us. I would say that crowdfunding platforms are now regarded as a serious player, at least for a specific segment.

Q Speaking of banks, is there room for cooperation between platforms and traditional financial players to help close the gap in financing SMEs in developing countries?

A Definitely. Blended finance, for example, is often used and discussed at the European level. This encourages many companies to blend crowdfunding platforms' financial products with senior loans or guarantees from banks. Lending in local currencies is also often an issue for platforms. Funding in different currencies could be used as part of a blended finance strategy, reducing the risk for both borrowers and investors.

Q To be regarded as a sustainable financial product, crowdfunding should also attract investors beyond impact. In a period of high inflation in Europe, how do you compound interest rates (around 6-9% on average) with the risk of investing in small companies in risky geographies?

A As we fund in Euros, inflation is a challenge we are facing. It is true that investors expect to get a higher interest rate for African projects, due to their riskier aspects. We have not dramatically increased rates yet, but we might increase them slightly. Everyone is conscious that those rates cannot be increased indefinitely, however; for a small, locally-owned company, for example, high interest rates can quickly become unsustainable. The cost of loans should not exceed expected returns, though, and at a point, it is no longer worth it for investors to invest.

© bettervest

There is another way of looking at the combination risk-profile and interest rate, which is de-risking. There again, we try to be creative and use the tools of blended finance to de-risk investors, with a first loss guarantee from another institution, for example. We also work on guarantees provided by companies to bring maximum reassurance to investors. It is important to have not just one collateral provided by the investee, but a mix. In this case, structuration is also determinant - not only for retail investors but for co-founders, for example, as they prefer investing in Germany-based special purpose vehicles (SPVs) than directly in African countries.

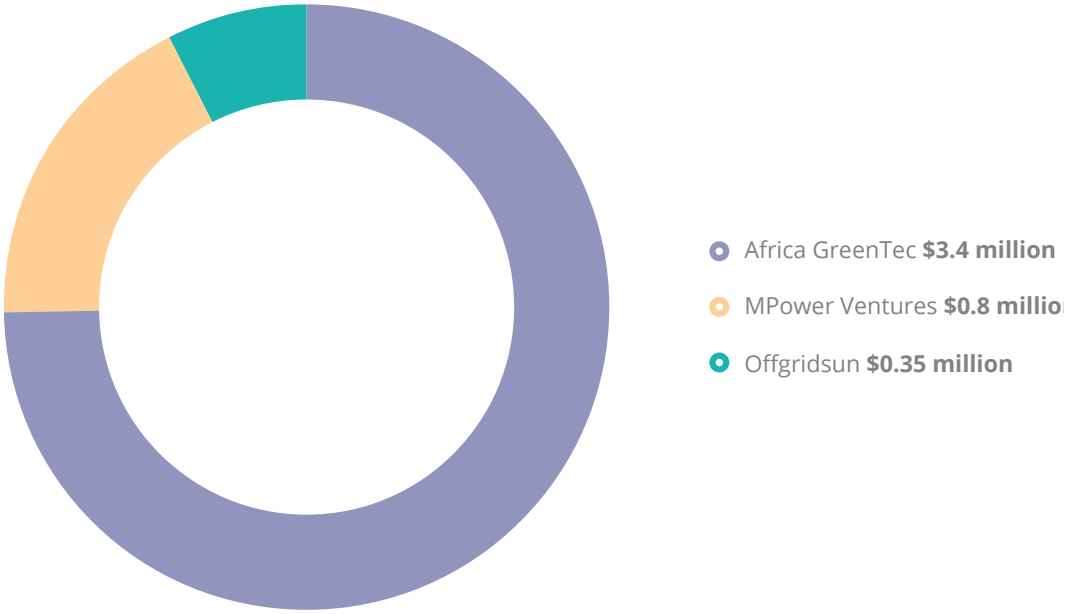
Q Have you noticed behavioural changes among investors due to inflation? And in a period of climate emergency, do you think that investors are ready to accept more risk for the same level of financial returns, if looking at climate-related projects? How do these projects perform compared to other sectors?

A First of all, inflation is quite recent, and it is too early to do a full analysis of investors' behaviours. We will see the consequences next year. What I can tell is that for now, our projects seem quite resilient, and I would say that this is due to their impact. Our crowd is very comprehensive, and we have several success stories that are due to the flexibility of our investors. Communication is key, here, to explain the challenges that one company might face. We have some investors who wrote to us stating they would rather drop the interest rate, if that would help the company. This is where bettervest is different from other platforms not focused on impact, but solely on financial return. We also experienced this during Covid: understanding the global situation, many investors just agreed to an extended repayment period, without any other specific requirements.

As for climate-related projects, it is hard to say, as it also depends on the project holder. Bigger companies have several products, and can adapt more easily than smaller companies. Nevertheless, so far, we have not encountered insolvency for projects funded during or after Covid.

05
EQUITY CROWDFUNDING

Equity crowdfunding campaigns, **2021**



Market update

Globally, equity crowdfunding is growing steadily, as more countries introduce bespoke equity crowdfunding regulation. From 2019 to 2021, the size of the US equity crowdfunding market doubled, to over $400 million in 2021.[5] In the UK, where the market is more mature, over $685 million was raised on equity platforms in 2021.[6]

In 2021, three energy access-related equity campaigns collectively raised $4.5 million. This was a 20% reduction in volumes since 2020, which was a record year for equity crowdfunding, with six energy access companies collectively raising $5.7 million. Still, 2021 volumes remain above the historical average of $780k per year raised from 2016 to 2019. In 2021, we also saw energy access-related equity campaigns in Australia and Italy for the first time.

Equity crowdfunding volumes, **2016 - 2021**

5. *https://www.forbes.com/sites/forbesagencycouncil/2021/12/20/the-meteoric-rise-of-equity-crowdfunding/?sh=7f552edd4d41*
6. Beauhurst

© Charm Impact

Platforms & campaigns

Africa GreenTec, a German mini-grid developer, closed its $5 million Series A round in 2020, through an equity crowdfunding campaign hosted on its own website. It raised the round over several months, raising $2.6 million in 2020 and $3.4 million in 2021, at a $45.5 million pre-money valuation. OffgridSun, an Italian energy access company, raised $335k on the Italian equity crowdfunding platform Back to Work, at a $1.9 million pre-money valuation in 2021. The Swiss-based MPower Ventures raised $667k through convertible notes on Crowdcube in 2021, following its $541k equity round in 2020, which valued the company at $6.5 million.

Winch Energy, a UK-based mini-grid developer, also launched a campaign on Crowdcube in 2021, but this appeared to be taken offline early and didn't close. Companies usually do this if they raise funds from other sources during the campaign period, or if the campaign is not performing as well as hoped. Also in 2021, the Australia-based mesh grid start-up Okra Solar launched a pre-campaign expression of interest (EOI) on the Australian equity platform Birchal, although it didn't launch a campaign, as it raised financing from other sources. In mid-2022, Okra Solar announced that it had raised a $2.1 million round from a consortium of impact investors, including Explorer Investments, Didendum and Schneider Electric Energy Access.

In 2022, the UK-based Inclusive Energy raised a $529k round on Crowdcube at a $6 million pre-money valuation, while the UK-based cold storage start-up Chill Technologies raised a $590k round at a $17.1 million pre-money valuation. The Netherlands-based Kitepower raised $1 million at a $10.5 million pre-money valuation in 2022.

In 2021, three energy access-related equity campaigns collectively raised

$4.5 million

© Siemens energy-connect2evolve

Equity crowdfunding **re-money valuations**

COMPANY	PLATFORM	COMPANY HQ	PRE-MONEY VALUATION	ROUND SIZE	CLOSE
Chill Technologies	Crowdcube	UK	$17,124,480	$591,750	2022
Kitepower	Crowdcube	Netherlands	$10,463,596	$1,039,700	2022
Inclusive Energy	Crowdcube	UK	$6,016,200	$528,620	2022
OffgridSun	Back to Work	Italy	$1,891,250	$275,240	2021
Africa GreenTec	Africa GreenTec website	Germany	$45,508,270	$4,979,010	2021
MPower Ventures	Crowdcube	Switzerland	$6,447,950	$541,100	2020

NB: The valuation and raise figures were sourced from campaign pages and calculated based on the average annual exchange rate (rounded to the nearest ten).

Characteristics of successful campaigns

Despite some changes to the equity crowdfunding landscape in sub-Saharan Africa, and more buoyant crowdfunding markets in Nigeria, Kenya and South Africa, successful equity crowdfunding campaigns continue to fit a narrow company profile. E4I research has identified the main characteristics of successful campaigns. These campaigns are typically led by companies that:

are incorporated in a 'crowdfunding friendly' jurisdiction (e.g. the UK)

have secured anchor investment prior to launching their campaign (typically 20-30% of the target)

have developed their own proprietary technology relating to energy and/or financing

are raising capital at the holding company level (i.e. not project finance)

are raising a Seed or Series A round and do not yet have a predictable revenue stream

have high quality pitch materials

have a strong network in the crowdfunding platform's jurisdiction (e.g. the UK, EU, USA)

have dedicated an enormous amount of time/ resources to the campaign

have a high level of crowdfunding knowledge and experience

© RVO

The increase in Clean Cooking distribution requires working capital throughout the supply chain – Sale of Electronic Pressure Cooker device supported by the Energising Development (EnDev) programme © Netherlands Enterprise Agency (RVO)

How can funders catalyse investment via crowdfunding?

Philanthropic funders can play a catalytic role for companies aiming to raise capital on equity crowdfunding platforms. E4I's equity crowdfunding report (*here*) highlights potential interventions to increase access to equity crowdfunding, which include co-investment, campaign-maker training, and platform support.

CO-INVESTMENT	Funders promise co-investment to potential investees, conditional on meeting the campaign target. The co-investment is most catalytic when provided in the form of anchor funding, which is typically equal to 10% to 30% of the campaign target.
PLATFORM SUPPORT	Funders support platform costs associated with deal origination, incubation and due diligence. These programmes work best when combined with co-investment. We recommend that platforms contribute at least 25% of costs associated with deal origination and due diligence. Funders can provide up to 100% coverage of incubation costs.
CAMPAIGN-MAKER TRAINING	Funders provide technical assistance funding, typically via the platform, to assist companies with the costs of preparing quality campaign materials (e.g. videos, marketing support). We recommend funders cover up to 75% of out-of-pocket expenses from third party providers. This intervention is most effective when combined with co-investment.

ACCELERATOR FOR SOCIAL ENTERPRISES

Virgin StartUp x Crowdcube

In 2020, the UK-based equity crowdfunding platform Crowdcube launched the Collective Impact programme with Virgin StartUp. Collective Impact is an accelerator programme designed to help founders tackling one of the following issues to raise capital via equity crowdfunding:

1

Technology for planetary health

2

Responsible commerce and consumption

3

Equal access to societal needs

To qualify for the accelerator programme, businesses must be UK-based, operate in sectors actioning change, aiming to raise between £150k ($181k) and £1 million ($1.2 million), be EIS or SEIS eligible, and have existing customer bases or be revenue generating. Collective Impact chooses around eight companies for each cohort.

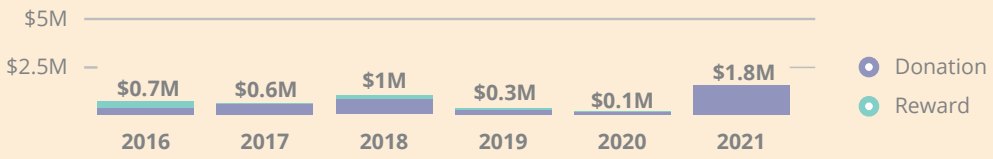
The programme provides investment readiness training over a five-week online programme, and shortlisted companies receive co-investment of £50k to £200k ($60k to $242k), as an anchor investment upon launching their campaigns. Prior to launching Collective Impact, Crowdcube and Virgin StartUp ran investment-readiness programmes which have supported nearly 60 start-ups and over 100 founders to date, raising £15 million ($18 million).

Source Startups Magazine[7], E4I

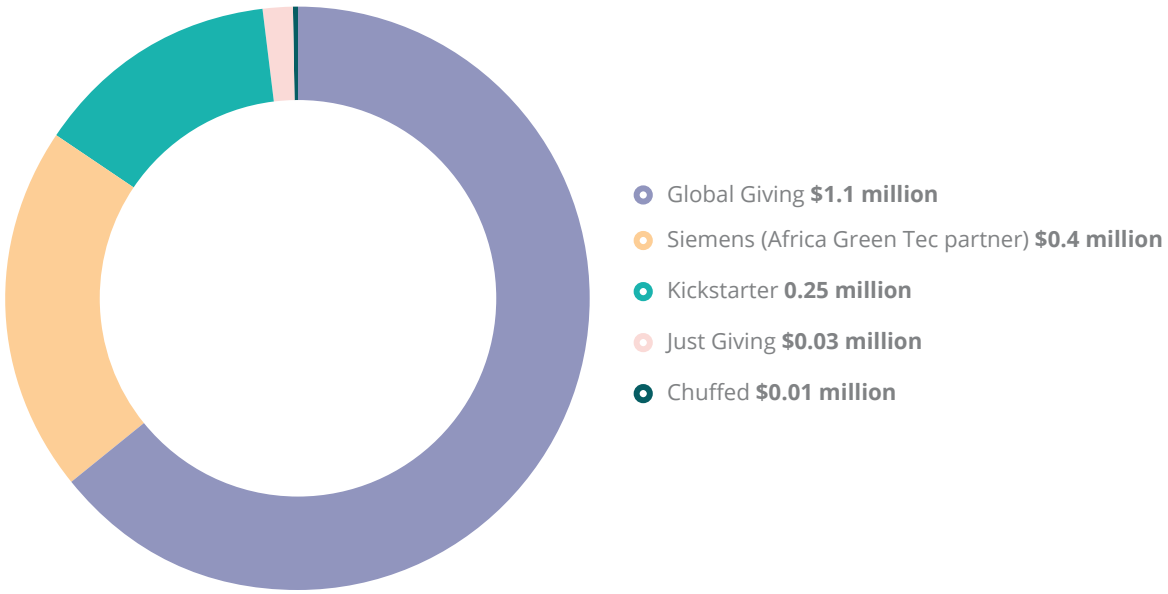
7. *https://startupsmagazine.co.uk/article-virgin-startup-and-crowdcube-partner-support-businesses-purpose*

06
DONATION AND REWARD CROWDFUNDING

Donation and reward crowdfunding volumes, **2016 - 2021**



Donation and reward crowdfunding volumes by platform, **2021**



Market update

In 2021, donation crowdfunding campaigns raised over $1.5 million for energy access-related projects. The US-based platform Global Giving accounts for three-quarters of fundraising activity, and hosted 39 energy access-related campaigns over this period. There were a total of 47 energy access-related donation crowdfunding campaigns in 2021.

One campaign, by the German energy developer Siemens Energy, launched an innovative donation fundraising model, which tokenised donations for greater transparency. The pilot raised $356k for a community in Senegal to purchase a mini-grid system from Africa GreenTec. Siemens Energy raised the funds from its employees and network and issued "impact tokens", which allow holders to track their impact via blockchain with greater transparency and ease.

There were two reward crowdfunding campaigns in 2021, which were both hosted on the US-based Kickstarter platform. fairafric, a German chocolate producer based in Ghana, launched a campaign to finance the construction of a solar-powered chocolate factory in rural Ghana, raising over $120k. The South Korean company YOLK launched a campaign to roll out its Solar Cow lights in selected schools in Tanzania, raising 340% of its $30k goal.

Platforms

US-based Global Giving has long been the dominant donation crowdfunding platform, and continues to account for the majority of energy access campaigns. There were also eight energy access campaigns on the UK-based JustGiving platform and Australia-based Chuffed platform in 2021.

The main platforms for reward crowdfunding remain Indiegogo and Kickstarter. While both platforms have experienced relatively flat growth since their peak around 2014 - 2015, the platforms are still active and a popular choice for one-off fundraisers by social enterprises such as fairafric. There are typically one to four energy access-related campaigns each year. In 2021, Kickstarter hosted both successful energy access campaigns.

Campaigns

The nature of campaigns on donation crowdfunding platforms varies, from small individual fundraisers (~$100) to longer campaigns run by nonprofits (~$10k). The median size of an energy access-related campaign on Global Giving was $6k in 2021.

The reward campaigns by fairafric and YOLK represented a significant increase in reward crowdfunding activity, as there have been few campaigns since 2018. These two successful campaigns, raising an average of $110k each, are a reminder that well-executed and well-publicised campaigns that fundraise for a novel product still perform well on major reward platforms like Kickstarter.

In 2021, donation crowdfunding campaigns raised over

$1.5 million

for energy access-related projects.

Where are they now?

OKRA SOLAR

Okra Solar, an Australian hardware-software start-up, raised a $2.1 million investment round led by two family offices, Explorer Investments and Didendum, in mid 2022. Schneider Electric Energy Access, SDGx and the Autodesk Foundation also invested. Okra Solar works with local utilities to transform energy access and consumption through its smart Mesh-Grid network, which connects households using smart distribution. Crowd Power supported Okra Solar's first raise of $38k through the donation crowdfunding platform Pozible. Since its first campaign in 2016, Okra Solar has expanded operations from Cambodia to Nigeria, Haiti and the Philippines, and raised an additional round from Schneider Electric in 2020.

07

NEW DONOR INITIATIVES

INITIATIVE	FOCUS AREAS	COUNTRIES	PLATFORMS
CEI AFRICA	Underserved markets, mini-grid projects	*Off-grid solar companies:* Benin, Ethiopia, Ghana, Ivory Coast, Mozambique, Namibia, Senegal, Uganda, Zambia. Mini-grid projects: Sierra Leone, Benin, Mali, Madagascar, Kenya, DR Congo.	Debt, Equity
CROWD POWER	De-risking, small ticket lending, investor behaviour	UK Aid eligible companies	Donation, Reward, Debt, Equity
RVO	Clean cooking, biogas	50% of funds dedicated to Niger, Burkina Faso, Mali, Ethiopia, Uganda, Bangladesh, Cambodia, and the remainder to SSA.	Debt

CEI Africa

CEI Africa is a €49 million ($50 million) KfW-funded programme designed to catalyse investment in energy access projects through debt and equity crowdfunding. The project, led by a consortium of members including Triple Jump, Persistent Energy, and GreenMax Capital, will provide a combination of co-investment and results-based financing (RBF) to catalyse mini-grid projects and encourage off-grid energy companies working in underserved markets. CEI Africa began the set-up phase in 2022 and the first campaigns are set to launch in early 2023.

CEI Africa is structured as a €28 million ($28.5 million) crowdfunding co-investment window and a €21 million ($21.4 million) results-based financing window. CEI Africa has a €1 million budget for technical assistance under each funding window to support crowdfunding platforms, investees and (potential) grantees.

Crowdfunding co-investment window

The crowdfunding co-investment window will deploy funds alongside crowd-investors and fund up to one-third of the campaign target. This window aims to catalyse the financing of off-grid energy companies and green mini-grid projects. For off-grid energy companies, the crowdfunding co-investment window will initially focus on Benin, Ethiopia, Ghana, Ivory Coast, Mozambique, Namibia, Senegal, Uganda, and/or Zambia. Eligible off-grid energy business models include household and productive use, as well as off-grid commercial and industrial (C&I) projects. For green mini-grid projects, CEI Africa will initially focus on projects in Sierra Leone, Benin, Mali, Madagascar, Kenya, and the Democratic Republic of Congo. Green mini-grid developers can also benefit from the RBF window.

RBF window

The RBF window will provide a payment to green mini-grid developers upon project delivery, in the form of an incentive payment (based on country, mini-grid size, and type of connection) for each connection. The RBF window and crowdfunding co-investment window are designed to work dynamically and serve as a "one-stop shop" for green mini-grid developers. The countries eligible for RBF are the same as those eligible for funding under the green mini-grid component of the crowdfunding co-investment window listed above.

Crowdfunding Co-investment Window

$14.5M

Off-grid solar companies

Benin
Ethiopia
Ghana
Ivory Coast
Mozambique
Namibia
Senegal
Uganda
Zambia

$14.5M

Green mini-grids

Sierra Leone
Renin
Mali
Madagascar
Kenya
DR Congo

Results-based Financing Window

$22M

Green mini-grids

Sierra Leone
Renin
Mali
Madagascar
Kenya
DR Congo

CEI Africa has the flexibility to partner with Europe- and UK-based crowdfunding platform partners that offer small and large ticket-size transactions. CEI Africa will be able to deploy funds under two models to maximise inclusion:

- **Lean Lending:** Growth-phase platforms that meet CEI Africa's investment criteria can receive a commitment of up to €3 million ($3.12 million) that can be drawn down to fund relevant projects.
- **Direct Lending:** Early-stage platforms can participate in the crowdfunding co-investment window by claiming support on a by-campaign basis.

The project also aims to support equity crowdfunding campaigns, although equity partners are yet to be announced. Based on our analysis of the equity crowdfunding market (see the characteristics of successful campaigns on *pg 26*), dominant European equity crowdfunding platforms, such as Crowdcube and Seedrs, are unlikely to be a natural fit for developers raising equity for a project company. Equity platforms are likely to be more suitable for green mini-grid developers that operate in at least one CEI Africa target country, and are raising equity at the holding company level. Debt platforms that already operate in the energy access market may also see an opportunity to introduce equity and equity-like products.

RVO - Clean Cooking SME Finance Facilitator

To boost access to finance for clean cooking SMEs in the Global South, the Netherlands Enterprise Agency (RVO) has developed the Clean Cooking SME Finance Facilitator. This supports debt crowdfunding platforms to accelerate private investment in early-stage clean cooking companies.

Introduction

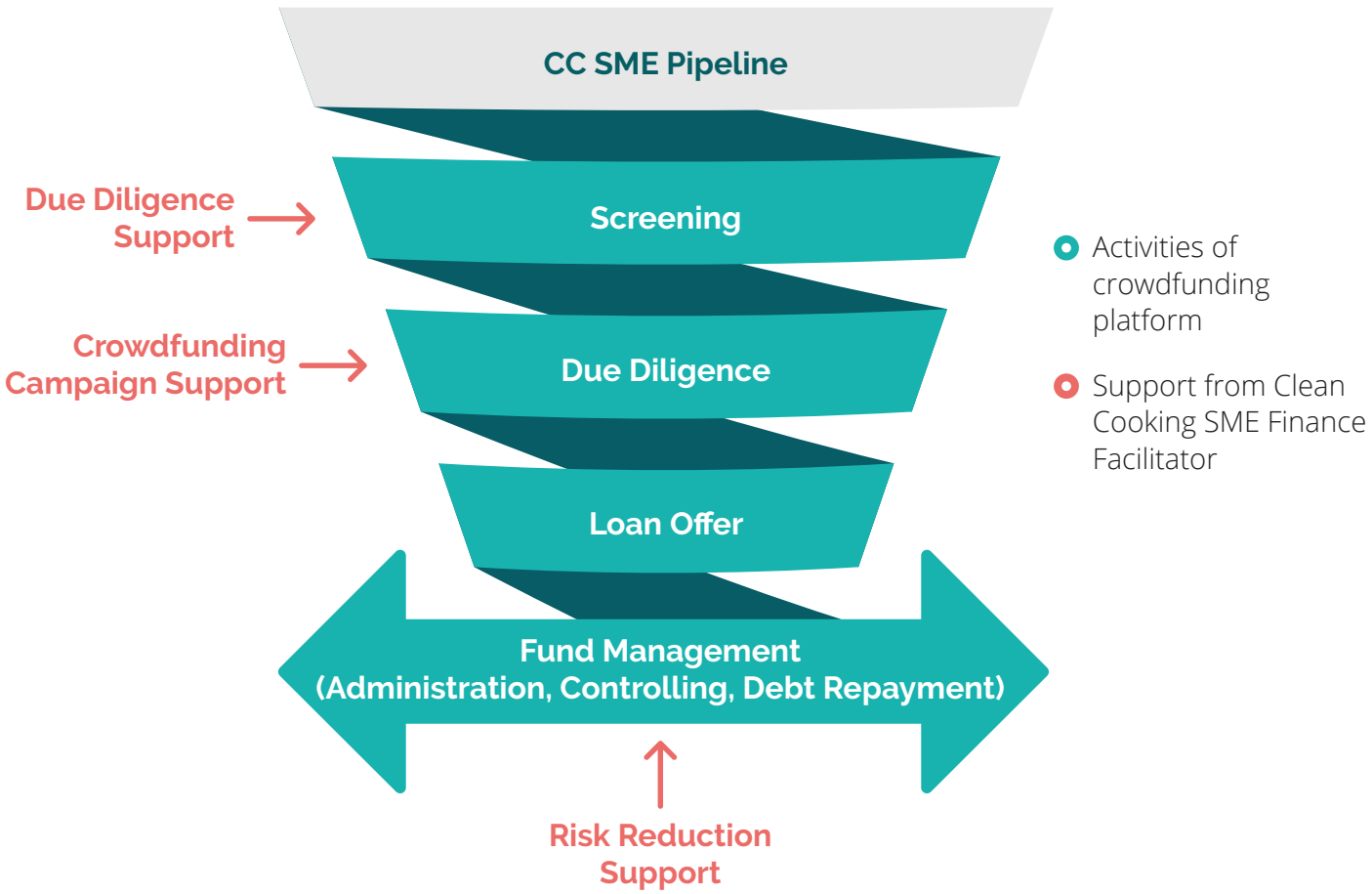
SMEs play a key role in providing access to clean and affordable energy. The 'Energising Development' (EnDev) and the 'Strengthening the Entrepreneurial Environment for Clean Cooking' (SEE-CC) programmes focus on the role of the private sector and market development to promote access to clean cooking. Local enterprises that need capital for expansion often have difficulties getting credit. This is due to high levels of perceived risk, lack of collateral and high transaction costs. For many entrepreneurs, getting a working capital loan in the range of $25k to $500k is extremely difficult and expensive, hampering the growth potential of their clean cooking enterprises.

Approach

To escape this vicious circle, RVO has established the clean cooking SME facilitator. This instrument mobilises working capital for stock and production facilities in clean cooking SMEs. The working capital can be used anywhere along the clean cooking supply chain, including in the production and distribution of devices and fuel, so that the enterprises' turnover (i.e. sales) can grow. This approach aims to create a better-financed and professional clean cooking sector that can build up a financial track record and better serve the expanding market in partner countries.

Co-financed by:
Ministry of Foreign Affairs
Ministry of Foreign Affairs of Denmark DANIDA International Development Cooperation
Coordinated by:
Netherlands Enterprise Agency
In partnership with:
endev

How it works



Crowdfunding platforms' core activities are screening, due diligence and preparing a loan offer, potentially promoted by a campaign. These activities usually require human resources and other costs that are not covered by the margins of a small transaction (i.e. a loan). When it comes to the crowdfunding platform's fund management task, often, early-stage SMEs pose risks that a regular market-based risk markup cannot cover. In Figure 1, the orange boxes indicate subsidy support that RVO can provide to: (i) reduce the screening and due diligence costs; (ii) cover part of the crowdfunding campaign costs; and (iii) reduce the costs related to covering the risk of a non-performing loan. RVO subsidies can also partly cover start-up costs and the design of the loan portfolio, allowing leading crowdfunding platforms to enter this still relatively volatile but promising emerging market.

Collaboration with crowdfunders for impact in the SME finance market

In late 2021, the first subsidy agreement under this approach was established. RVO is helping Charm Impact expand into the clean cooking sector, to support early-stage companies with the development of a commercial credit history through a series of loans. So far, their partnership has catalysed a total deployment of more than €500k ($520k) for five local companies, two of which have already been approved for follow-on funding of cumulative €280k ($291k). These loans are expected to help more than 27,000 people gain access to clean cooking solutions. RVO expects to roll out this approach further with two additional crowdfunding partners in 2022 to 2023.

Kenya bio-digester being inspected installed under the Africa Bio-digester Component – a project associated EnDev project
© Netherlands Enterprise Agency (RVO)

08

FOCUS ON LAST MILE DISTRIBUTORS WITH THE GLOBAL DISTRIBUTOR COLLECTIVE

Q&A: THE GLOBAL DISRIBUTORS COLLECTIVE (GDC

Interview with Jessica Utichi, Operations Manager, Global Distributors Collective

The Global Distributors Collective (GDC) is a collective of almost 200 last mile distributors (LMDs) operating in more than 50 countries around the world. The GDC helps distributors to reach millions of underserved customers with beneficial products, including off-grid solar lights, home systems, improved cookstoves and water filters, and supports the development of the last mile distribution sector as a whole. The GDC is hosted by Practical Action, alongside its strategic and implementing partner Bopinc.

Q In 2020, crowdfunding volumes were significantly impacted by Covid. 2021 saw a recovery to pre-Covid levels in the energy access sector. How were LMDs impacted by Covid, and what is the situation now?

A Encouragingly, a January 2022 survey of 132 GDC members found that overall, the LMD sector was growing over the last years. In spite of Covid, and other challenges like access to finance, GDC members had reached 217,000 people on average, a 29% increase since 2019[8]. We saw some churn among young, small companies, which were particularly vulnerable when Covid hit, but less than expected. Crowdfunding was an important source of funding for LMDs during the pandemic, when companies struggled to make sales and other sources of funding dried up.

Q How is crowdfunding an important source of funding for LMD companies that are GDC members? What kind of instrument is prioritised?

A Crowdfunding is so important for LMDs that, according to our 2019 LMD State of the Sector report, it was the most common form of debt for GDC members. At least 20% of those who raised debt used crowdfunding platforms.
GDC members also use donation-based crowdfunding platforms, such as Global Giving. These require leveraging a company's own networks to fund campaigns, however, rather than tapping into a pre-existing crowd, as is the case with debt platforms like Kiva and Charm Impact. This can make it harder for smaller and locally-owned companies, which lack the visibility and networks of international companies, and the capital to cover marketing costs. Only a limited number of LMDs have raised equity via crowdfunding, as there aren't many equity-based crowdfunding platforms targeting LMDs.

8. GDC (2022), Last Mile Distribution: State of the Sector Update 2022.

Q As for other segments in the energy access sector, raising funds remains quite difficult for small companies. Could you extrapolate on this?

A GDC member data, along with wider desk research, suggests that crowdfunding is a popular source of funding for smaller companies, but isn't accessible for the earliest-stage ventures. 43% of the LMDs that used crowdfunding, for example, had revenues of less than $500k per year - but only 3% of these had revenues of less than $100k per year.[9] In addition, when we looked at the growth and fundraising journeys[10] of 21 high-performing LMDs, we found that, of the 13 companies using crowdfunding, only one had done so during their proof of concept stage or early operations stage. It is worth noting, however, that Charm Impact and Wajenzi, both of which are relatively new to the LMD space, are focusing on smaller, locally-owned companies.

Our research also shows that locally-owned companies have been less successful on crowdfunding platforms than their international counterparts. Although 56% of GDC members are locally-owned, only 27% of those who have raised crowdfunding to date are locally-owned[11]. Reasons for this might include: restrictions on crowdfunding platforms, meaning that lenders can only invest in companies legally set up in certain jurisdictions; the ticket sizes offered by most crowdfunders (>$500k) being too large for smaller, local companies to absorb; and local companies' limited ability to market themselves to the crowd.

Q What are the main short- and medium-term trends for the LMD sector? What is the role of crowdfunding in this development?

A More fit-for-purpose finance solutions are emerging in the sector, as LMDs' importance in the path to universal energy access is increasingly recognised, and as the value chain grows more specialised. Digitalisation, galvanised by Covid, has encouraged investors' use of data to reduce ticket sizes and invest in smaller LMDs; we're seeing this through vehicles such as the *Sima Angaza Distributor Financing Fund*. We hope to see more growth in currently under-exploited areas such as carbon finance, results-based finance, and local finance, and we see crowdfunding continuing to be important for LMDs.

9. Last Mile Distribution: State of the sector | GDC (2019); The growth and fundraising journeys of last mile distributors | GDC (2021) ; Desk based research | GDC Member Survey (2022)
10. Last Mile Distribution: State of the sector | GDC (2019) ; The growth and fundraising journeys of last mile distributors | GDC (2021) ; Desk based research | GDC Member Survey (2022)
11. GDC (2019), Last Mile Distribution: State of the sector; GDC (2021), The growth and fundraising journeys of last mile distributors; GDC Member Survey 2022; Desk based research

Enhancing the collaboration between LMDs and crowdfunders: main gaps and solutions identified

Gaps identified

For LMDs

LMDs often lack the financial acumen needed to attract investment.

- The skill gap most cited by crowdfunders is in basic finance and accounting. Whilst expertise varies, in many cases, LMDs are accounting in cash and are not always able to present a comprehensive picture of their operations.

It is hard for LMDs to find information about types of funders available at different stages of growth.

- Investor websites can be difficult to navigate, and include complex terminology that may be challenging for non-native English speakers.
- Interestingly, crowdfunders state that they don't always know which investors to pass deals onto once the LMD had matured from their investment type. This wastes precious time and resources for both LMDs and investors.

Solutions

- Investment-readiness training, accelerator programmes, mentoring and technical assistance for LMDs at all stages of growth, but particularly for early-stage, locally-owned companies.
- Easy to use, practical tools to support LMDs in key areas, such as financial models, pitch deck templates and data room guidance.
- A database to help LMDs identify funders, including crowdfunders, such as the GDC's *LMD funding database*.

For investors

High transaction costs inhibit investors' ability to provide lower ticket sizes.

- Platforms are highly regulated to protect retail investors. Depending on jurisdictions, the additional compliance can substantially increase costs. It appears that crowdfunders offering smaller ticket sizes navigate this by diversifying their portfolio: 1) spreading risk over a larger number of smaller loans, 2) performing lighter touch due diligence procedures, and 3) using grant funding as a source of first loss capital to de-risk their portfolios.

- New financing vehicles to help investors and crowdfunders work with smaller LMDs. Here, grant funding has a key role to play in de-risking investments, through match funding for specific campaigns, first loss guarantees, etc.
- SPVs, for example, are an efficient way to group similar types of companies into one transaction, reducing transaction costs substantially and enabling crowdfunders to provide smaller ticket sizes.

Finding a suitable pipeline is difficult for investors, especially for ticket sizes above $500k.

- This is due to higher competition among impact investors at this ticket size, and fewer investable companies.

Local currency loans are expensive for investors to hedge.

- Loans are mainly offered in hard currencies (EUR, GBP or USD), meaning that LMDs must bear the foreign exchange risk, which can be prohibitive for small companies.

- Hedging mechanisms or partnerships with local banks are two ways for crowdfunders to consider offering local currency loans.

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Investors have limited bandwidth to collaborate effectively.

- There is an appetite among crowdfunders to collaborate with other investors and with each other. In reality, however, there is limited capacity to create and maintain these relationships, and no transparent way to share information.

- An investor network, either physical, digital, or both, to share information and enhance the relationship between LMDs and investors.

For both investors and LMDs

Due diligence costs are high and LMD businesses are perceived as high risk.

- LMDs are seen as having a higher risk profile for investing, due to the complexity of their operations, and because many lack the collateral that investors require against loans.

- More, reliable data on LMDs, to reassure investors and help them reduce due diligence costs. LMDs are increasingly digitalising their operations and generating greater information about their businesses, but they need support in transforming this data into useful information for investors.

Note that many of these challenges are common across all types of investors, and are not unique to crowdfunders.
This data is provided by GDC research papers :

- *Last Mile Distribution: State of the sector 2019 (summary) | The Global Distributors Collective* (2019)
- *The growth and fundraising journeys of last mile distributors | The Global Distributors Collective* (2021)
- *Last Mile Distribution: State of the sector update 2022 (full report) | The Global Distributors Collective* (2022)

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