CROWD POWER

CROWDFUNDING ENERGY ACCESS

State of the Market Report 2022

ENERGY4IMPACT
POWERED BY MERCY CORPS

Contents

Transforming Energy Access

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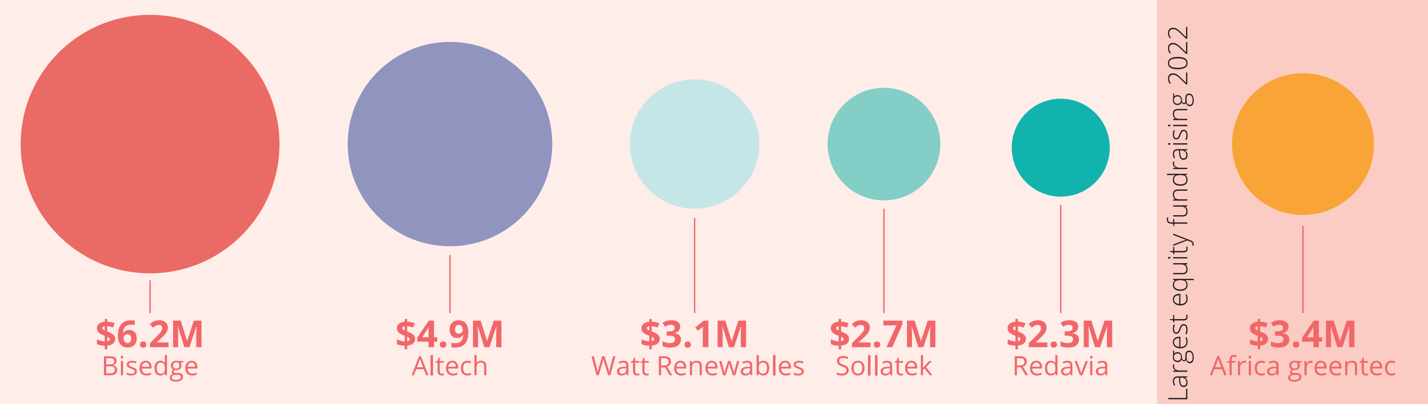
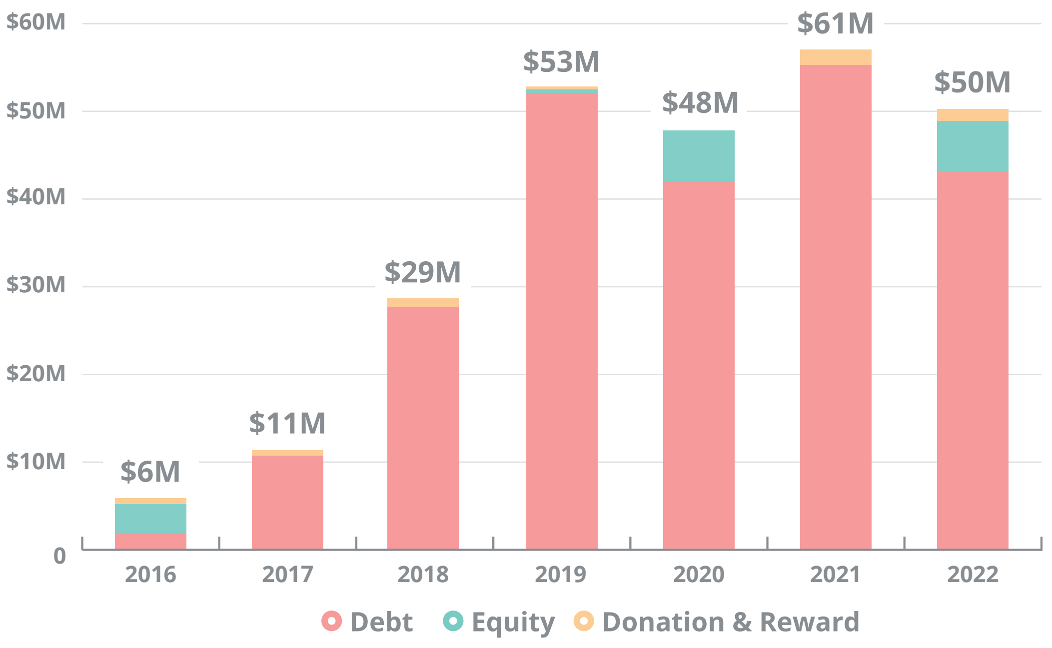
Six-figure numbers are converted into USD at the average 2022 exchange rate and rounded to the nearest 5,000. Seven-figure numbers, and above, are converted into USD at the average 2022 exchange rate and rounded to the nearest 100,000.

01
Market snapshot

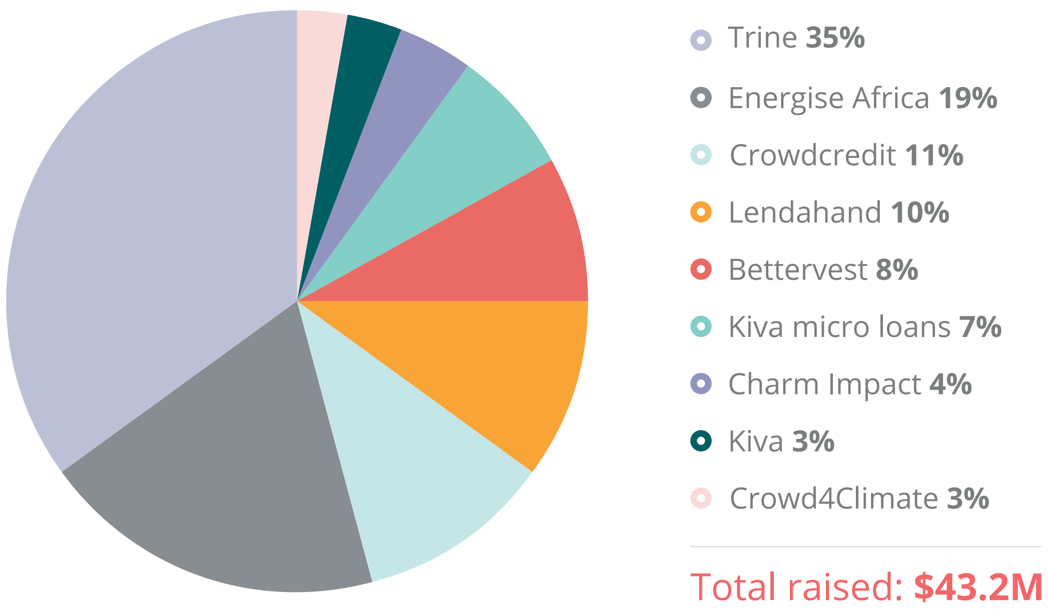
Top five companies raising funds via crowdfunding, 2022



Energy access crowdfunding, 2016-2022



Debt crowdfunding volumes by platform, 2022



$50.3M RAISED FOR ENERGY ACCESS VIA CROWDFUNDING IN 2022

86% OF FUNDS WERE RAISED ON DEBT PLATFORMS IN 2022

02
Crowd Power: the next phase

With the generous support of the UK government's Foreign, Commonwealth & Development Office (FCDO) and the Transforming Energy Access (TEA) platform, Mercy Corps – Energy 4 Impact (MC-E4I) has delivered the Crowd Power programme since 2015. The programme aims to tackle a host of systemic and operational challenges hindering the growth of crowdfunding in energy access.

From 2015 to 2022, Crowd Power has helped over 70 energy access companies raise over $17 million through 14 crowdfunding platforms. Crowd Power has also supported the launch and growth of the UK-based debt platform, Energise Africa. In 2021, Energise Africa ranked second among these platforms in terms of debt volumes.

Based on this success, the programme has entered its third phase, running until *2027*. Crowd Power seeks to consolidate gains from the past phases to accelerate sustainable growth in energy access crowdfunding through targeted support for equity and debt platforms. We will work against a backdrop of challenges commonly faced by platform partners including high transaction costs and a lack of investment-ready pipeline.

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THROUGH 14 CROWDFUNDING PLATFORMS

BASED ON THIS SUCCESS, THE PROGRAMME HAS ENTERED ITS THIRD PHASE, RUNNING UNTIL
2027

Supporting platform partners, we aim to address four key questions:

- How can concessional capital be used to develop cost-effective solutions for small ticket lending, particularly for early-stage, local- and/or women-owned businesses?
- What are the most cost-effective de-risking mechanisms for investors and investees?
- What outreach interventions offer the best value for money to broaden the crowd investor base? Specifically, what is the best way to increase engagement by under-represented investor groups, such as millennials, women and diaspora?
- What are the most efficient blended finance solutions to increase access to crowdfunding?

To answer these questions, we continue supporting crowdfunding platforms, to help them develop and grow innovative funding structures and de-risking mechanisms for retail investors and investees. These include credit guarantees, FX hedging mechanisms, and co-lending structures.

Crowd Power is proud to support crowdfunding in the energy access sector as it evolves, with a pragmatic and flexible approach. We will keep offering targeted support to help platforms develop their activities, and support new initiatives that benefit small and medium enterprises (SMEs) operating in the energy access space.

03
Debt crowdfunding

OVERVIEW

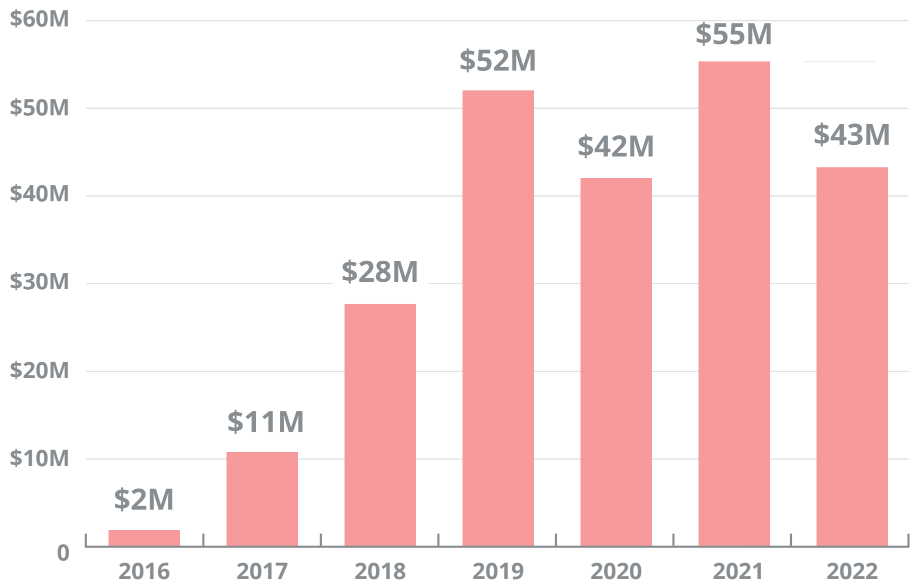
Debt crowdfunding volumes reached $43.2 million in 2022, down 22% from $55.4 million in 2021. This 2022 figure is close to 2020 volumes, when crowd-based investments were negatively affected by the Covid-19 pandemic. Still, based on our 2021 State of Market report, crowdfunding seems highly promising as an efficient means of funding for energy access companies, and as an attractive impact investment opportunity for retail investors.

Due to the USD appreciation in 2022, it is worth noting that on constant 2021 EUR-USD and GBP-USD foreign exchange (FX) rates, the total volumes reached $47.4 million, down 14% (rather than 22%) since 2021. With the exception of US-based platform Kiva, all platforms were affected by the change in FX rates.

We believe that debt crowdfunding still has the potential to create great opportunities for borrowers and investors alike. On closer inspection, trends emerged in 2022 that support this. Noticeably, smaller platforms like bettervest and Charm Impact outperformed last year, compared to major ones like Trine and Lendahand. Competition over a thin investment pipeline, and increased defaults among solar home system (SHS) companies, are encouraging some platforms to expand their portfolios into commercial and industrial (C&I) scale solar.

However, other platforms that typically raise modest energy access volumes, frankly.green and Solylend, did not launch any energy access campaigns in 2022. It will be interesting to follow the evolution of smaller platforms over the next few years, and to assess the extent to which there are limits to volume growth for debt crowdfunding.

Debt energy access crowdfunding, 2016 - 2022



SINCE 2016,
$233 MILLION
HAS BEEN RAISED BY ENERGY ACCESS COMPANIES ON DEBT CROWDFUNDING PLATFORMS

KEY TRENDS IDENTIFIED

Key trends observed in 2022

01
The market is sensitive to the global macroeconomic environment, and platforms are struggling to offer attractive risk-adjusted interest rates to investors, in the context of global inflation and increased risk.

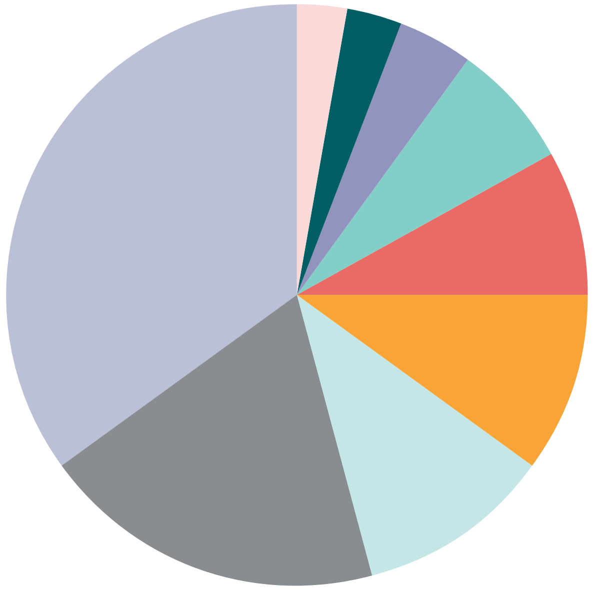
02
The increase in defaults among large borrowers in the SHS space has led some of the larger platforms, such as Trine and Lendahand, to pivot towards C&I scale solar.

03
The appreciation of the USD, relative to EUR and GBP, explained a significant portion of the decrease in debt crowdfunding volumes. Year-on-year debt crowdfunding volumes were down 14% in 2022 based on constant rates.

BETTERVEST SECURES GUARANTEE FROM AGF

On top of marketing actions, in 2022, bettervest and the African Guarantee Fund (AGF) launched a partnership to increase the financing of energy access-related projects in Africa. AGF will provide a partial guarantee to mitigate the risk of default for investors. As stated in our 2021 report, the crowdfunding sector is professionalising; the AGF-bettervest partnership not only reflects this, but signals a leading financial institution's confidence in working with crowdfunding platforms. We will track the impact of this partnership in future.

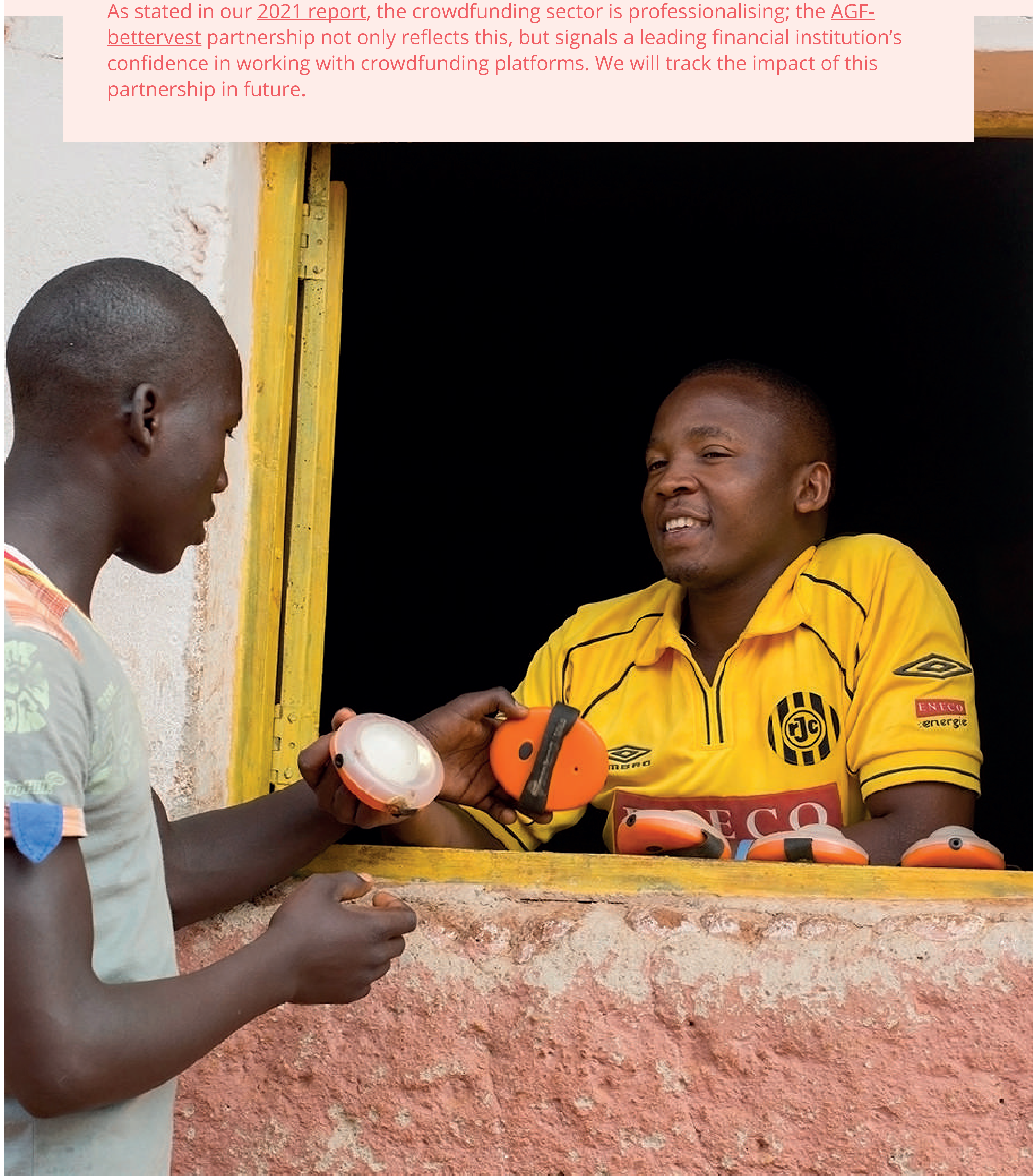
Debt crowdfunding volumes by platform, 2022



THE HETEROGENEITY OF PLATFORM PERFORMANCE

Although global debt volumes in energy access decreased in 2022, this did not occur in a homogeneous way, as some platforms experienced significant growth. Of the 11 platforms in this report, three have even seen a spectacular rise in volumes. This is the case for the German-based platform bettervest, celebrating its tenth anniversary in 2022. With a 44% growth in volumes to over $3.3 million, bettervest became one of the top five debt platforms in terms of volumes in 2022. Beyond the post-Covid recovery period, the rise in investments from the German crowd is also a consequence of strong marketing actions. A television report about social investing was broadcast last year on a German television network, where bettervest and a campaign by project owner Burn were highlighted.

The crowd reaction was immediately noticeable, with a rise in registered users and new investments on bettervest. While awareness of crowdfunding is constantly growing, the majority of individual and institutional investors are still unaware of crowdfunding investment opportunities. The possibility of communicating to a large-scale audience, as on national television, proved to be a powerful tool to attract new investors.



Charm Impact and Kiva, the two other platforms on the rise in 2022, have demonstrated impressive results, with 116% and 189% growth respectively. As a relatively new platform, with its first operation in 2019, Charm Impact continues to grow steadily, raising $1.7 million in 2022. Charm Impact has doubled the number of campaigns closed within a year on the platform, from nine to 18, and added six new borrowers. The average ticket size on the platform rose slightly, from $84,700 in 2021 to $91,500 in 2022.

Charm Impact focuses on locally- and women-owned companies, which are often excluded from international investment opportunities due to their small ticket size and from local investment opportunities due to high collateral requirements. To reach these companies, Charm Impact relies on innovative financial products based on blended finance. Notably, the platform launched an impact bond in partnership with iGravity, an impact investing advisory firm, blending retail and institutional funding with subordinated philanthropic capital to de-risk the investment. To learn more about Charm Impact's activities and operations, see pages 15 and 16 of our 2021 report.

Kiva's growth in volumes from $450,000 in 2021 to $1.3 million in 2022 was mainly the result of Altech, entering its portfolio at the end of 2022, with a $500,000 campaign. Altech is a SHS company in the Democratic Republic of the Congo (DRC), well known to the crowdfunding sector for raising $4.4 million in 2021 when it was the second-largest borrower of the year on debt crowdfunding platforms. Kiva delivered six campaigns in 2022, compared to four in 2021, with an average ticket size that doubled from $112,500 to $217,000.

DECREASE IN LENDING ACTIVITY ON TRINE, ENERGISE AFRICA AND LENDAHAND

While there have been increases in volumes on platforms focused on smaller-ticket-size transactions, platforms focused on larger-ticket-size transactions (>$500,000) saw a $10 million decrease in volumes. Trine is still the largest platform in terms of debt volumes, with $15 million raised in 2022, although this is down from $20.4 million in 2021 (-26%).

In 2022, Trine focused on multi-million-dollar tickets, yet the overall decrease might be explained by the shrinking number of companies raising funds on the platform, down from 10 in 2021 to seven in 2022. Trine was responsible for 35% of total debt volumes in 2022, slightly down on 2021 (37%) and 2020 (40%). In 2023, Trine undertook a strategic repositioning, shifting to C&I scale solar. For more information on Trine, see the Q&A section of this report, on page 18.

Energise Africa saw a 34% decrease in 2022, with $8.3 million raised, down from $12.6 million in 2021. According to the platform, this was mainly due to inflation and a challenging economic backdrop, affecting the crowd's ability to invest. It is also likely to be connected to the thin pipeline of investment-ready companies.

Performing in these conditions is an ongoing challenge for platforms; to keep attracting investors, they must compete with rising interest rates, while offering affordability to borrowers, whose size and payback abilities are constrained. In addition, investment opportunities have reduced due to repayment difficulties among borrowers that have historically attracted significant volumes. Also some traditionally large borrowers have been taken over, such as Daystar's acquisition by Shell in November 2022.

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The number of unique borrowers and size of individual loans decreased in 2022.

As a result, several platforms have been unable to continue lending across their whole portfolio of companies.

Despite these challenges, Lendahand met significant milestones in 2023 including the development of a hedged USD product (on the EUR-denominated platform) and the expansion into other key sectors, such as e-mobility and clean cooking. Bisedge, an electric forklift truck company in Nigeria, raised over $1 million on the platform last year. For emerging sectors like clean cooking and e-mobility, geographical expansion and de-risking mechanisms are key for platforms to keep expanding their portfolio opportunities.

Finally, the French-based Solylend and German-based frankly.green, which are smaller platforms in terms of energy access investments in developing countries, did not conduct any campaigns in 2022. In 2021, they conducted one each, raising a total of $304,000. Solylend completed a $159,000 campaign in Togo for social enterprise MOON. For more information on interest rates and company risk profiles, see our Q&A section with Lendahand, on page 28 of this report.

KIVA'S MICROLOANS

Kiva's energy access-related microloan volumes halved between 2021 and 2022, from $6 million to $3 million. This is because one borrower, One Acre Fund, which raised $3.2 million in 2021, moved towards an on-demand model for farmers. As most of the farmers in its network already received solar lights in previous years, they did not opt into new purchases of this kind.

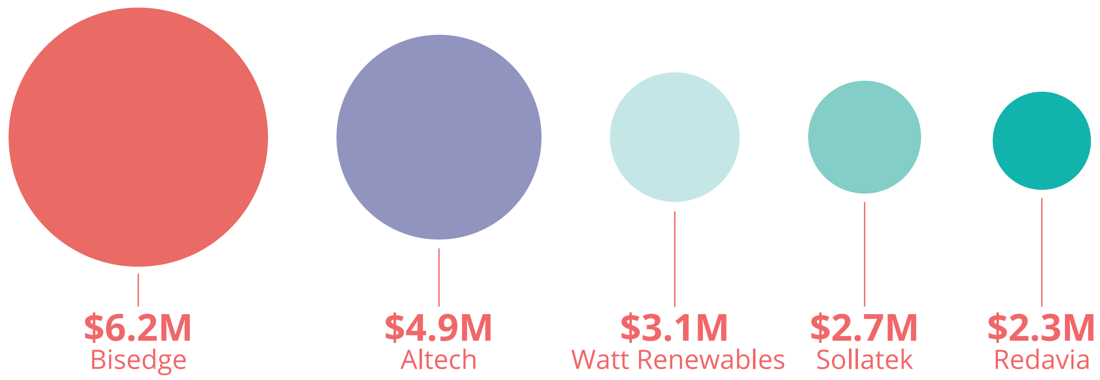
CAMPAIGN HIGHLIGHTS

In 2022, 175 debt crowdfunding campaigns were conducted across all debt platforms, up from 161 campaigns in 2021. Roughly two-thirds of those campaigns were direct loans, and one-third were microloans through Kiva's energy access-related microloan campaigns. To our understanding, this overall decrease in volumes in comparison with a higher number of campaigns is due to two main reasons: a decrease of unique borrowers and a smaller average ticket size per campaign.

The average direct loan size has fallen by 23% to $284,000. This is partly due to the increase in smaller ticket campaigns, with twice as many campaigns for Charm Impact in 2022 compared to 2021, with an average ticket of $91,000, and a reduction of ticket size for large platforms Trine and Energise Africa. The average ticket size for Kiva microloans has also halved to $59,000, due to One Acre Fund's absence in 2022, as stated above.

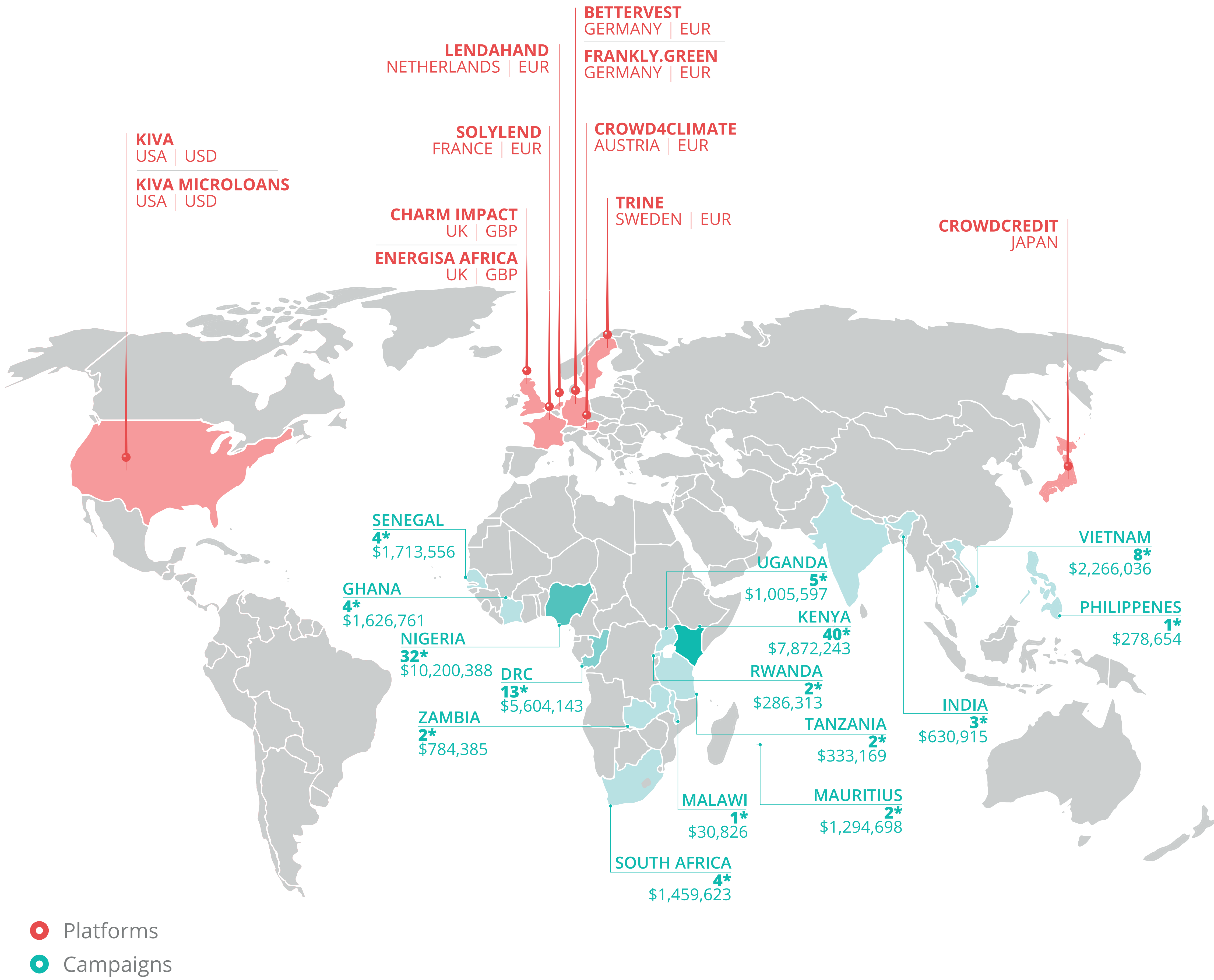
The 40% fall in the number of borrowers is, perhaps, more significant for the sector. The number of borrowers obtaining direct loans (i.e. Kiva microloans excluded) fell significantly in 2022 compared to 2021, from 67 to 39 borrowers. From our understanding, investment opportunities are narrowing, due to the increase in defaults and, on one hand, the acquisition of historically large borrowers by industrial groups (such as Daystar's acquisition by Shell in November 2022), and on the other hand, the lack of pipelines due to companies being too risky or immature. For emerging sectors like clean cooking and e-mobility, geographical expansion and de-risking mechanisms are key for platforms to keep expanding their portfolio opportunities.

Top five companies raising funds via debt crowdfunding, 2022



The market remains concentrated: the top five borrowers absorbed 45% of the total investments (versus 41% in 2021), nearly half of the total yearly volumes. Interestingly, four of the top five borrowers were different from in 2021, with only Altech remaining; Altech raised $9.3 million via debt crowdfunding in 2021 and 2022. This shows the market is dynamic with the biggest borrowers changing each year. Overall, platforms are also seeking balanced portfolios that combine different business models, sectors and geographies to reduce risk. In 2022, Bisedge, an e-forklift company in Nigeria and a newcomer to crowdfunding, was the largest borrower with $6.2 million raised on Trine and Energise Africa.

Location of platforms and campaigns, 2022



Q&A: Trine

Christoffer Falsen, Founder and Head of Strategic Projects at Trine

Susanne Lindkvist, Head of Marketing at Trine

On adaptation to a changing environment

Trine accounted for 37% of total debt crowdfunding volumes over the last three years, making it the leading debt platform for crowdfunding in energy access. The platform focuses on solar projects with multi-million-dollar fundraising needs. It recently undertook a strategic pivot away from its historic focus on PAYGo SHS company borrowers towards C&I scale solar company borrowers. Trine is also looking to expand its geographic reach beyond the African continent.

Q Overall, crowdfunding debt volumes in energy access decreased in 2022 following a post-Covid recovery period. What is your understanding of the situation, and how do you see the evolution of the sector?

2022 has been a year of transition for crowdfunding. It is true that we saw a spectacular rise in volumes in 2021 with a recovery to pre-Covid levels. During Covid, investors were reluctant to invest, due to the uncertainty of the market. Still, they kept cash on the platform, which they started reinvesting again in 2021. The market conditions changed in 2022, however, due to challenges in the SHS market, which have taken a few years to materialise. 2019 was a fantastic year in terms of volumes, but eventually a bad one in terms of portfolio quality. Our platform used to be very connected to the SHS market, in terms of the impact narrative to investors and SHS companies' constant need for cash, which led to frequent fundraising campaigns. A rise in defaults among large borrowers has dried up the pipeline causing us to reinvent our approach to continue growing our portfolio.

Q How does Trine adapt to the evolution of the market?

Due to the challenges in the SHS sector, we have redefined our strategy, focusing instead on C&I companies. We believe that today C&I is our best option to reach the volumes we want to reach while maintaining a manageable risk factor. Our major fundraising of $5 million for Bisedge in 2022 remains an exception. As there are few C&I investment options in Africa, we have expanded our operations in South-East Asia, where we raised $2.3 million for campaigns in Vietnam last year, and Latin America, where we had our first campaign in Chile in 2023.

We have also changed our investment approach. At one point, 50% of our investment team's time was spent on debt collection, which was not sustainable for us. So we changed our processes, significantly grew our investment team, redesigned our investment criteria and changed our reporting and communication to investors. In a way, Trine has become more risk-averse, as we now pay greater attention to the analysis of project cash flow and prioritise companies already generating positive cash flows and with enough collateral to cover the risk of default. We developed our new approach in 2021 and implemented it in 2022. In the years to come, we expect positive outcomes from this new investment strategy.

Our new investment process is live and proves to be fluid, so we will now look to expand our investor base.

Q Could you tell us more your choice to expand geographically?

As the market changed, so have the opportunities to invest or reinvest in companies that comply with Trine's investment criteria. 2022 was the second year in a row with very few opportunities to raise funds through crowdfunding for C&I companies in Sub-Saharan Africa. Some of our borrowers have been acquired or refinanced and are no longer raising funds via crowdfunding. There are new sectors emerging in Sub-Saharan Africa, such as e-mobility and clean cooking, however we do not consider them a priority for Trine due to their modest volumes. With a limited suitable pipeline, we have expanded into new geographies such as India, Vietnam and more recently Chile. We have found companies with more attractive risk-adjusted returns in these countries as the markets are more mature.

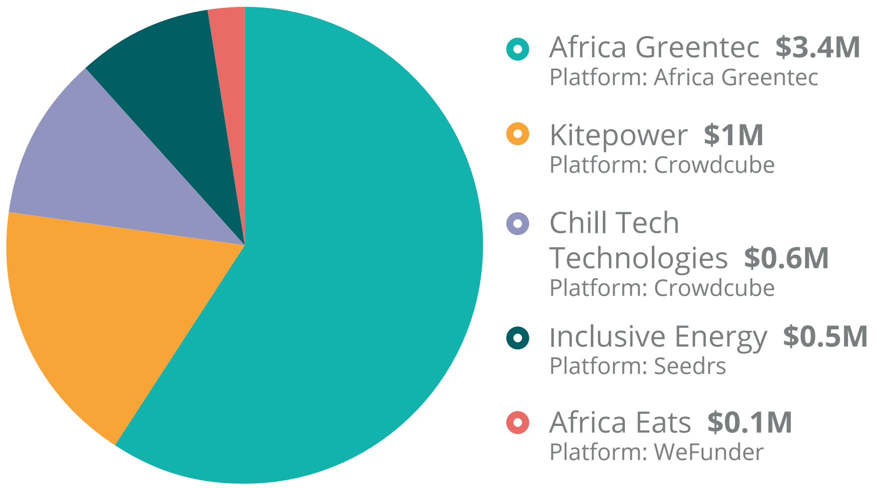
Q The macroeconomic environment has not been favourable for crowdfunding investment due to increases in interest rates in 2022. Have you seen a change in the crowd's behaviour because of this?

The macroeconomic situation has definitely had a huge influence on the evolution of crowdfunding volumes. First, it is worth noting that 75% of Trine investors are Swedish. Sweden has a strong investment culture: most Swedish people have savings invested in financial products, so are familiar with the concepts of risk and interest rates. So we must provide appealing rates to the crowd, to keep attracting new investors or convince existing ones to re-invest. We have experienced strong changes in the rate environment over the years - for example, as we moved from SHS to C&I, the nominal returns on our investments fell from almost 10% p.a. to 7% p.a., making them appear less attractive at first glance.

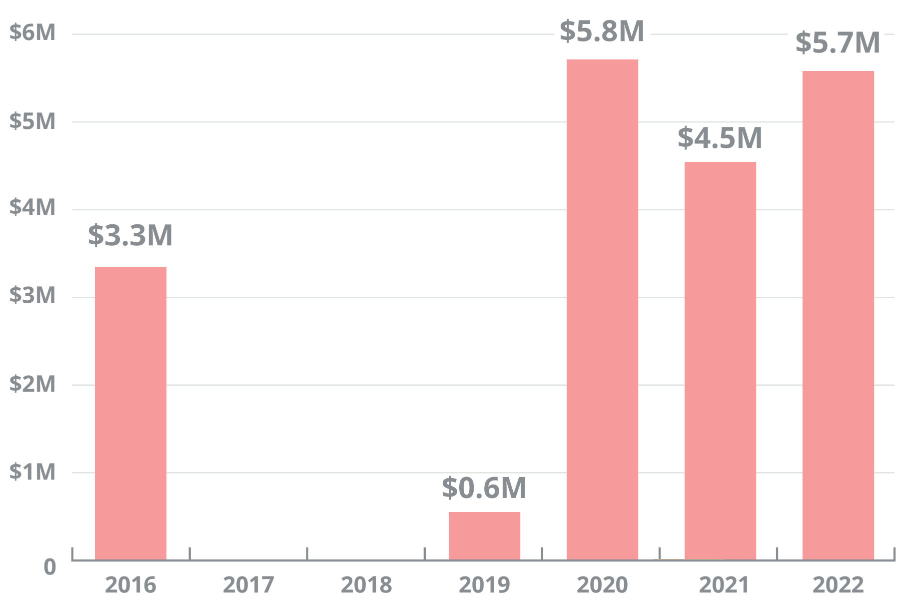
Our data suggests, however, that the actual return in the C&I segment is higher than SHS: previously, the returns offered to investors were closer to 4% p.a. in the SHS sector. More recently, we're delivering around a 6% actual return in the C&I sector. Crowdfunding in energy access is driven by impact, but our crowd is looking for attractive returns alongside this. Finding the right balance between impact and financial returns is a difficult exercise, as investors are ideally looking for the best of impact and financial return.

05
Equity crowdfunding

Equity crowdfunding campaigns, 2022



Equity crowdfunding volumes, 2016-2022



SINCE 2016,
$20MILLION
HAS BEEN RAISED BY ENERGY ACCESS COMPANIES ON EQUITY CROWDFUNDING PLATFORMS

The equity crowdfunding market has grown steadily over the past decade, as the regulatory environment in many countries has evolved to enable equity-based crowdfunding models. Equity crowdfunding has shown resilience in the face of both a pandemic and complex macroeconomic conditions. While global venture investments dipped significantly in 2022, equity crowdfunding fared better and experienced only a moderate decline. Equity crowdfunding investments in the energy sector increased in 2022, and climate tech is the top-funded sector across leading platforms, which is good news for energy access-related companies that often fall within this sector.

The European investment-based crowdfunding market was buoyed by regulation in the European Union (EU), introduced in late 2021, that allows platforms to apply for authorisation in a single country. This allows the platform to operate across the EU under a single authorisation known as "EU passporting". Popular equity crowdfunding platforms Crowdcube and Seedrs, which originated in the UK and set up offices in the EU, have adopted this approach.

Energy-access-related equity crowdfunding raised $5.6 million across five campaigns in 2022, with volumes up 19% year-on-year. The most significant raise was by Africa Greentec, a German mini-grid developer and operator with assets in Mali, Niger and Senegal. The company raised a $3.4 million Series B round. Africa Greentec raises both company equity and project finance (debt) via crowdfunding. It raises equity via its own website, and debt in partnership with the Austrian debt crowdfunding platform Crowd4Climate. To date, Africa Greentec has raised $7.8 million in equity and over $1 million in debt via crowdfunding.

The UK-based crowdfunding platform Crowdcube hosted two successful energy access campaigns in 2022. Netherlands-based Kitepower raised over $1 million at an $11 million valuation (pre-money), and UK-based ChillTech raised $635,000 at an $18.5 million valuation (pre-money). Both companies appeared to be pre-revenue (or in the early stages of revenue generation) at the time of the campaigns. Kitepower has developed a kite that generates electricity from wind, which it aims to deploy through mini-grids. The company has raised over $4.2 million in R&D funding to date and has piloted its technology in the Caribbean. ChillTech has developed cold storage technology that runs on the waste heat of generators and engines. The company is piloting the technology in partnership with TAK Logistics, a Nigerian insulated container and refrigerator unit provider.

Seedrs, another UK-based crowdfunding platform, hosted a campaign by Inclusive Energy, which raised $525,000 at a $5.6 million valuation (pre-money). Inclusive Energy designs and manufactures smart meters that enable remote diagnosis, usage analytics, accurate billing and carbon reporting. Its main clients are energy access companies. Chilltech and Inclusive Energy, both UK-based companies, made use of the UK's Enterprise Investment Scheme (EIS), which aims to encourage venture investment through the provision of tax benefits to investors. WeFunder, a US-based platform, hosted a small equity campaign by Africa Eats, a pan-African holding company with 15 portfolio companies, including four energy access-related companies. Africa Eats raised $127,500.

Energy access-related equity crowdfunding raised $5.6M in 2022 – up 19% year on year.

Investee Spotlight: MPower

MPower, a Swiss energy access company that combines plug-and-play solar, software and customer financing, has used crowdfunding platforms to raise investment capital since 2018. The company generates most of its revenues from hardware sales which, MPower reports, result in a 34% margin. MPower also generates revenue from financing activities, generating a reported spread of 1% per month (after the cost of capital, OPEX and defaults).

MPower completed its most recent equity raise on the Seedrs platform. It raised \$830,000 at a \$7.7 million valuation (pre-money) in early 2023, reporting sales of \$1.7 million (2022). The raise was MPower's third campaign on an equity crowdfunding platform.

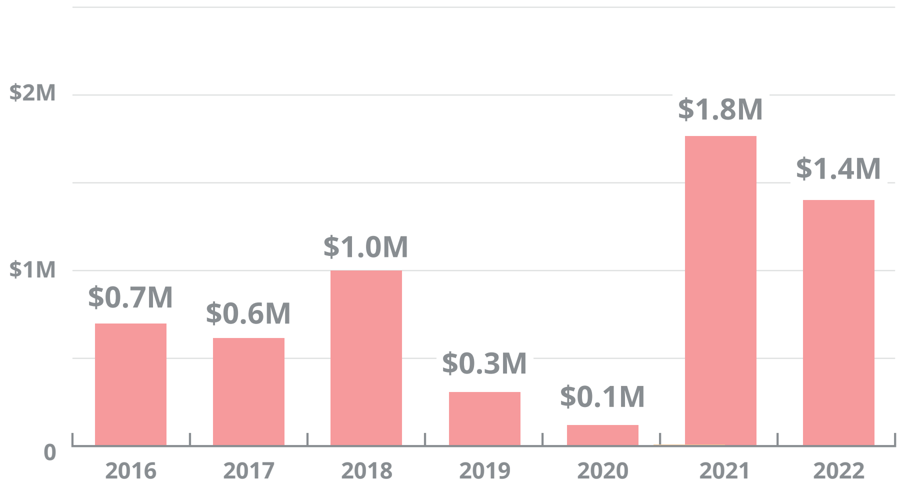
In 2020, MPower launched its first equity campaign through the largest equity platform in Europe, Crowdcube. MPower raised \$540,000 at a \$6.5 million valuation (pre-money). At the time of the raise, MPower reported sales revenue of \$654,000 (based on 2019 financials), and was operating in Togo, Cameroon and Zambia. In 2021, MPower raised a \$690,000 convertible round on Crowdcube. At the time of the convertible round, MPower reported 2020 sales revenue of \$835,000 and had expanded operations to Ghana and Namibia.

A valuation is not required to issue a convertible note round. It is only required at a later date when the equity is converted, making it a popular instrument among entrepreneurs when raising a bridge round. Founders may also take this approach to avoid a down round, which is when the value of the company decreases between a previous and subsequent round.

MPower's 2020 campaign raised equity at a 9.9x multiple, meaning the valuation was 9.9 times sales revenue. In 2023, MPower raised equity at a 4.5x multiple. Investment multiples are expected to fall as companies grow and mature. In addition, multiples declined between 2020 and 2023, following several years of elevated multiples. Part of MPower's success in raising multiple rounds via crowdfunding lies in the company's realistic expectations: MPower has continually set attainable targets (roughly \$300,000 for the first two campaigns) and maintained realistic valuation expectations.

06
Donation and reward crowdfunding

Donation and reward crowdfunding volumes, 2016-2022



Similar to previous years, donation and reward crowdfunding accounted for a tiny minority of crowdfunding volumes in energy access in 2022, equivalent to $1.3 million or 3% of the total. The actual figures may be higher, however, as collecting data on donation and reward crowdfunding platforms is quite challenging. The US-based platform GlobalGiving remains the leading donation crowdfunding platform in the energy access sector, accounting for around 80% of collected funds. Reward crowdfunding is a niche type of capital raising, sometimes referred to as a 'pre-sale', as it is often used to fundraise the development of new technologies. According to our research, the success of this kind of campaign is highly dependent on the size of the campaign-maker's network and their outreach capacity.

SINCE 2016,
$6 MILLION
HAS BEEN RAISED BY ENERGY ACCESS COMPANIES ON DONATION AND REWARD PLATFORMS

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TOKENISATION

One 2022 initiative worth highlighting is Crowdfund for Solar, a decentralised financing platform (DeFI), launched by the French-based Engie subsidiary Engie Energy Access. The platform is operated by the non-profit Energy Web, and is hosted through its blockchain-based open-source infrastructure, which is tailored to the energy sector. Crowdfund for Solar allows investors to purchase Energy Web Tokens (EWTs) to support the installation of solar energy infrastructure for communities in Sub-Saharan Africa, and they are remunerated through a fixed return model with profits of up to 10% on their investment. When the first campaign was launched in May 2022, it was completed in a record time, with a $100,000 target exceeded in just seven hours. The one-off campaign was funded largely by individuals affiliated with Engie. Participants can withdraw their funds after one year, starting in May 2023.

This raises the possibility that cryptocurrencies could become an alternative financing solution for energy access in developing countries. We highlighted in our 2020 and 2019 reports that cryptocurrencies, through initial coin offerings (ICOs), were a possible means of financing energy access companies. Over the last two years, there has been no activity in this market. Through Crowdfund for Solar, Engie Energy Access might revive it.

Q&A:
Lendahand

Daniel Van Maanen, Head of Finance at Lendahand

On default risk and interest rates

Lendahand is a Netherlands-based crowdfunding platform dedicated to fighting poverty in emerging markets. Unique in the crowdfunding sector, Lendahand offers European retail investors the opportunity to lend to impactful businesses worldwide by investing as little as €10. Founded in 2013, it focuses on key impact areas such as financial inclusion, access to clean and affordable energy, and food security. Lendahand provides loans to financial institutions, which on-lend the funds, and direct loans to social enterprises.

Lendahand owns and operates PlusPlus, another Netherlands-based platform for small loans in the agrifood space, and owns 50% of Energise Africa, a UK-based crowdfunding platform for clean energy companies in emerging markets. Between the three platforms, over $175 million has been raised from the public and lent to over 70 businesses in more than 40 countries since 2014. In 2022, they acquired a French social impact microcredit platform, Babyloan. Lendahand holds a MiFID II and the new European Crowdfunding Service Provider license. It was named "Best Crowdfunding Platform of the Year" in the Netherlands in 2018, 2019, and 2021.

Q Following a 2021 recovery to pre-Covid volumes, global energy access debt crowdfunding volumes lowered in 2022. Could you describe Lendahand's activities in this context, and your understanding of the global situation for crowdfunding in energy access?

Indeed, our energy access portfolio is also facing challenges. In 2022, Lendahand volumes fell by 4% compared to 2021, down to $4.3 million. This was primarily driven by the underperformance of some off-grid SHS distribution and C&I companies, both in the wider market and in our portfolio. In order to protect our investors' portfolios, we need to take measures when portfolio companies are no longer covenant-compliant or when their debt needs to be rescheduled. Companies at risk are no longer allowed to raise new funds on our platform. As a result of arrears in the portfolio, we needed to take a step back and re-assess our lending criteria for direct investments.

Lendahand's C&I loan volumes reduced from $2.2 million in 2021 to $875,000 in 2022. Loans to SHS businesses fell from $750,000 in 2021 to $430,000 in 2022. In return, loans to ancillary energy businesses increased from $1.2 million in 2021 to $1.9 million in 2022. We also ventured into e-mobility, a new and exciting sub-sector, and raised $275,000. We are optimistic about this sector's potential, and we expect more companies to reach a certain level of maturity, making them eligible for crowdfunded senior loans.

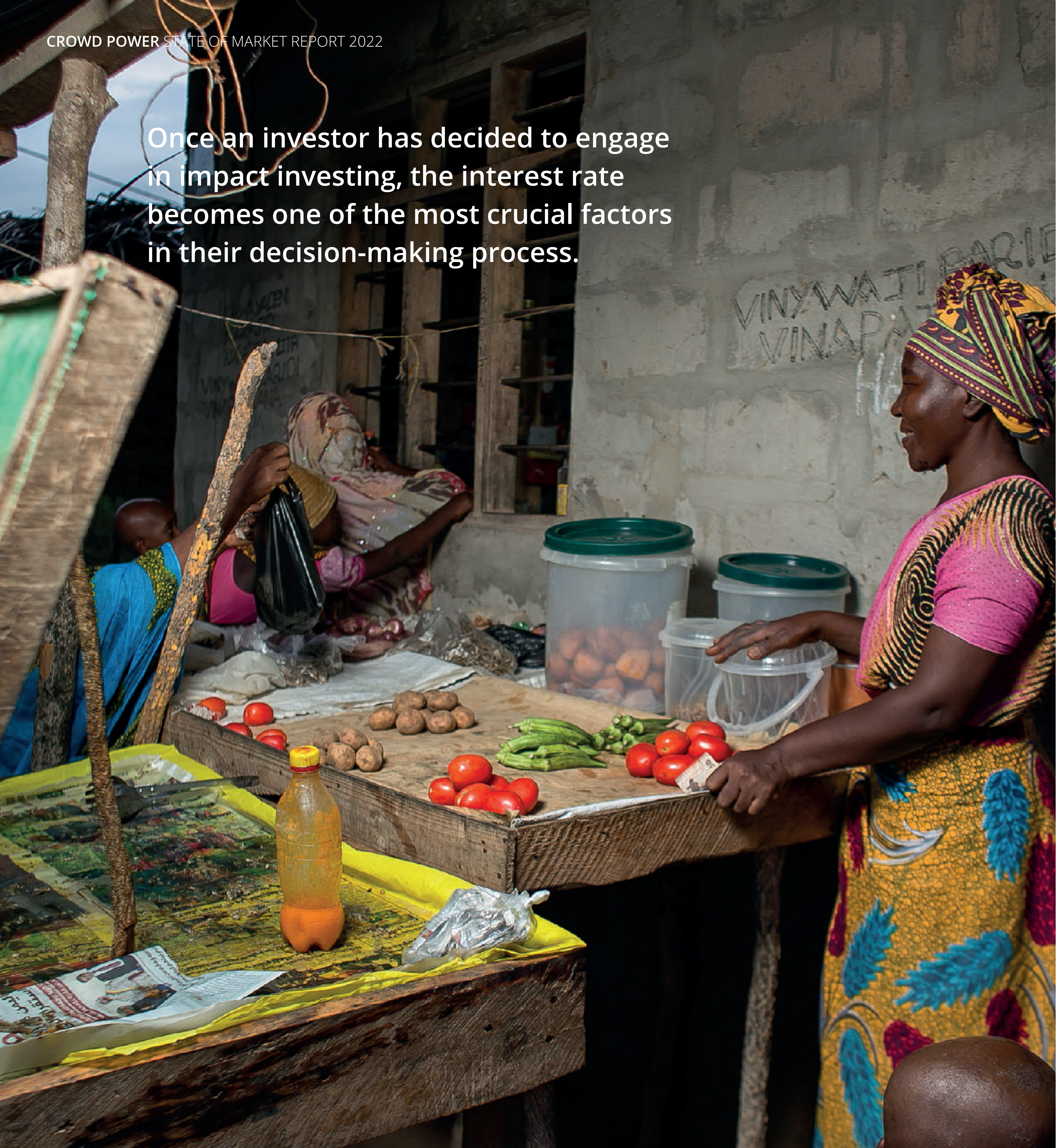
From an impact perspective, we absolutely want to stay active in SHS lending, and we're exploring various new structures where the sector's inherent risks are better mitigated. Likewise, we're keen to grow our exposure in the C&I sector. Lendahand signed an agreement with Clean Energy and Energy Inclusion for Africa (CEI Africa), to continue investing in the off-grid and green mini-grid sectors. Overall, though, we cannot get around the fact that 2022 has been a disappointing year when it comes to crowdfunding for access to clean energy. Many smaller PAYGO SHS players faced significant challenges, and most funding went to a few large players left in the SHS space, which are more difficult for crowd-lenders to access.

What is encouraging, however, is that new initiatives are entering the market to de-risk lending to SHS and C&I companies. Through an innovative off-balance sheet structure set up by Solar Frontier Capital, for example, we are investing in receivables from d.light. By selling their receivables, the distributor (in this case d.light) has less need for working capital on their balance sheet, which lowers the need for further capital buffers. From the lender's perspective, there is less exposure to overhead costs and start-up losses at the level of the distributor. See this press release for more on this.

Another initiative we're currently exploring is lending to SHS distributors on the back of export credit insurance. In such a structure, an export-import bank or credit agency would provide insurance to the financing party willing to lend to the borrower purchasing goods from an exporter located in the country of the export-import bank. This kind of guarantee mechanism could greatly reduce borrower default risk for the crowd.

Q In a context of strong inflation – around 9% for the eurozone in 2022 – to what extent did an environment of increased interest rates negatively impact crowdfunding?

Inflation is certainly one of the challenges that we face. Besides that, this year we had the war in Ukraine, higher interest rates, and the strengthening of the USD versus EUR. When you add poor portfolio performance and higher default rates to the possible motives for refraining from investing, it is difficult to pinpoint the impact of inflation alone.



Once an investor has decided to engage in impact investing, the interest rate becomes one of the most crucial factors in their decision-making process.

Q Lendahand had an average interest rate of 6% p.a. for investors in 2022. What could be done to increase investor returns, and what other drivers could prompt the crowd to increase investment?
This is a challenge. We're currently renegotiating framework agreements with our investee companies to increase the interest rates for our crowd lenders. For new deals, we demand higher rates, and we've also started to include a floating rate during the due diligence phase. This protects investors against rising rates during three-to-nine months of assessing, approving and onboarding the borrower. While higher rates are of course not in the interest of the borrowers, we can't forget the reality of global interest rates, which have risen 3% to 5% in the past 18 months. Also, the number of defaults in the industry requires a higher risk premium. Again, through smart and innovative solutions, it should be possible to mitigate risks and thereby lower costs.

In fact, we know from research at Lendahand, that once an investor has decided to engage in impact investing, the interest rate becomes one of the most crucial factors in their decision-making process. Investors see the crowdfunding platform as the "impact gatekeeper", and once they begin investing, they act not so differently from "ordinary" investors. We recently did a statistical analysis on the funding speeds of our campaigns, and the interest rate came out as one of the most important decision-making factors.

Although risk-adjusted, it's fair to say that without the impact element and from a purely financial risk-return perspective, the interest rates that investors receive are lower than market rates. So investors really do need to value the combined financial and social impact return of the investment opportunities that we offer.

As high inflation might be temporary, we will likely have to accept more flexibility in our interest rates going forward. For example, now that we are adjusting prices upwards, borrowers will probably require us to lower rates once global rates fall. This is a situation that borrowers mostly understand. Our increased rates still remain lower (by around 2%) than market interest rates.

Q Another reason for lower volumes in 2022 could be a lack of investment opportunities on the platform as some large borrowers have not met repayment obligations. What is your stance on this?
Clearly, the defaults have had consequences. First of all, they meant that we were no longer able to offer projects from those borrowers on

the platform. Several of our SHS and C&I companies are in arrears, and for some of them, we have already accepted partial write-offs. Other platforms facing this situation have done the same as far as we know. As other impact lenders often fund these borrowers too, we're all in the same boat. And as a consequence, we are seeing a dip in investor confidence and trust. For example, the average investment per investor fell by 23% in H1 2023. Regaining that trust is now our most important short-term objective; we are mainly doing this by improving clear risk communication on our website.

What is remarkable is that although the default rate on direct (corporate) loans is much higher than for indirect loans to financial institutions like MFIs, which subsequently lend to local SMEs and micro-entrepreneurs, the crowd still prefers to lend directly to businesses, based on our analysis of funding speed data. We don't know the exact reasoning for this, but it could indicate that many crowdfunders value the social impact return more than the potential risk they take for a higher financial return, and they are still eager to contribute to the climate challenge by lending to impactful businesses in the clean energy sector.

Since the issue of trust, due to defaults amongst our direct loan portfolio, has caused a drop in overall funding (and funding speeds), and since we take our duty of care very seriously, we will bring the share of direct loans in our portfolio down, and align our product offering so it is more in line with other generic impact lenders. In addition, we will enter strategic partnerships with reputable impact investment managers, and we will overhaul our website to make investors even more aware of the risks involved in direct lending.

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There are many reasons that a company can default. In our opinion, too much leverage for relatively immature and not yet profitable companies has played an important role. To make an SHS or C&I company profitable, in a remote and challenging market, requires scale. Increased competition and low margins, plus external factors like Covid and less appetite from equity and debt investors, have made it difficult for many companies to continue growing and reach the scale needed to become profitable.

So why not fund larger companies, you might wonder? The many benefits of using crowdfunding are less relevant for larger borrowers. Larger companies require more funding, and it is challenging for crowdfunding platforms like Lendahand to lend more than \$2- \$3 million. Besides, we would need several months to raise the amount of capital they need. Larger lenders like DFIs [development finance institutions] can deploy funds immediately. With larger loan amounts, the cost of lending can also go down, and hence it is difficult to compete with the rates offered by larger lenders.

Q How does Lendahand deal with the risk of default, and what are the instruments to mitigate those risks?

Taking a step back, it must be understood that risk is inherently high in crowdfunding. We deal with relatively young and immature companies, operating in challenging economic and political environments. There is a reason why these companies

turn to international impact lenders: they lack the track record and/or collateral to access local commercial funding. That is why we exist, to fund the financing gap that they're desperate to bridge. This already indicates that from a purely financial perspective, these companies may not qualify for pure commercial funding. There must be a strong social and/ or environmental impact factor to justify lending to these companies.

Of course, we do everything we can to reduce the risk of default. We conduct a full-blown due diligence desk, and typically a site visit as well. We do it internally, meaning that we do not engage with external financial, commercial, technical or legal advisors. Our three-step approval process is as follows: (1) approval to proceed to due diligence by our Head of Investment, (2) full assessment of the proposal by an external credit committee, and (3) deal sign-off by the Board. Simultaneously, we complete an impact sign-off (by our internal Impact Manager) and conduct the KYC [know-your-customer] checks.

To mitigate risk, we have recently increased the minimum equity ratio and minimum absolute equity amounts; we are more reluctant to lend at the holding company level; we only do secured loans (for direct transactions); we will predominantly do direct investments with co-financing partners; and we do smaller tickets. Further, we're exploring the idea of limiting the individual crowdfunding investment per direct borrower.

Q Is risk inherent to certain sectors and geographies? Is there a "lower-risk" type of company, and is this reflected in the interest rate charged to the borrower?

Yes, both sector and geography are important parameters for risk calculation. The difference is most pronounced in direct investments in companies versus indirect investments in financial institutions. Financial institutions are better diversified, and have stronger balance sheets (also because they are often regulated), stronger governance, and a longer operating history. Given higher solvency levels and the nature of the business, the recovery rate for financial institutions after an arrears situation is typically much higher. In direct lending, once a company is quickly defaulting, the total liabilities exceed the assets of the business.

Q What are the main objectives for Lendahand over the next year?

We'll shortly announce two important strategic partnerships, under which our direct transactions will largely be sourced and managed by reputable asset management companies. Also, we'll use our new European license and AI to start to attract co-funding from impact investors across Europe. Finally, we want to make sure indirect investments are attractive to the public and show that the risk-adjusted returns are actually higher than for direct deals. Overall, we hope to grow our volumes to over $50 million by 2025 (from $20 million expected in 2023), of which $10 million will go to the energy access sector.

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