

A photograph of a woman with a warm smile, wearing a vibrant yellow and blue patterned top and a red headwrap with white polka dots. She is seated on a red chair, positioned against a dark background. To her left is a vertical decorative element featuring a repeating orange floral or scroll pattern.

Crowd Power Syndicated Financing

Co-lending Partnerships with
Crowd Lending Platforms

ENERGY4IMPACT

ACCELERATING ACCESS TO ENERGY

Contents

Introduction	1-2
Energy Access Crowdfunding	3
About Loan Syndication	4
Loan Syndication Terminology	5
Typical Loan Syndication Structure	6
Benefits of Loan Syndication	7
Challenges of Loan Syndication	8
Typical Crowd Lending Structure	9
Typical Bilateral Lending Structure	10
Possible Syndicated Loan Structure	11
Points of Negotiation	12-13
Final Comments	14

Energy 4 Impact (E4I) is a non-profit organisation that alleviates poverty and improves livelihoods in Sub Saharan Africa through access to energy. This report was funded through E4I's Crowd Power programme, which researches the role of crowdfunding in the energy access sector.

Crowd Power is funded through UK aid's Transforming Energy Access initiative. This material has been funded by UK aid from the UK government; however the views expressed do not necessarily reflect the UK government's official policies.



Introduction

Finance is one of the main challenges for achieving universal energy access, with an investment of at least \$28 billion a year required until 2030.* To deploy this amount of finance, it will be important to have a broad range of financiers with different motivations and risk-return appetites. It will also be important for financiers to collaborate more closely together and share risk. With this in mind, Energy 4 Impact (E4I) embarked on a project in 2020 to encourage co-lending between crowd lending platforms and other lenders in energy access.

This report provides lenders, crowd lending platforms, off-grid energy companies and other industry stakeholders with an introduction to co-lending and syndicated financing. It explains how co-lending works, the main benefits and challenges for different participants, its relevance for crowd lending, and the key considerations for anyone developing co-lending structures. We have also developed a simplified syndicated facility letter template with the support of energy access and crowdfunding players. The documents can be downloaded here:

1. [Syndication Facility Letter Template](#)
2. [Syndication Facility Letter Terms and Conditions](#)

This work was funded through E4I's Crowd Power programme, which is supported by UK aid.

Please contact Energy 4 Impact if you have any issues downloading the forms:
info@energy4impact.org.



Crowd Power

Crowd Power is funded by UK aid through their Transforming Energy Access initiative and implemented by E4I. Crowd Power began in April 2015 to research the role of crowdfunding in increasing access to finance for off-grid energy companies. Crowd Power supports off-grid energy companies to raise capital by providing co-funding via donation, reward, debt, and equity crowdfunding. The programme also supports platforms to de-risk investment by covering costs associated with local currency lending, investor and portfolio guarantees, and other innovative approaches to reducing risk.

Crowd Power builds empirical evidence on the impact of co-funding and shares research on crowdfunding through publications, [available here](#).

*Tracking SDG7: The Energy Progress Report 2020, Sustainable Energy for All

Introduction

Most corporate syndicated loan agreements are based on the recommended form of documents developed by the Loan Market Association in Europe. However, the templates developed by the LMA were not developed with the energy access market in mind and do not cater for the unique characteristics of a syndicate involving a crowd lending platform.

The syndicated facility letter template we have developed is targeted at the energy access and crowd lending markets. Our hope is it that will provide a “starting point” for negotiations, help lower transaction costs, and foster the development of co-lending partnerships between lenders and crowd lending platforms. In turn, we hope it will increase the financing options available to energy access borrowers and the crowd.

We have worked closely with SunFunder, a leading lender in the solar sector, and Lendahand, a leading impact-oriented crowd lending platform, to develop the syndicated facility letter template. Crowd lending platform bettervest also provided feedback on the structure.



Simusolar

Project Partners



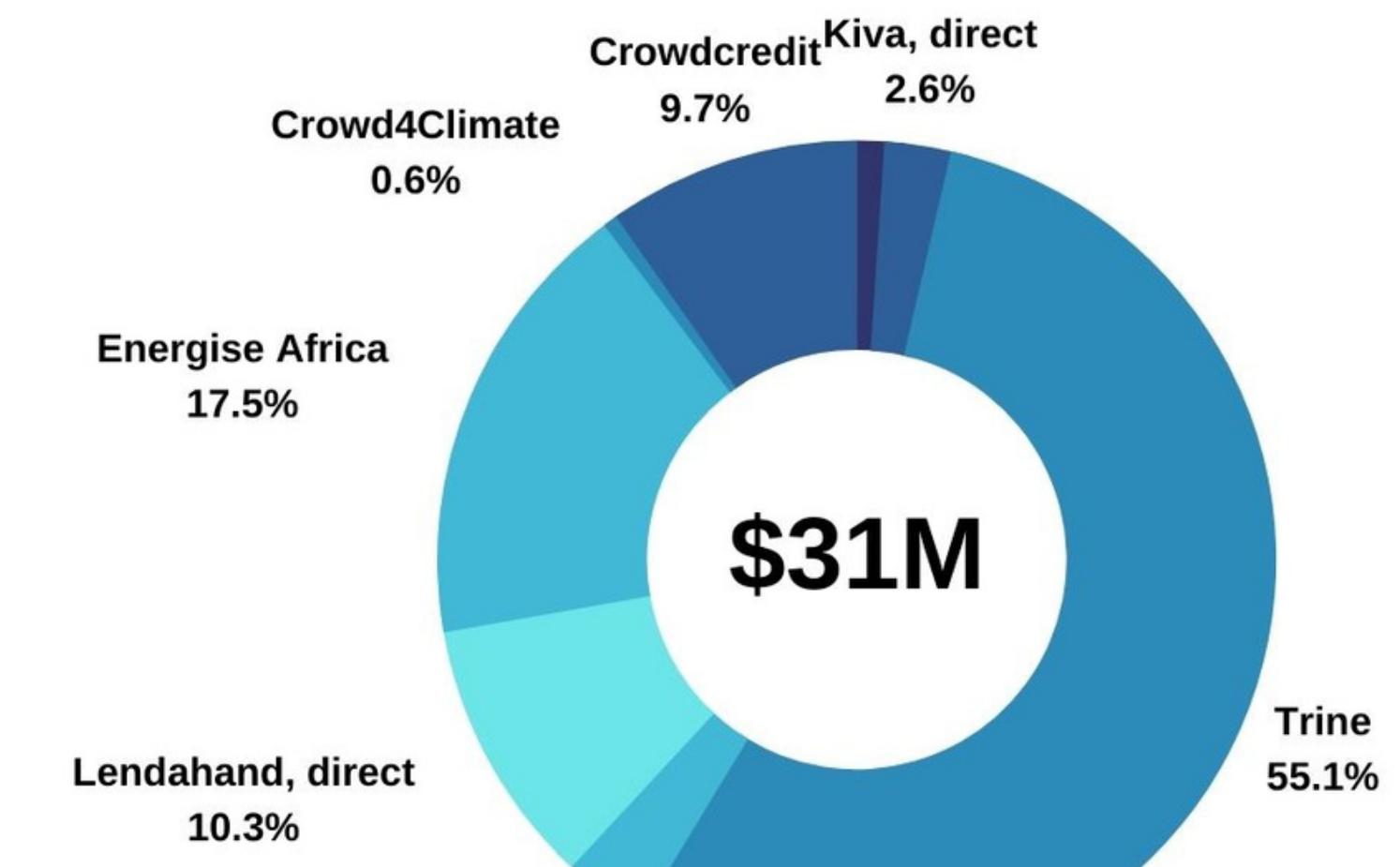
Energy Access Crowdfunding

Energy access-related crowdfunding is growing rapidly. Between 2015 and 2019 energy access-related crowdfunding volumes doubled each year on average. Crowdfunding campaigns raised \$59 million for the energy access sector in 2019 and approximately \$54 million in 2020 despite the challenges of the Covid-19 pandemic.

Debt crowdfunding typically accounts for around 90% of all energy access-related crowdfunding, with the balance being equity, donation, reward crowdfunding. While energy access crowdfunding growth plateaued in 2020 as a result of the pandemic, we expect volumes to grow in 2021 as crowd lending platforms resume lending to existing and new borrowers. Many crowd lending platforms report pent-up demand among retail investors due to the reduced number of campaigns in 2020, the increase in disposable income among middle- and high-income earners, and the impact-first nature of crowd lending,

The energy access-related debt crowdfunding market is dominated by two types of platform. Growth debt platforms such as Trine (Sweden), Energise Africa (UK), Lendahand (Netherlands), bettervest (Germany) and Crowdcredit (Japan) provide larger ticket loans of \$300,000 plus. Venture debt platforms such as Kiva's direct lending (USA) and Charm Impact (UK) offer smaller tickets of \$10,000 to \$100,000. Co-lending is mainly relevant for the growth debt platforms because they can manage the larger, more complex transactions that are likely to be brought to them by potential arrangers.

Market share for direct loans via crowd lending 2020



About Loan Syndication

A syndicated loan is a loan offered by two or more lenders (a syndicate) which work together to provide funds for a single borrower.

Debt syndication is a way for financial institutions to share risk in financing larger or riskier projects which a single lender is unable or unwilling to assume. There are many cases where crowd lending platforms and conventional lenders have provided debt financing to the same borrower. However, in these cases, the debt is advanced to the borrower on a bilateral basis by each organisation, with no formal cooperation between the different lenders.



Redavia

Energy access borrowers currently working with both crowd lending platforms and conventional lenders



DAYSTAR POWER
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Loan Syndication Terminology

The table below highlights the key participants in a syndicated financing structure.

Term	Description
Arranger	A financial institution that arranges a loan between a borrower and a syndicate of lenders. The arranger conducts the credit assessment of the borrower, organizes the syndicate of lenders, appoints the lenders' lawyers, and negotiates the loan documentation. They are also usually one of the leading lenders in the syndicate.
Borrower	The party receiving the loan. This could be the Project Company or the Holding Company.
Collateral Agreement	The agreement under which the security trustee acting on behalf of the lenders takes security over the operating assets or other collateral.
Crowd Lending Platform	The online crowd lending, peer-to-peer, or impact lending platform representing the crowd investor. These will usually be growth debt platforms for loan syndications. Please note, the term Crowdfunder is used to describe the crowd lending platform in the legal documentation template provided through the links on page 1.
Crowd Investor	The individual retail investor, or institutional investor, that lends funds to the borrower via the crowd lending platform.
Facility Agent	An agent acting as the primary point of contact between the transaction parties to a syndicated loan. They are appointed to manage the communication between the borrower and the lenders in addition to handling the flow of funds and providing ongoing transaction support. The facility agent is usually the same as the arranger, however some lenders in the energy access sector will require a third party to step in and act as facility agent once the deal has been signed.
Holding Company (HoldCo)	The parent company of the Project Company. Lenders to the HoldCo do not have direct access to the operating assets held by ProjectCo and accordingly rank behind lenders to the ProjectCo in a default situation.
Lender(s)	The individual lenders advancing the loan facility.
Loan Agreement	The agreement governing the terms under which the loan is advanced to the borrower.
Note Subscription Agreement	This is the agreement between the Crowd Lending Platform and the Borrower, under which the Crowd Lending Platform advances the funding to the Borrower.
Project Company (ProjectCo)	The subsidiary of the Holding Company which directly owns the operating assets. Lenders to the ProjectCo which are secured rank ahead of unsecured creditors and have priority access to the ProjectCo's operating assets.
Syndicate	The group of lenders advancing the loan facility.
Security Trustee	The entity holding the security interests created on trust for the syndicate of lenders. This structure avoids granting security separately to all lenders which would be costly and impractical. In the event of default, the trustee is responsible for enforcing the security under instruction from the lenders. Please note, the term Security Agent is used to describe the Security Trustee in the legal documentation template provided through the links on page 1.

Typical Loan Syndication Structure

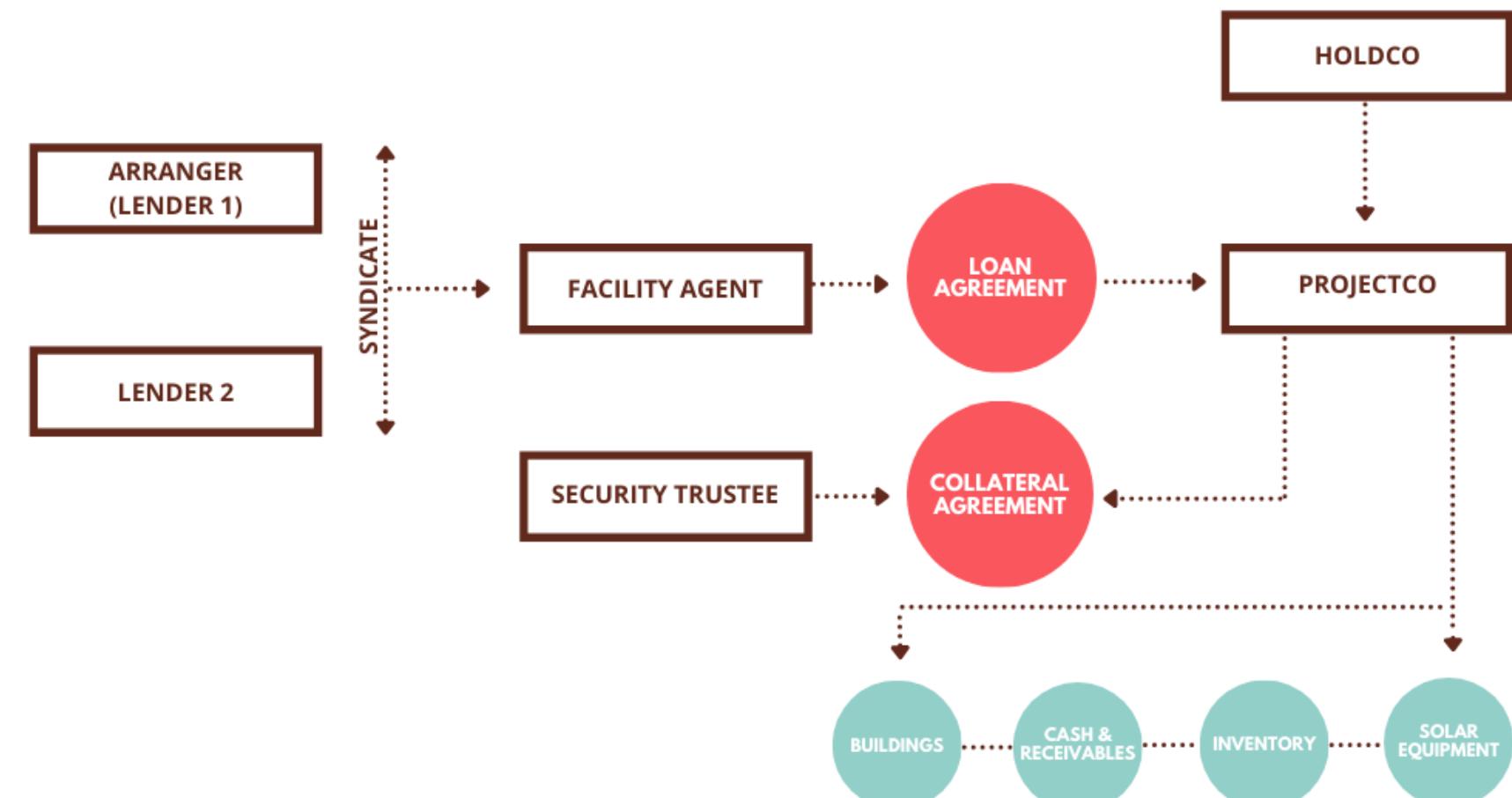
A syndicated loan is a loan offered by two or more lenders (a **syndicate**) which work together to provide funds for a single borrower.

Each lender in the syndicate contributes part of the loan amount and shares part of the risk. One of the lenders acts as the manager (**arranger**), which administers the loan on behalf of the other lenders in the syndicate.

The diagram shows the relationships between the main parties in a syndicated loan described on the previous slide.

Typically the borrower would be the ProjectCo which has direct ownership and control over the operating assets of the company.

Typical Loan Syndication Structure



Benefits of Loan Syndication

Loan syndication can benefit the borrower, arranger, crowd lending platform and crowd investor in the following ways:

Borrower

- **Larger loan sizes:** The borrower is able to borrow larger amounts than from a single lender.
- **Efficiency:** The borrower only needs to negotiate the loan terms with the arranger not the full syndicate of lenders.
- **Diversified funding:** The borrower has access to a larger, more diverse pool of lenders.
- **Community:** Working with the crowd allows the borrower to create an online community of potential investors.

Arranger

- **Risk sharing and distribution:** The arranger can share credit risk with the crowd lending platform. The platform can participate in the loan on a pari-passu or subordinated basis.
- **Larger loan sizes:** The arranger can offer a larger loan amount to the borrower than if they acted alone.
- **Fees:** The arranger can generate increased fee income (e.g arrangement fees, syndication fees, security agent fees, etc.).

Crowd Lending Platform

- **Increased loan volume:** Syndications offer a cost-effective way to increase campaign volumes for the platform because they reduce the cost of origination and due diligence.
- **Knowledge sharing:** The platform can learn from the due diligence and financial structuring conducted by the arranger.
- **Increased security:** The platform can potentially participate in secured transactions. Typically crowdfunding loans are made to a Holdco and are unsecured. Many syndicated loans will be made to a ProjectCo directly secured on the operating assets of the borrower.
- **Campaign variety:** Syndication allows crowd lending platforms to participate in a wider variety of transactions and build partnerships with other lenders.

Crowd Investor

- **Reduced risk:** Investors on the crowd lending platform can get exposure to secured loans and lend to the ProjectCo. See Crowd Lending Platform above for more details.
- **Diversification:** Campaign variety allows lenders to participate in a wider range of campaigns from different borrowers, originators and countries.
- **Increased loan volume:** Many crowd investors complain that they are unable to invest in campaigns as demand outstrips supply. Increased loan volume provides more opportunities for crowd investors to participate in loans.

Challenges of Loan Syndication

But there are also a number of challenges that need to be considered before embarking on a syndicated financing structure:

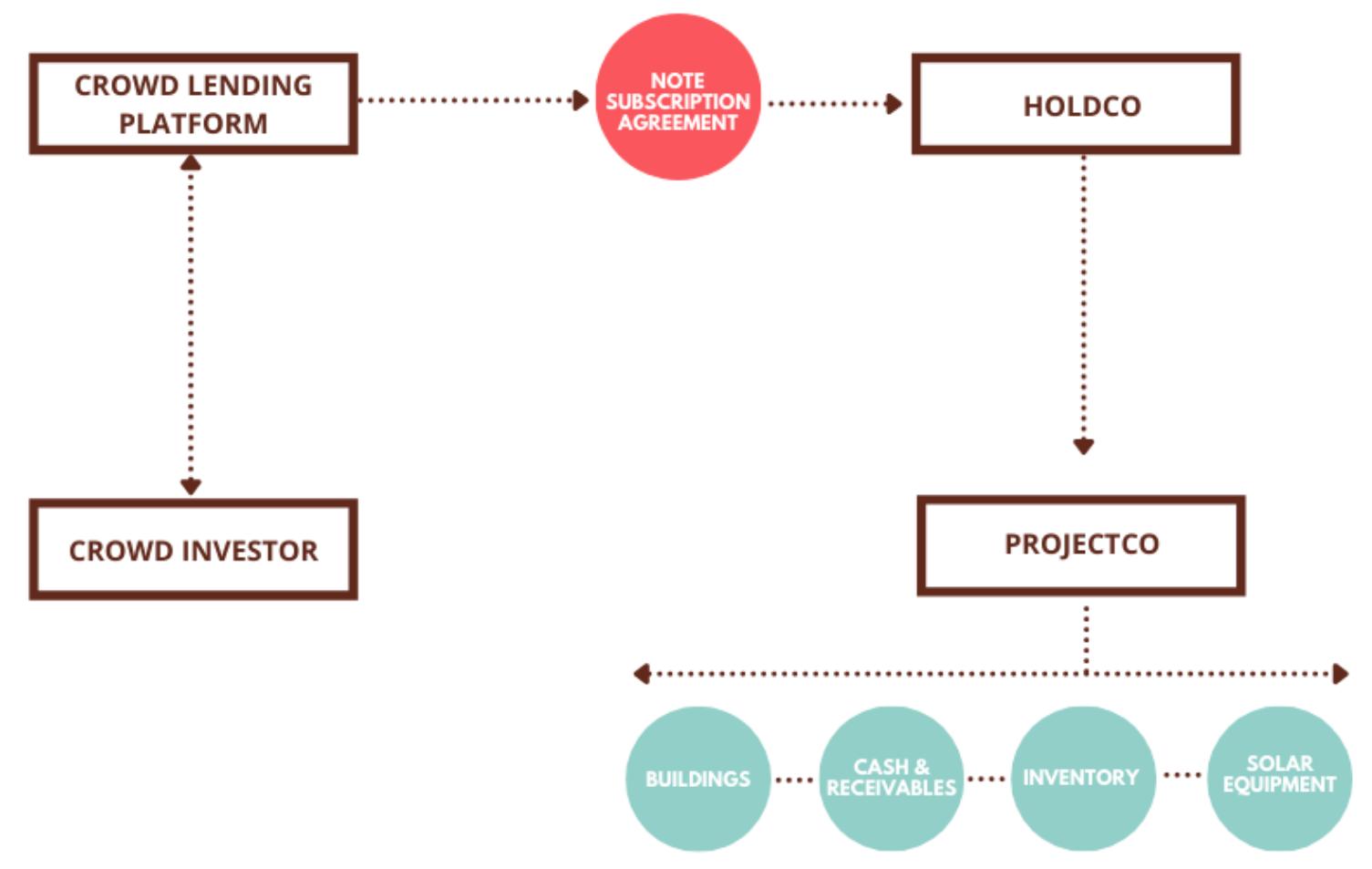
Complexity	A loan syndication can only work if all parties involved (i.e the borrower, arranger, crowd lending platform, crowd investor) have aligned interests and reach agreement. The transaction will need to be acceptable from a risk/return perspective for all participants. A balance needs to be found between lower risk, secured loans and higher risk, unsecured loans which are less complex. The more complex the transaction, the higher the transaction cost and the longer the time it may take to close.
Time to close	A simple crowd lending transaction can take 3 months to close, while a syndication is likely to take at least 6 months. Some borrowers may be deterred by the fact there is no guarantee that the crowd will raise the required volumes and will do so in a timely manner.
Transaction size	Syndication is only likely to make sense for larger transactions (say \$6 million+). Only a limited number of energy access borrowers have the balance sheet to support such transactions.
Fees	The syndication fees may make it less attractive for the borrower than transacting directly with the crowd lending platform and the other lenders.
Loan terms	Most crowdfunding loans are unsecured, have relatively short tenors (less than 7 years), are in hard currency, and are based on 6 monthly repayments. Any divergence from these terms may be challenging for crowd lending platforms.
Local financial regulations	Syndicated loans must comply with local regulations in the jurisdiction of the borrower (which could be an African country) and the jurisdiction of the crowd lending platform (generally European). Loan syndication is a challenge in certain African jurisdictions. For example, the Ugandan High Court ruled in October 2020 that a syndicated loan from a syndicate including foreign banks was invalid, potentially undermining over \$1.5bn of syndicated loans.
Information sharing	Certain information on the borrower and the loan has to be made public as part of any loan syndicated to the crowd. Some borrowers will not be comfortable making such information public and sharing it with potential competitors. If the borrower defaults, then this information will also have to be made public.
Liquid debt market for energy access	There is currently plenty of debt available for larger, creditworthy energy access companies, with around 20 specialized off-grid lenders and many other active players, including local and international commercial lenders and development financing institutions. Some borrowers and lenders may conclude that syndicating to a crowd lending platform is not worth the effort.
Covid-19 and political instability	The pandemic continues to have a profound impact on the energy access sector, with many companies seeing falling sales, higher delinquency rates and increased pressure from their existing investors. Currency volatility and political risk is also a significant barrier to financing in African countries.

Typical Crowd Lending Loan Structure

The next three slides will look at a typical unsecured crowd lending structure, a typical bilateral secured loan and a possible secured syndicated loan involving the crowd.

1. The crowd lending platform subscribes for notes issued by the borrower in exchange for the funds advanced to the borrower.
2. The funds are advanced to a holding company (Holdco) which is typically incorporated offshore (e.g in Europe), rather than in the jurisdiction where the project is undertaken by the project company (ProjectCo).
3. The crowd lending platform does not typically take security over any of the key project assets which are owned by the ProjectCo. While some crowd lenders can take collateral from the ProjectCo, many do not due to, amongst other things, regulatory constraints (for example, some European crowd lenders only lend to Holdcos incorporated in Europe), the time and expense of taking and registering security over ProjectCo assets and the crowd lender's own internal resource constraints with regards to the structuring, due diligence and valuation of an appropriate security package.
4. The crowd lending platform may be subordinated to any secured creditors or lenders which provide financing directly to ProjectCo.

Typical Crowd Lending Loan Structure

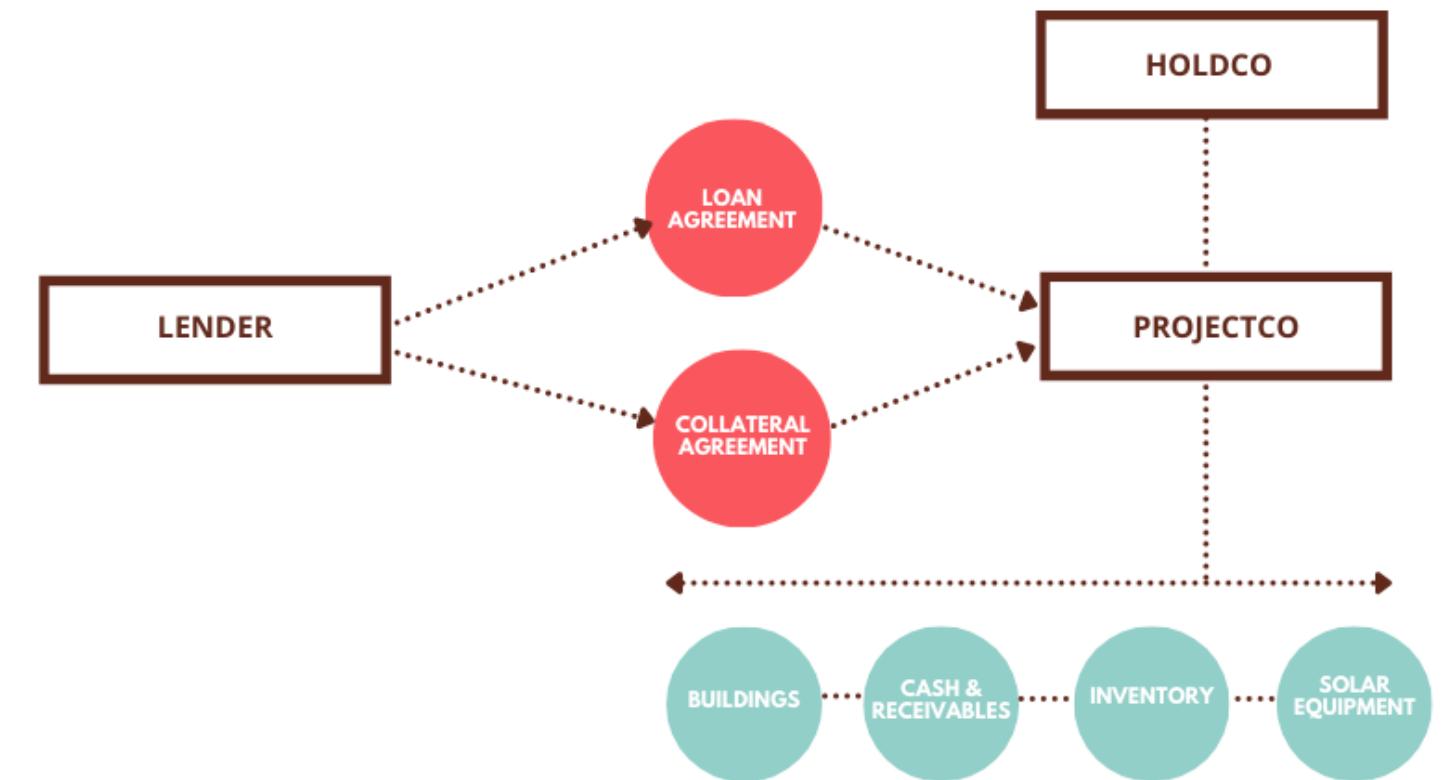


Typical Bilateral Secured Loan

Now let's examine a typical bilateral secured lending structure:

- The loan is advanced directly to the ProjectCo, the borrower.
- The lender is granted security over the ProjectCo's assets (e.g inventory, property, plants and equipment, cash, receivables and solar equipment).
- The lender has priority access to the ProjectCo's assets and ranks ahead of unsecured creditors, including any creditors which provide financing at the Holdco level, such as a crowd lending platform.

Typical Bi-lateral Secured Loan



Possible Syndication Structure with Crowd Lending Platform

Now let's examine a possible loan syndication structure with a crowd lending platform:

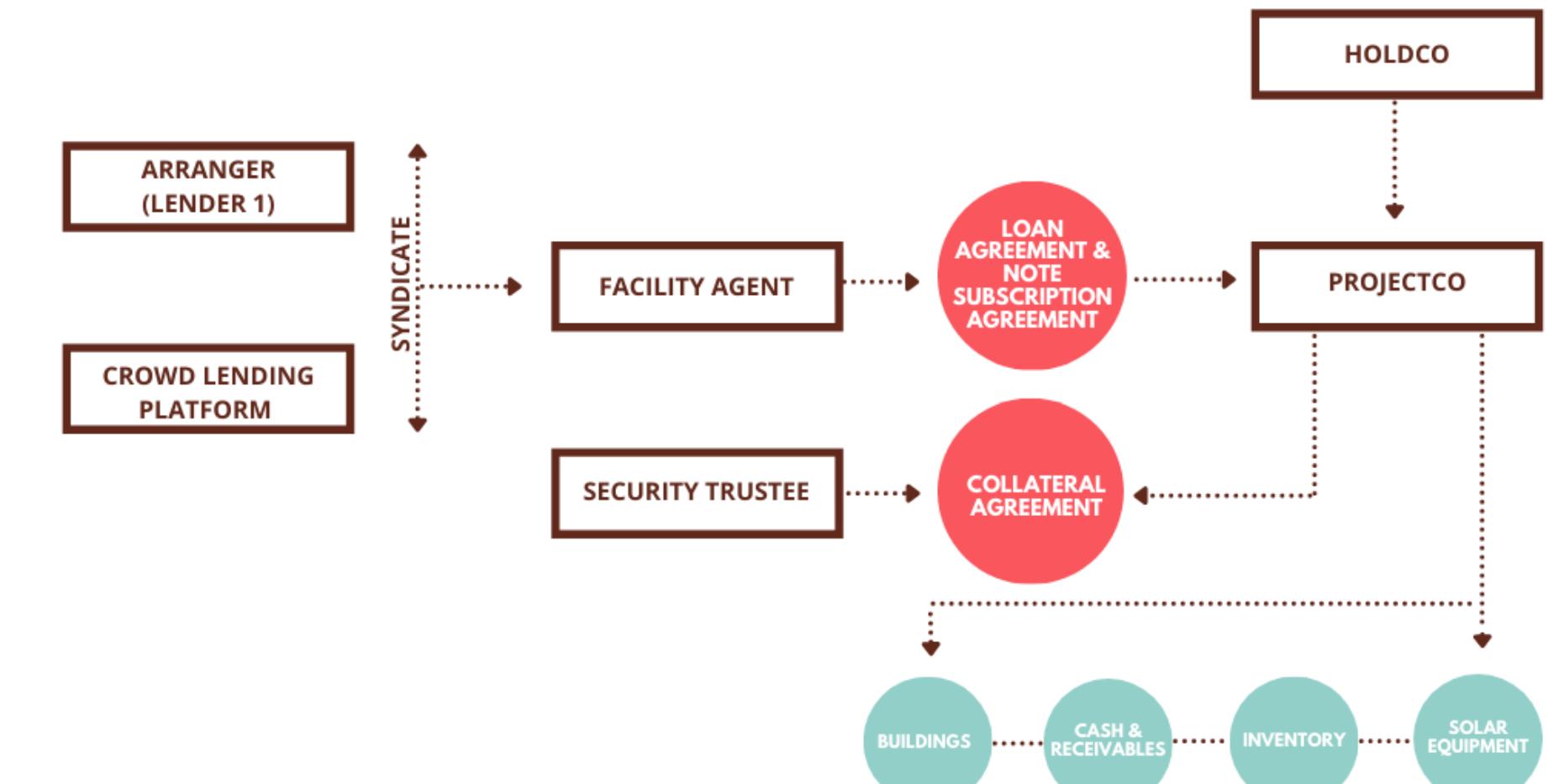
A lender and a crowd lending platform advance their funding together under a syndicated financing agreement to the ProjectCo, the borrower. The agreement includes a note subscription agreement.

The lender acts as the arranger and leads due diligence, structuring and negotiation of financing documents. The arranger is appointed as the facility agent between the syndicate of lenders and the borrower, managing the flow of funds between the parties and sharing key transaction information.

The borrower grants the crowd lending platform and the lender security over its key assets (e.g plant, property and equipment, cash and receivables, inventory and solar equipment). The crowd lending platform and lender have priority access to the ProjectCo's assets. Any financier at the Holdco level is subordinated to the financing at the ProjectCo level.

The lender (or a designated third party) acts as security trustee and holds the security on behalf of both financiers.

Proposed Syndication Structure



Key Points of Negotiation

Below are some considerations for borrowers and lenders when negotiating syndicated financing structures. This is not an exhaustive list, but it provides a good starting point for discussions.

Basic loan terms	Loan amount, currency, tenor, interest and fees, repayment, grace period, collateral, loan covenants, information undertakings and events of default.
Types of fees	The arranger will charge fees to the borrower and pass some of these fees down to the other lenders and the crowd lending platform.
Financial regulations	Are there any regulatory restrictions on lending, syndicated loans or holding security? It is important to consider both the jurisdiction of the borrower, the arranger and the crowd lending platform. Most European platforms are regulated – some are precluded from lending to borrowers located outside Europe, while others may not be allowed to take security in certain jurisdictions. There may also be exchange controls which restrict borrowers from repaying loans to non-resident financiers without pre-approval of the central bank.
Decision making	How will decisions be made and who will manage disputes, waivers and enforcement of security?



SolarAid

Key Points of Negotiation

Inter-creditor issues	Are there any inter-creditor issues that require separate agreements? This will only be necessary if the borrower has other lenders outside the syndicate.
Security/Collateral	Does the jurisdiction where the borrower is incorporated or where the security is held permit a security agent to hold the security on behalf of the syndicate? Are the costs and regulatory constraints related to the collateral prohibitive? Do local regulations require the lenders to appoint a local security agent?
Local currency	How will the borrower manage exchange rate volatility, particularly where the loan obligations are denominated in foreign currency but revenues are earned in local currency? Are hedging options readily available and cost effective?
Reporting requirements	What are the reporting requirements of the borrower? Can they provide the lenders with both financial information (e.g. financial statements) and specific impact data (e.g. households reached, jobs created and greenhouse gas emissions avoided). Consider whether this information is proprietary or sensitive and to what extent the borrower is okay to share it with crowd investors.

Final Comments

Our co-lending agreement template was inspired by the recommended forms of loan agreements promoted by the Loan Market Association (LMA). The LMA is an industry body with over 760 organisations in 69 countries comprising commercial and investment banks, institutional investors, law firms, service providers and rating agencies. The LMA has developed standardised legal documentation in different areas such as syndicated loans, debt trading and restructuring.

The LMA's role in promoting standardised loan documentation has over the years increased transaction volumes and reduced complexity and cost in the global loan markets – initially for investment grade financing but also for leveraged financing, trade financing and, more recently, for emerging market borrowers.

We hope something similar can be achieved in the energy access sector. Whilst drawing from the general principles set out in the LMA standardised loan documents, we have sought to simplify our template (which is less than a quarter of the size of many standard LMA loan documents) to make it as accessible as possible.

We hope that crowd lending platforms and other lenders use our template as a building block for their own co-lending agreements, leveraging the experience and expertise of specialist arrangers to bring in pools of capital from the crowd. As the energy access market matures, the development of these scalable funding partnerships will be key to unlocking and deploying the capital needed to mitigate climate change and energy poverty.



One Acre Fund



Biolite

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