Investment Guide: Crowdfunding

June 2020
Energy Catalyst Investment Guide: Crowdfunding

The advancement of financial technology, or fintech, is changing the way energy access companies raise finance. New financing channels present new financing opportunities to entrepreneurs, particularly crowdfunding and peer-to-peer (P2P) lending. “Crowdfunding” encompasses a broad range of financing instruments, from reward crowdfunding - think Indiegogo - to online debt-based securities - like bonds issued via online platforms - through to initial coin offerings (ICOs). For the purpose of this guide, we will refer to this broad range of fintech-enabled financing instruments as “crowdfunding”, however it is important to remember that definitions and regulation of instruments vary between jurisdictions.

In the energy access sector, there are six main crowdfunding models used by energy access companies: donation crowdfunding, reward crowdfunding, P2P microloans, P2P business lending, equity crowdfunding, and ICOs.

<table>
<thead>
<tr>
<th>Type</th>
<th>Model</th>
<th>Description</th>
<th>Facility size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation</td>
<td>Donation crowdfunding</td>
<td>Individual donors provide funding to individuals, companies or projects based on philanthropic or civic motivations with no expectation of monetary reward</td>
<td>$5,000 – $20,000</td>
</tr>
<tr>
<td>Reward</td>
<td>Reward crowdfunding</td>
<td>Backers provide funding to individuals, companies or projects in exchange for non-monetary rewards or products</td>
<td>$5,000 - $50,000</td>
</tr>
<tr>
<td>Debt</td>
<td>P2P business lending</td>
<td>Individual or institutional investors provide a loan to a business</td>
<td>$10,000 - $7,000,000</td>
</tr>
<tr>
<td>Debt</td>
<td>P2P microlending</td>
<td>Individual or institutional investors provide a loan to a consumer</td>
<td>$100 - $3,000</td>
</tr>
<tr>
<td>Equity</td>
<td>Equity crowdfunding</td>
<td>Individual or institutional investors purchase equity issued by a company</td>
<td>$100,000 - $3,000,000</td>
</tr>
</tbody>
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On the following pages of this guide, we will explore each of these models in depth, but let’s first take a look at the growth of crowdfunding in the energy access sector since 2015. Energy 4 Impact (E4I) has been collecting data on crowdfunding and P2P lending activity in the energy access sector since 2015; in 2018, E4I also began collecting data on initial coin offerings (ICOs) in the energy access sector.

The state of the energy access crowdfunding market

The amount raised for energy access companies and nonprofits has grown from $3.4 million in 2015 to approximately $50 million in 2020. E4I is currently compiling data on 2019 for the upcoming ‘Energy Access Crowdfunding & P2P Lending - State of the Market 2019’ report, which will be available on the E4I Publications page from June 2020. We include 2019 data from our preliminary analysis in Figure 1 below.
The growth of energy access crowdfunding activity is largely driven by the emergence of social impact oriented P2P lending platforms in Europe and the UK, which include bettervest, Energise Africa, Lendahand and Trine. These platforms originate loans to energy access businesses, and the resulting ‘loan-parts’ are purchased by Europe- and UK-based investors; investors then earn a return on their EUR or GBP denominated investment. We refer to this model as P2P business lending, whereby the crowd essentially provides a loan to an energy access business. This model accounts for approximately 90% of all energy access crowdfunding activity.

The crowdfunding landscape is dynamic and evolving rapidly. As you can see in the graph below, back in 2015 energy access crowdfunding was dominated by P2P microlending, which accounted for 70% of the $3.4 million raised that year. Fast forward to 2018, and we see microloans accounted for only 4% of the $30 million raised through energy access campaigns. P2P business lending, on the other hand, grew from 4% of all fundraising activity in 2015 to almost 90% of all fundraising activity in 2018.
Crowdfunding models explained

Crowdfunding is now commonly used by energy access companies to raise capital, from early stage companies raising seed capital from family and friends - via donation and reward crowdfunding - to growth phase companies raising multi-million-dollar debt facilities via P2P business lending platforms. This section explains each of the six crowdfunding models: donation crowdfunding, reward crowdfunding, P2P business lending, P2P microloans, equity crowdfunding, and ICOs.

Donation crowdfunding

Donation crowdfunding is where individuals, nonprofits or businesses raise capital, in the form of donations, from a group of individuals via a crowdfunding platform. Individual donors are typically motivated to contribute due to personal connection to the fundraiser or for philanthropic reasons. This is an important point as there is often a misconception that ‘the crowd’ can be leveraged to raise funds, however in reality the contributors are often related to the campaign-maker in some way. This means the campaign-maker must invest a lot of time, energy and resources into creating a successful campaign. Tips on preparing for a successful donation crowdfunding campaign can be found on page 15 of E4I’s ‘Success & Failure: The Key to a Winning Campaign’ report.

In the energy access sector, donation crowdfunding is used mostly by nonprofits rather than businesses. Reward crowdfunding is more geared towards social enterprises, while donation crowdfunding is geared towards more charitable models. GlobalGiving is the dominant platform for donation crowdfunding, and in 2018 it accounted for over 60% of energy access donation crowdfunding. Some platforms require their nonprofit or social enterprise partners (i.e. the campaign-maker) to be pre-approved and vetted by the platform before they can raise funds. Campaigns perform best where they are for a specific initiative, and demonstrate the campaign impact and use of funds clearly.

Top 5 donation platforms for energy access:

1. GlobalGiving
2. GoFundMe
3. betterplace
4. Just Giving
5. M-Changa

Reward crowdfunding

Reward crowdfunding is when a nonprofit or business raises capital from a group of individuals, in return for a reward. Reward crowdfunding is sometimes referred to as a ‘pre-sale’ as it is often used to fundraise for the development of new technologies (e.g. a new pico-solar lantern). Reward campaigns for social causes try to minimise the cost of reward delivery by including rewards with a low monetary value, such as a thank you posted to their website. As with donation crowdfunding, individual contributions are usually motivated by a connection to the fundraiser or the value of the reward offered. Reward crowdfunding is often a way to formalise a family and friends (“F&F”) round.

E4I has analysed data from reward crowdfunding campaigns since 2016, and the analyses found that 80%-90% of funders were known to the campaign-maker prior to the launch of the campaign. This highlights the importance of pre-planning and setting a realistic target, based on your network’s capacity to contribute - funders do not miraculously appear, and the outcome of the campaign is the result of the quality of the campaign materials, as well as campaign strategy, outreach and planning. For further information on planning a reward crowdfunding campaign see pages 20, 23, 24 of E4I’s ‘Success & Failure: The Key to a Winning Campaign’ report.
Top 5 reward platforms for energy access:

1. StartSomeGood
2. Indiegogo
3. Kickstarter
4. Charidy
5. Pozible

P2P business lending

P2P business lending is where a group of individuals lend money to a business. The lender usually receives a financial return on their investment. Individual investors own ‘loan-parts’, which may in fact be securitised. The investor receives repayments from the borrower over the duration of the loan. Lenders are typically motivated by social and environmental impact as much as by financial return, while one platform’s lenders don’t receive any interest (Kiva). Business loans tend to raise working capital or project finance (on select platforms).

There are a range of P2P business lending platforms, which cater to companies at varying levels of maturity and scale. Kiva’s direct lending to social enterprise initiative offers zero- or low-interest loans from $10,000 to $50,000, and subsequent loans of $100,000. In late 2019 a new platform, Charm Impact, emerged in the UK, which initially provided loans of up to $20,000, with a focus on local African businesses. Both of these platforms are suitable for early-stage capital.

Later-stage working capital needs are met by a number of platforms, including bettervest (Germany, EUR lending), Energise Africa (UK, GBP lending), Lendahand (The Netherlands, EUR lending), and Trine (Sweden, EUR lending). These platforms will usually have a minimum loan amount of $300,000 to $500,000, and can provide up to $7 million or more in debt financing. This type of funding is akin to commercial debt, and interest rates reflect this, typically ranging from 10%-15% p.a. (note that during the Covid-19 crisis, some platforms are charging a risk premium of at least 1% p.a. on top of these rates).

On later-stage platforms, financing is usually raised in tranches, whereby the platform launches individual campaigns reflecting each tranche. This provides flexibility to borrowers as they only pay interest on the part of the loan facility that has been drawn down. The average campaign size has grown steadily over the past few years, from $80,000 in 2016, to around $200,000 in 2018. Bboxx raised the largest facility via a P2P business lending platform in 2018, borrowing over $7.3 million through the TRINE and Energise Africa platforms.

Importantly, borrowers on both early-stage and later-stage debt platforms must demonstrate a capacity to service the loan - this is a debt obligation and even concessional debt should not be mistaken for a donation or an easy route to financing. Crowdfunding carries the additional risk of a potentially public default or failure, which should be considered before embarking on the crowdfunding journey. Details on some of the due diligence requirements of platforms can be found on page 31 of E4I’s ‘Success & Failure: The Key to a Winning Campaign’ report.

Top 5 P2P business lending platforms for energy access:

1. Trine
2. Energise Africa
3. Lendahand
4. bettervest
5. Kiva
P2P microlending

P2P microlending is where a group of individuals lend money to an individual, group or entrepreneur. The lender effectively holds a ‘loan-part’ and expects to be repaid by the borrower over the agreed loan term. Lenders on microlending platforms tend to be motivated by social impact and, due to legal and administrative considerations, often do not receive a return on their investment. In the eyes of the lender, microlending may be viewed as a more effective form of donation— which offers capital preservation alongside impact.

In the previous section, we mention that P2P microlending has reduced from 70% of energy access crowdfunding activity in 2015 to just 4% of crowdfunding activity in 2018. This reflects both the growth of other forms of crowdfunding, namely P2P business lending, but also reduced energy access microloan activity, which reduced from $2.4 million in 2015 to $1.2 million in 2018.

Generally, energy access companies use P2P microlending as a tool when they are too early to qualify for a working capital facility, but would like to begin providing financing to their customers. However, some more mature companies have also used P2P microlending platforms, like Kiva, to scale their customer financing function. The founder of Soluz, a distributor of solar home systems and commercial solar refrigeration in Honduras, recently spoke about his experience scaling customer financing through Kiva on this webinar by the Global Distributors Collective (GDC). The webinar also includes the experience of ATEC, a biodigester distributor in Cambodia that provides pay-as-you-go financing to customers, which recently raised a working capital loan on Kiva (the model discussed in the section on P2P business lending).

P2P microlending can be difficult for a social enterprise to administer without an established credit administration team, however some companies value this mode as an effective way to create liquidity, essentially by refinancing loans to customers. Kiva provides the loan to its partners (i.e. social enterprises) interest-free, though the partner can charge interest to their customers to cover admin costs.

**Top 3 P2P microlending platforms for energy access:**

1. Kiva
2. Milaap
3. Zidisha

Equity crowdfunding

Equity crowdfunding is where individual investors provide funding to a company in exchange for shares in the company. The equity crowdfunding platform may also operate a secondary market, which allows shareholders to sell their shares, however in most cases, shares are fairly illiquid. Start-ups typically raise equity for product development and growth.

Energy access related equity crowdfunding activity has fluctuated greatly over the past few years. In 2016, companies raised over $3.4 million, while no energy access campaigns were successful in 2017 or 2018. In 2019 only one energy access company, UK-based Renovagen, completed a successful campaign (their third), while in 2020, Swiss-based company MPower successfully raised over £350,000. The limited number of campaigns by energy access campaigns highlights the difficulties in launching a successful campaign, due to the regulatory environment and business model fit.
The sparse deal flow, with an average of one energy access campaign each year, from 2012 to 2020, shows equity crowdfunding fits a very narrow company profile. The UK has the most evolved equity crowdfunding market globally, however companies outside the UK and Europe are unable to raise capital. Furthermore, equity crowdfunding investors often invest in companies they are likely to be or become a customer of, which means there may not be a natural fit between energy access business models and their target investors, which are largely based in the UK and Europe.

Successful campaigns actively engage their networks, and secure 30%-50% of the campaign target prior to launch. This funding is usually sourced from one, or several, angel investors that can fund the campaign upfront, which demonstrates ‘demand’ to other equity investors on the platform. After this anchor investment is secured, platforms also recommend engaging your wider network to make smaller contributions to increase the ‘number of investors’ shown on the campaign page. It is also important to note the importance of high quality campaign materials - do not skimp on the video, pitch deck or financials.

For a more in-depth exploration of equity crowdfunding, regulations and what it takes to launch a campaign, you can read pages 41-46 of E4I’s ‘Success & Failure: The Key to a Winning Campaign’ report. We also recommend viewing other successful pitches in the same, and adjacent, sectors to get a good understanding of the quality of successful campaigns.

**Initial coin offerings (ICOs)**

Initial coin offerings (ICOs) are where a project or company sells tokens to the public (typically international investors) in exchange for cryptocurrencies or national currencies. ICOs offer an opportunity for project developers and companies to raise funds for project development costs. ICOs provide an alternative source of capital to traditional equity and debt investments. E4I tracks data on ICOs, although ICO fundraising expertise is out of our scope.

E4I began tracking energy access related ICOs in 2018 and thus cannot compare fundraising activity with previous years, but ICOs appear to be an unusual fundraising tool in the sector. Energy access ICOs are a unique component of energy and utility related ICOs, and raised just $1.6 million in 2018, through two offerings. The Powerhive X SunExchange ICO used the Ethereum platform to raise $1.1 million through the sale of the SUNEX reward token, which effectively securitises solar PV cells and allows token holders to earn revenue over the life of the project. The SunExchange platform provides token holders with real-time access to solar cell performance and revenue generation, from their projects in South Africa and Kenya. The other ICO we identified was by CryptoLeaf, a platform for investors to fund ‘green’ projects globally, which include projects in low-income countries; the ICO raised $500,000.
References and further reading

Energy 4 Impact, Success & Failure: The Key to a Winning Campaign
https://www.energy4impact.org/file/1996/download?token=xIKti84u

https://www.energy4impact.org/file/2094/download?token=H2OMM250

World Bank and Cambridge Centre for Alternative Finance, Funding the Sun: New Paradigms for Off-Grid Solar Companies

NextBillion, Too Risky for the Crowd? Assessing the Potential of Crowdfunding for Energy Access
https://nextbillion.net/crowdfunding-potential-energy-access/
Useful contacts

Reward platforms

StartSomeGood
https://startsomegood.com/

Indiegogo
https://www.indiegogo.com/

Kickstarter
https://www.kickstarter.com/

Later-stage debt platforms

Bettervest
https://www.bettervest.com/

Energise Africa
https://www.energiseafrica.com/

Lendahand
https://www.lendahand.com/

Trine
https://trine.com/

Early-stage debt platforms

Charm Impact
https://charmimpact.com/

Kiva direct lending
https://www.kiva.org/blog/kiva-launches-direct-to-social-enterprise-program

Equity platforms

Crowdcube
https://www.crowdcube.com/

Seedrs
https://www.seedrs.com/

Please contact your Client Relationship Manager if you want help with introductions to specific individuals within these institutions.