CGAP
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Energizing effective PAYGo solutions

THE CHALLENGE

The pay-as-you-go (PAYGo) solar industry—which enables consumers to install and benefit from off-grid solar power systems without the upfront cost—emerged during the early 2010s, led by the success of companies like M-KOPA in East Africa. Even with the industry's expansion, two main challenges remained. First, business models were poorly understood by investors and there was no transparent way to analyze company performance. Second, the lack of professional credit risk management practices meant that many firms were seeing massive defaults and deteriorating portfolio quality.

Nicolas Réméné via Communication for Development Ltd.

CGAP'S ROLE

CGAP addressed the situation with a three-part approach: (i) unpacking the complexities of PAYGo business models and calling for the disaggregation of the value chain through partnerships with lenders; (ii) providing specialized technical guidance on how PAYGo lenders could professionalize their credit risk management; and (iii) developing tailored, standard performance metrics for PAYGo companies that allowed investors and the companies themselves to better understand the health of their businesses, thereby facilitating greater investment and better management decisions. CGAP's research and analysis concluded that the PAYGo value chain should be disaggregated through the outsourcing of financing to MFIs and other traditional lenders.

CGAP also worked with GOGLA (the PAYGo industry's organizing body) and IFC/Lighting Global to help the industry create a standardized way to measure its performance. CGAP joined with approximately 600 PAYGo executives, investors, and experts in energy and financial inclusion to develop key performance indicators (KPIs) that provide a more transparent view of company performance. By developing a set of transparent and standardized indicators, companies could better understand their true performance and investors could feel more confident in making investment decisions to drive impact at scale.

CGAP'S IMPACT

CGAP was one of the first organizations to recognize the risk posed by poor credit risk management in the PAYGo sector, which threatened the industry's long-term viability. CGAP helped a young industry full of many new companies to become more robust and more investable—factors that are critical to scaling PAYGo's impact as it enters its second decade. For example, CGAP made the case that PAYGo companies should be managed as finance companies rather than as energy companies. CGAP also spurred a new era of partnerships between off-grid energy companies, along with MFIs and other lenders, to help manage large receivables. Moreover, many investors now encourage companies to adopt the CGAP-designed KPIs. In fact, PAYGo platform providers such as Solaris and Angaza have begun to use them.

INFLUENCE STORIES

This influence was made possible by CGAP's members: more than 30 leading development organizations.