

MARKET INSIGHT

The HUB

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

How to invest in energy transition in emerging markets and improve lives

A boutique investor, now part of Mirova, has become a market leader in financing solar power projects in emerging markets

Uncertainty about the true impact of their ESG allocations continues to worry investors. Is my investment making meaningful impact? Can that impact be measured? Is my capital safe?

It is often a relief when the impact of an investment is both clear and measurable, and even better when that investment holds out the prospect of consistent and secure income streams².

Imagine if you could invest only in companies which can be empirically shown to improve lives in developing markets. Where your entire allocation demonstrably makes a positive climate change impact. And, in the process, expect to receive regular and secure income streams².

From crowdfunding platform to powerhouse

Mirova SunFunder has provided financing so that more than 10 million people, predominantly in Africa and Asia, can now have access to power where once they had little or no energy sources³.

Already operating in 23 countries, where it has closed over \$200m of investments to 58 companies⁴, Mirova SunFunder is now significantly broadening its technological and geographical reach.

It has helped finance off-grid solar home systems in Malawi, village mini-grid projects in Kenya, and commercial and industrial rooftop installations in Nigeria and Thailand.

Mirova SunFunder is the acknowledged leading debt financing partner for solar companies in Africa. Which is not bad considering it was launched as a crowdfunding platform a decade ago.

Its co-founders, Audrey Desiderato and Ryan Levinson, had both worked in the renewable energy sector long before it was described as a sector. Levinson was involved in clean energy from 2003 and helped launch Wells Fargo's solar project finance unit, closing more than \$500m in transactions. "It was clear that solar could be a low-risk, stable investment with good returns," he says.

Desiderato, meanwhile, had been developing clean energy projects for years. When SunFunder was launched, she quit her job with a renewable energy developer in New York and relocated to East Africa to build SunFunder's operations.

"It seemed like the place to be, given that pay-as-you-go renewable power sources were springing up in Kenya and being replicated across the region," says Desiderato. "As it developed, so it needed financing, and that's where we came in."



Ryan Levinson
Co-Founder & CEO
Mirova SunFunder



Audrey Desiderato
Co-Founder & COO
Mirova SunFunder

Key takeaways:

- In emerging markets, more than 750 million people lack access to electricity¹. By pioneering and scaling clean energy, Mirova SunFunder helps improve lives.
- A large part of Mirova SunFunder's financing of renewable energy is through "super senior" debt, which is a good fit for risk-averse institutional investors. For capital to be lost in super senior, over 50% would have to be in default.
- SunFunder's expansion has been accelerated through its acquisition by Mirova, a pureplay sustainable finance investment firm and affiliate of Natixis Investment Managers.

1. IEA, World Energy Outlook 2021. 2. Mirova SunFunder renewable energy financing is done through senior secured loans while it offers notes to mezzanine and senior investors at fixed coupon interest rates in USD. Nonetheless, each investment is subject to risks, including the risk of capital loss. 3. Mirova SunFunder as of July 2022. 4. Mirova SunFunder as of August 2022.

Harnessing the cheapest ever source of power

Today, Mirova SunFunder is squarely focused on enabling energy access and climate impact mitigation in emerging markets, where 770m people lack access to grid electricity.

"The existing energy infrastructure for many of these people depends on kerosene and diesel, which is inefficient, dirty and unreliable," says Levinson. "The financials for solar and battery technology make great economic sense because they are competing with dirty energy sources and have little or no competition from grids."

Mirova SunFunder's mission for the last decade has been to pioneer and scale distributed solar and storage financing. "Solar plus storage is emerging as the cheapest source of power generation that has ever existed," Levinson adds.

The initial focus of providing individual homes with plug-and-play solar systems has now considerably expanded. Mirova SunFunder now finances five distinct solar and storage segments and is expanding across the broader distributed clean energy transition sector.

The first, and most mature, is off-grid solar, mainly comprising solar home systems for lighting and appliances.

d.light

A \$50 million investment from a consortium of lenders led by Mirova SunFunder and Trade Development Bank in October 2022 will allow d.light, a pioneering manufacturer of clean-energy products, to ramp up its production and distribution. Since its founding, d.light has provided solar energy to more than 125 million people in 70 countries. Its product line ranges from extremely affordable portable solar lanterns to solar home systems and appliances such as TVs, fans, and smartphones.

Mirova SunFunder has helped finance d.light for nearly 10 years. The latest partnership is structured as a balance sheet debt facility, enabling the continued expansion of d.light's pay-go consumer finance business in Africa to transform the lives of 1 billion people with sustainable products by 2030. It is also designed to de-risk the company's balance sheet, making it more resilient to potential shocks.

Second, mini-grids, provide village-scale distributed rural electrification. Third is telecoms and connectivity access, whereby diesel-powered towers are replaced by solar-powered infrastructure with battery storage. Fourth is commercial and industrial (C&I) solar and storage projects, which boost economic growth by providing cheaper and more reliable power.

Fifth is agri-solar innovation: over 100 companies in Africa need financing to develop and roll out technologies for water pumping, filtration, drying, milling and pressing, among others.

Daystar Power

Daystar specialises in solar power and energy efficiency solutions for the digital and agricultural sectors, which lead to a minimum 20% reduction in energy costs and a 50% reduction in diesel consumption for end users. Mirova SunFunder's \$2m debt facility allowed Nigeria-based Daystar to implement up to 3MW of projects. Mirova SunFunder also helped with cost-effectiveness by preparing legal documents for multiple jurisdictions to minimise advisor fees. Daystar estimates that the projects financed will mitigate over 100,000 tons of CO2 emissions annually. Daystar is also an exponent of gender equality in its team, including its senior leadership.

Mirova SunFunder is now expanding into next-generation clean energy projects, including e-mobility, battery storage and energy efficiency. The uptake in Sub-Saharan Africa of battery-powered electric vehicles, for instance, is starting to mirror global trends – driven by urbanisation, rising middle-class motorisation, demand for urban transport solutions, falling battery costs and rising fuel costs.

A good fit for risk-averse investors

The expansion in Mirova SunFunder's investment focus has been allied to geographical expansion. The Sub-Saharan Africa focus is now broadening out to include most emerging markets, including much of Asia, the Middle East, and Latin America, giving investors much greater diversification.

Mirova SunFunder's approach includes three capital tranches: super senior notes,

senior notes and junior shares. As the name suggests, junior is the lowest-ranked and most suitable for donors, foundations, and impact investors. The senior tranche is most suitable for government development finance institutions (DFIs).

The super senior notes are designed for institutional investors, who will benefit from protection provided by the two subordinate tranches. Levinson says: 50% of our investments are in super senior debt which is a good fit for risk-averse investors. For capital to be lost in super senior tranches, half of our portfolio would have to be in default

Ready for the next phase

SunFunder's expansion has been accelerated by its acquisition in 2022 by Mirova, a pureplay sustainable finance investment firm and affiliate of Natixis Investment Managers.

"We had grown in a measured way, but to provide finance for a growing range of technologies across three continents required a step-change in resources," says Levinson.

"Our vision is to solve energy poverty and help create a low-carbon world, and we knew that Mirova could propel us towards that aim."

CREI Central Africa Republic

CREI is a telecom energy service company which handles the building and maintenance of 106 telecom towers in the Central African Republic (CAR). This includes modernising the energy to the towers by installing efficient solar-battery hybrid systems. In 2020, Mirova SunFunder closed a \$6m senior secured loan to CREI to finance the procurement, configuration, installation, and maintenance of energy solutions using solar power for telecom towers in the Central African Republic.

Mirova not only manages €25.5 billion¹¹ in clean energy assets, but also has a dedicated and long-standing energy transition team. In addition, like Mirova SunFunder, it has experience managing blended finance portfolios. Mirova itself is affiliated to NIM, which manages some \$1.3 trillion of assets¹².

"We only intended to raise capital to expand, but we quickly agreed to an acquisition when we realised that our passions for clean energy, energy access

5. IEA (2021). World Energy Outlook 2021. 6. D.light as of 2020. 7. IFC (2019). The Market Opportunity for Productive Use Leveraging Solar Energy (PULSE) in Sub-Saharan Africa. 8. Mirova SunFunder as of February 2020. 9. Mirova SunFunder as of March 2020. 10. Mirova SunFunder as of February 2020. 11. Mirova as of June 30 2022. 12. Mirova as of March 31 2022.

and climate mitigation were matched by Mirova,” says Levinson. “Mirova does so much more than talk a good game; it actually solves real-world problems by taking the risk of being a first-mover.”

It's all about the people, people.

For Mirova SunFunder, the key to scaling up is its people, as Desiderato acknowledges. “You can only do this by being on the ground, standing right by the businesses you are investing in,” she says. “We know through experience how to build a team of experts to identify opportunities and understand risks in emerging markets.”

“We have cultivated a diverse team with the aim of being the best place to work for people who are passionate about climate finance and economic empowerment.”

The payroll has grown from 30 to 40 in the last year alone, with all staff opting to stay after the acquisition by Mirova. Mirova SunFunder's team represents 17 different nationalities and speaks 13 languages, with 23 team members in Africa and Asia. More than half the staff are women, and more than half are African.

“It can be tough to recruit in emerging markets, but we have developed a formula for finding and retaining top talent,” says Desiderato. “It's essential that our people have emerging market experience – understanding risk and structuring in emerging markets is critical.”

Recruitment has been facilitated by widespread recognition of SunFunder's brand in emerging markets and, more recently, by its new ownership. Clean energy investment professionals are also attracted by Mirova SunFunder's sector focus and ability to transact frequently and quickly – which is not always the case in infrastructure finance and roles in international banking.

First-mover advantages

As Mirova SunFunder has built out its platform, so more opportunities come its way. The firm is now the go-to lender for a growing number of larger-scale projects, providing ongoing finance as the projects expand.

Initial investments in companies like d.light, for instance, have morphed into an ongoing relationship, with Mirova SunFunder most recently arranging a \$50m facility to said company.

Mirova SunFunder's scale, know-how and brand recognition enable arranging new business and leading financing deals on behalf of groups of investors with similar focus and values.

“This is a big part of our business model now,” says Levinson. “Because of our relationships in the sector, our structuring and local market expertise, we can both participate in deals and play the lead role.”

“Our growing scale helps in this, but the important thing is, it is pioneering scale. We always seek to be a leader and a first mover.”

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