TAMING THE STRANGE BEASTS: SERVICING & THE FUTURE OF PAYGo

Zay Yar Lin, CGAP Photo Contest

Geoffrey Manley &
Daniel Waldron

March 5, 2019

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Logistics

1. This is an audio broadcast. Attendees' microphones will remain muted during the entire webinar session.
2. To ask questions during the webinar, please use the **chat box** on the right-hand side of your WebEx window. Please submit your questions at any time during the presentation.
3. To ensure the moderator sees your question, select **"All Participants"** from the drop-down menu when sending your question.
4. A recording of the webinar will be emailed to all attendees and registrants.

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Agenda

9:00	Introductions
9:05	Servicing and the Future of PAYGo
9:25	Discussion with Equity Bank, Baobab+, and PEG Africa
9:45	Q&A

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Speakers

Michael Nyaga

General Manager – Digital Lending
Equity Bank

Alexandre Coster

CEO
Baobab+

Hugh Whalan

CEO
PEG Africa

Daniel Waldron

Financial Sector Specialist
CGAP

Geoffrey Manley

Investment Director, Debt
CDC

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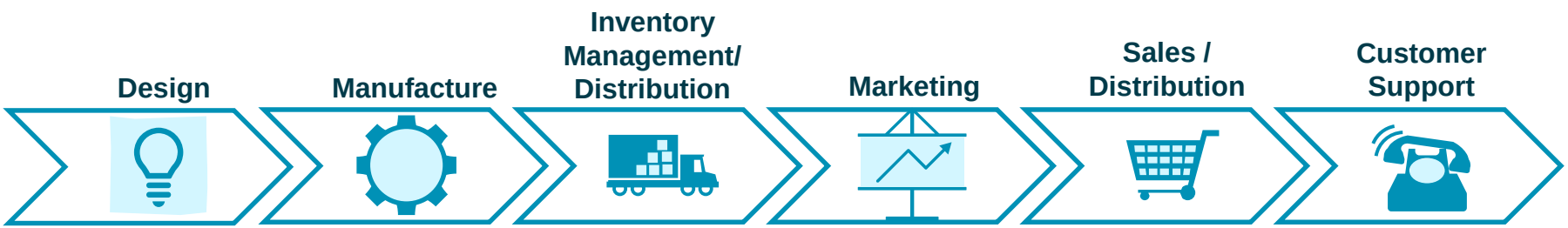
CDC
Investment works

PAYGo firms are “Strange Beasts” managing tasks across two distinct value chains

Durable Goods Value Chain



Lending / Leasing Value Chain

Supporting Activities

Customer Research | **Customer Base Expansion** | **Data Collection and Analysis**

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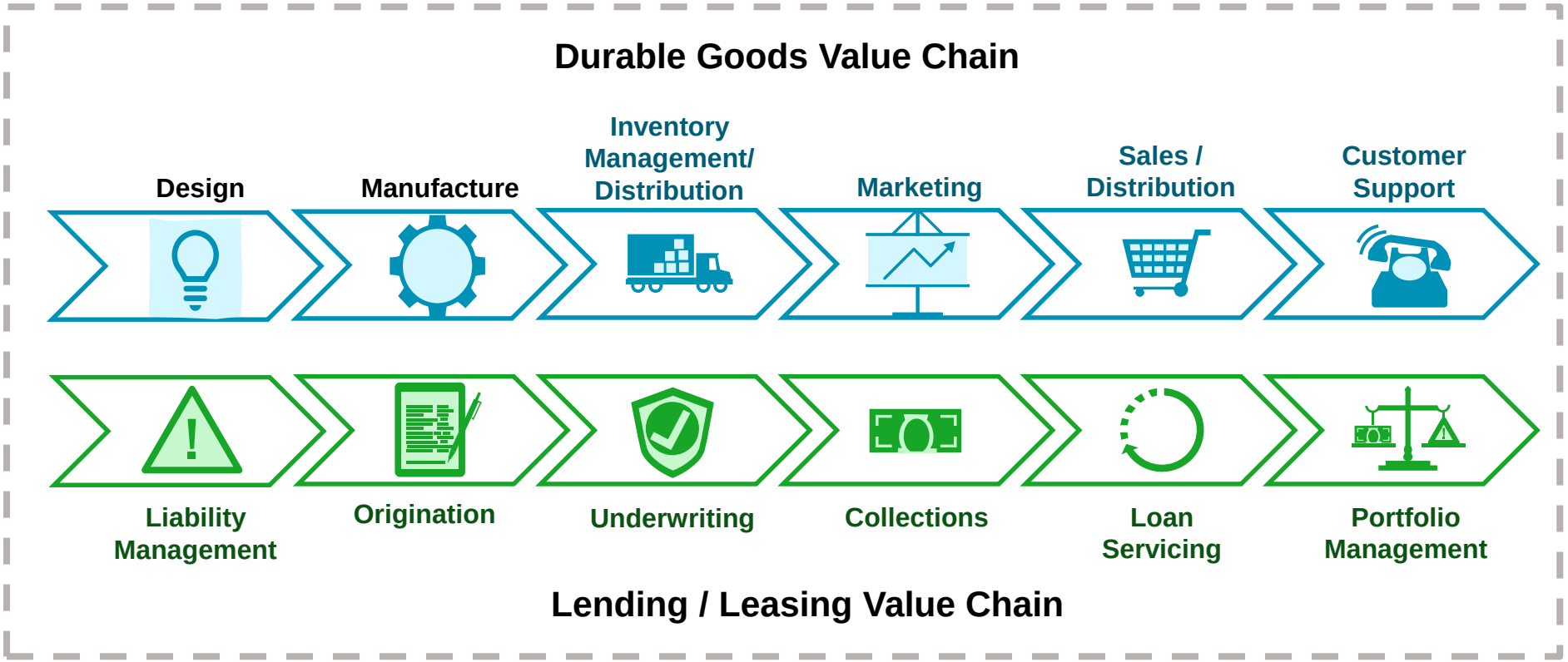
Over time we have seen the durable goods value chain begin to de-couple…



PAYGo FinCo

PAYGo OpCo

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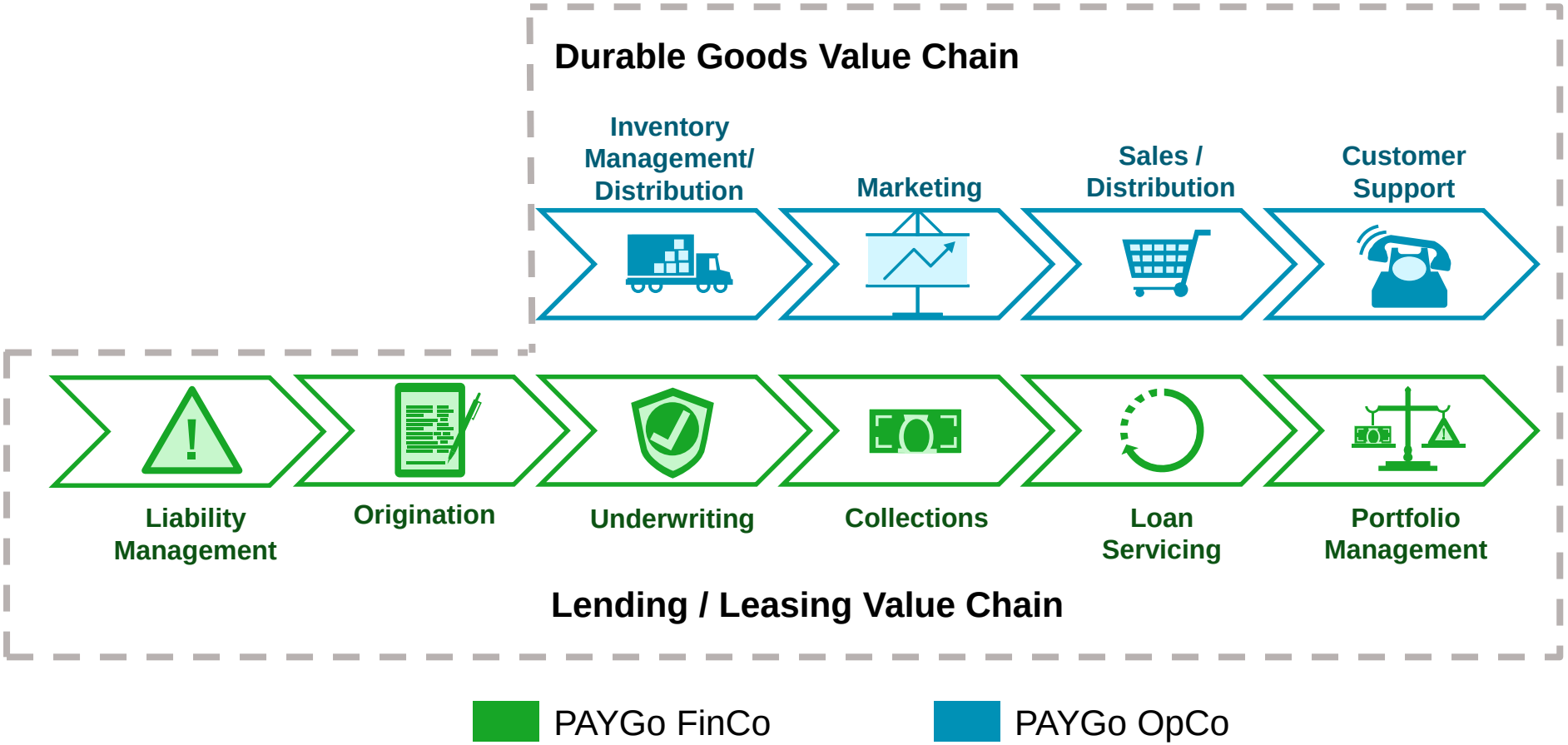

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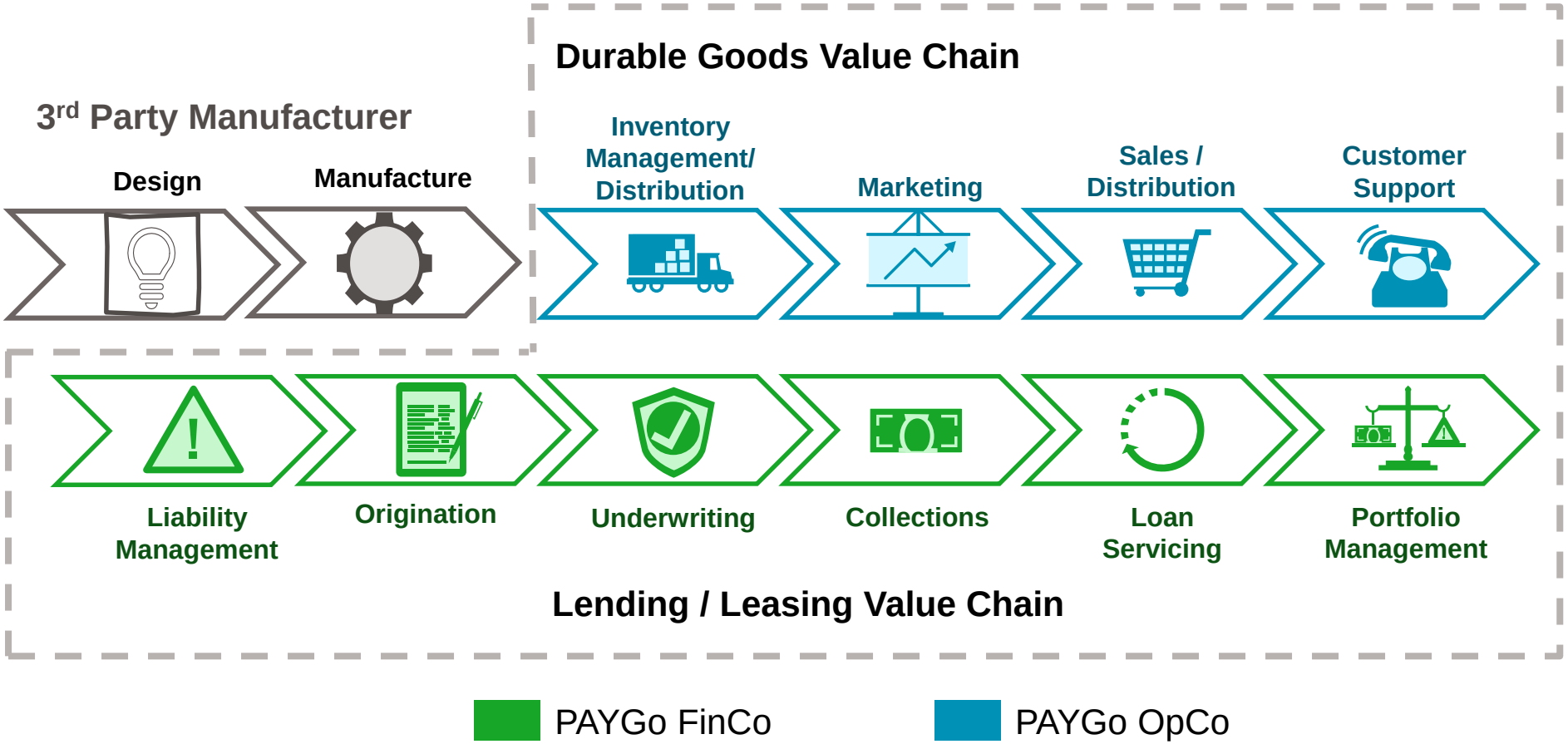

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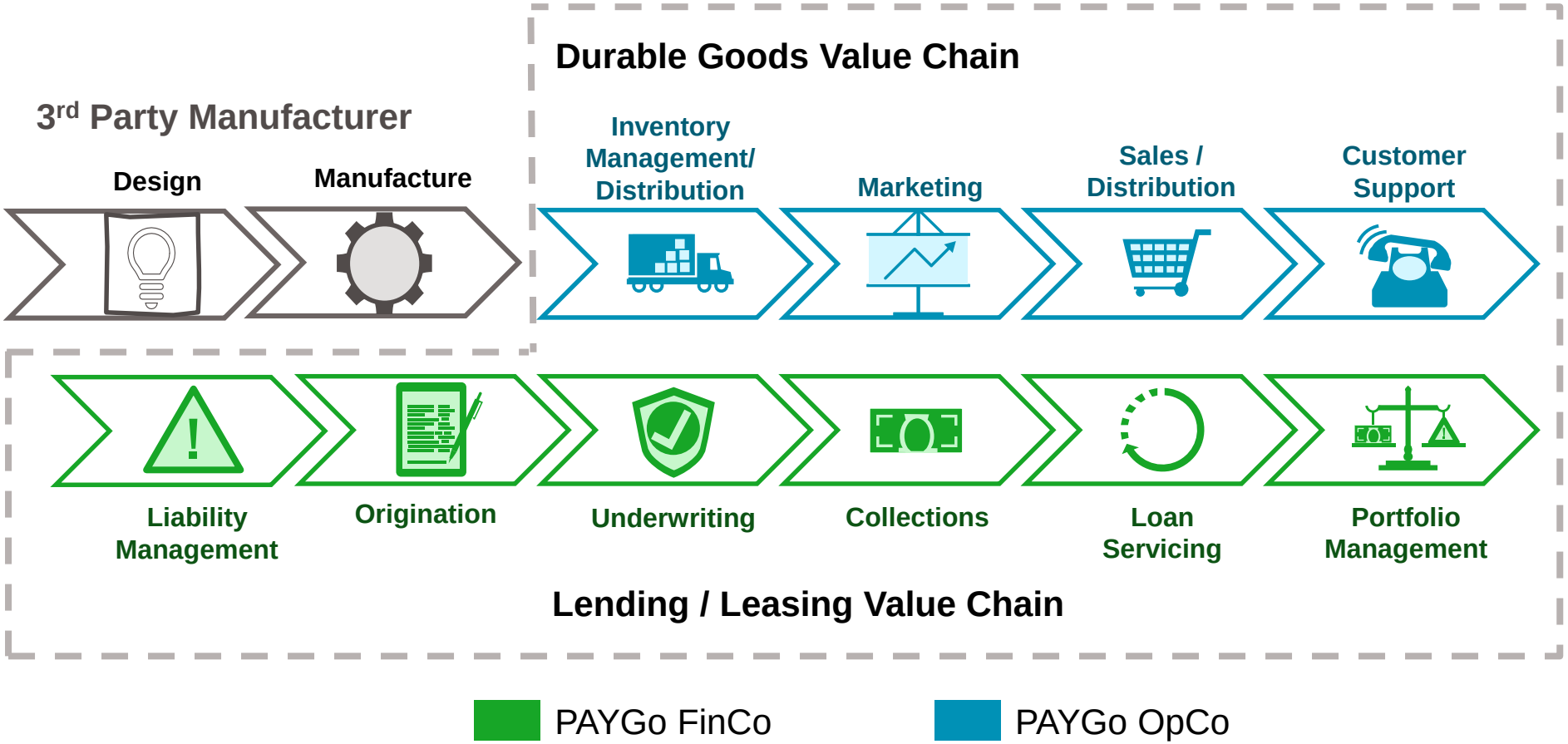

This trend has been dubbed PAYGo 2.0

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But lending value chain decoupling - PAYGo 3.0 – has proven more elusive

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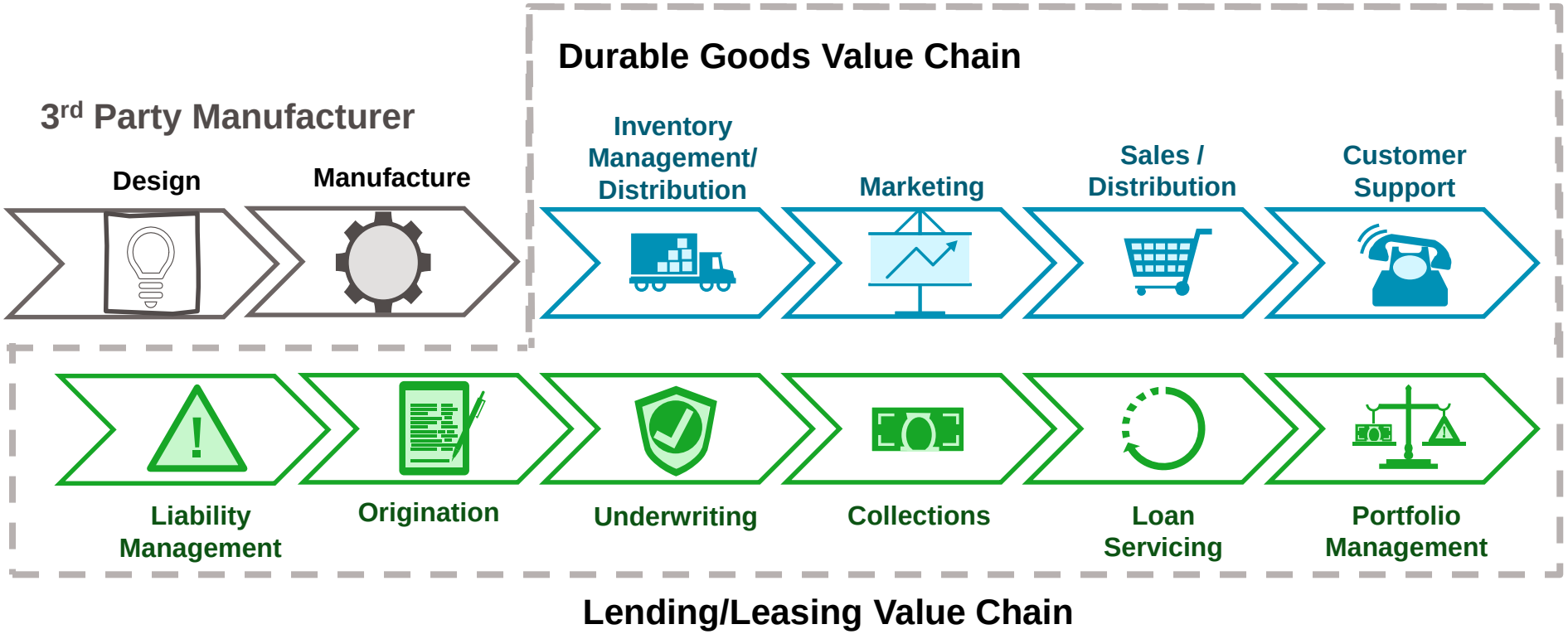

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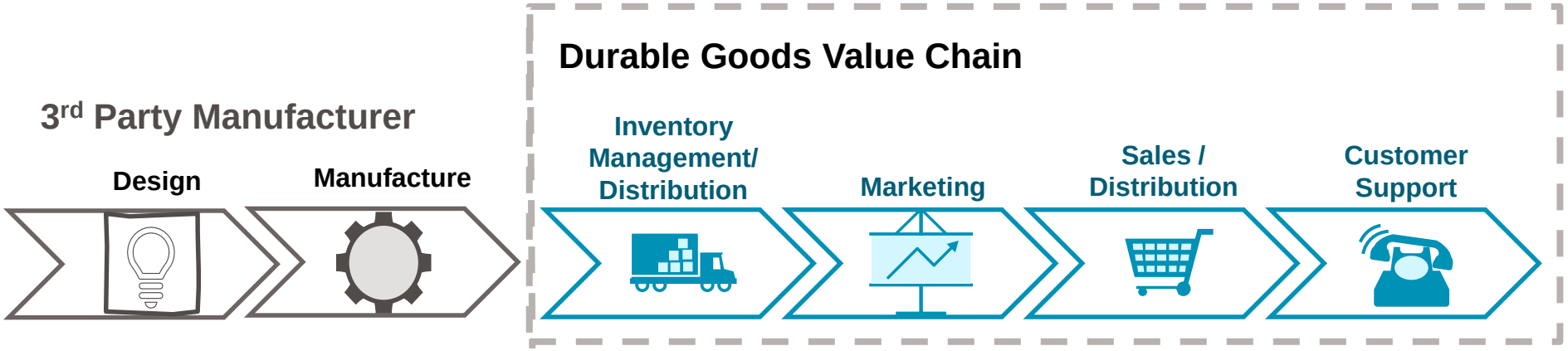

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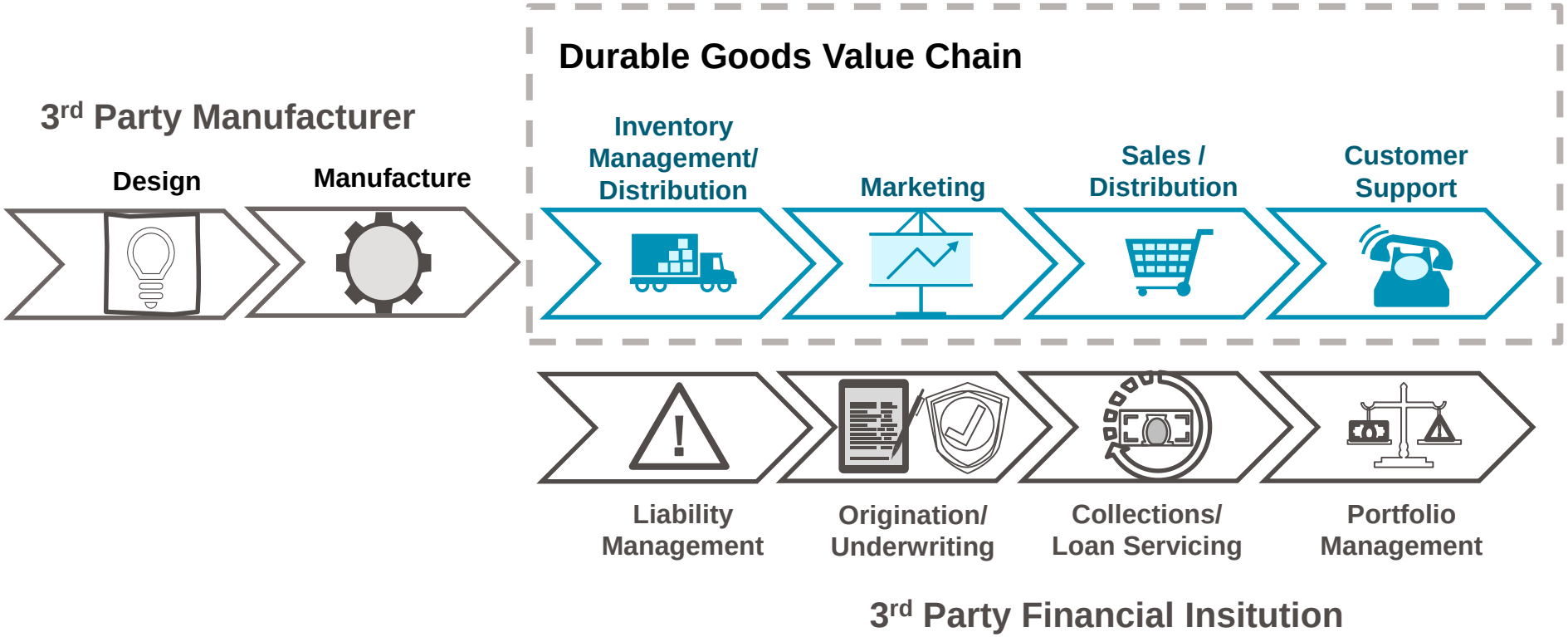

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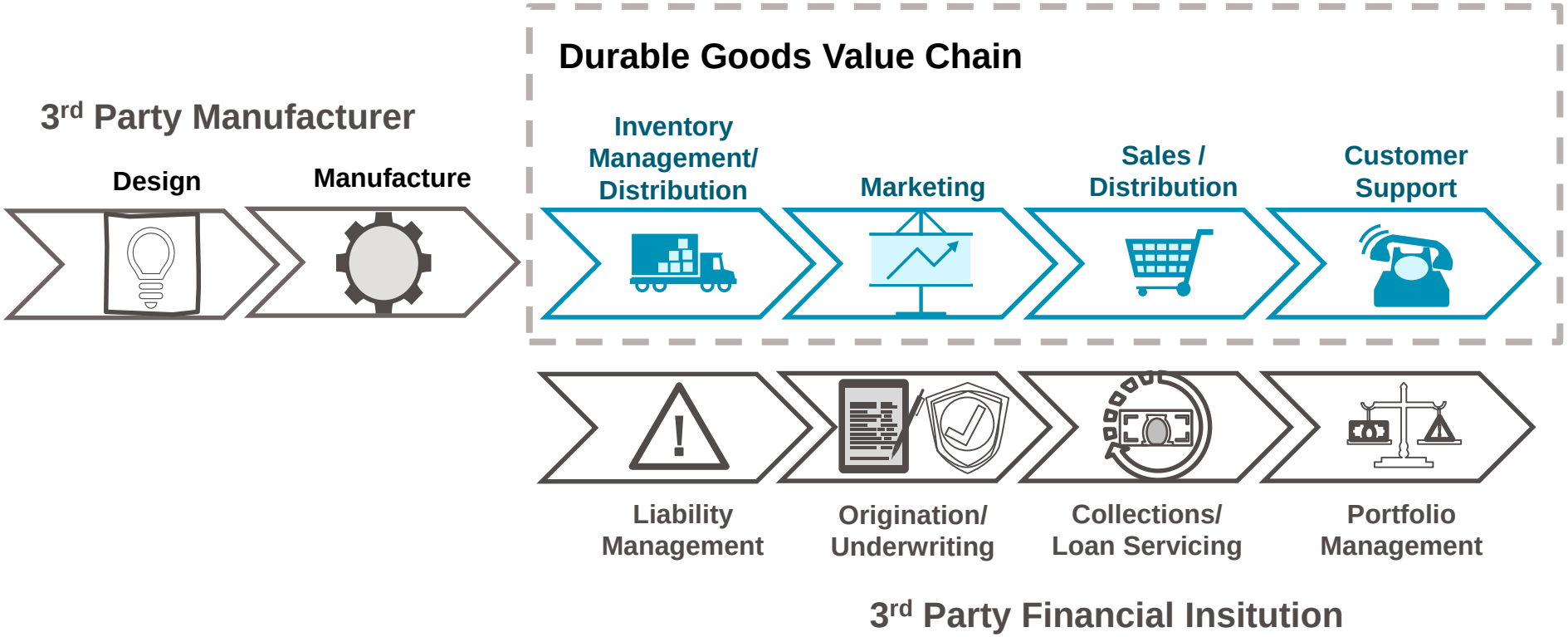

We recognize this would not be for everyone, but it could allow firms to innovate and scale more rapidly through new partnerships

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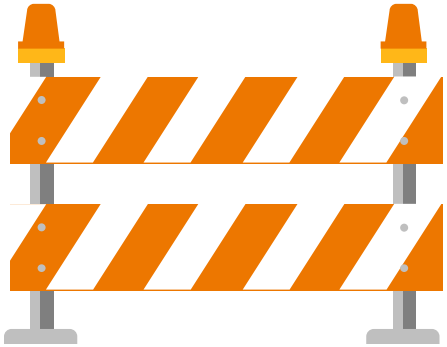
Multiple barriers make it challenging to tame these strange beasts and unlock PAYGo 3.0



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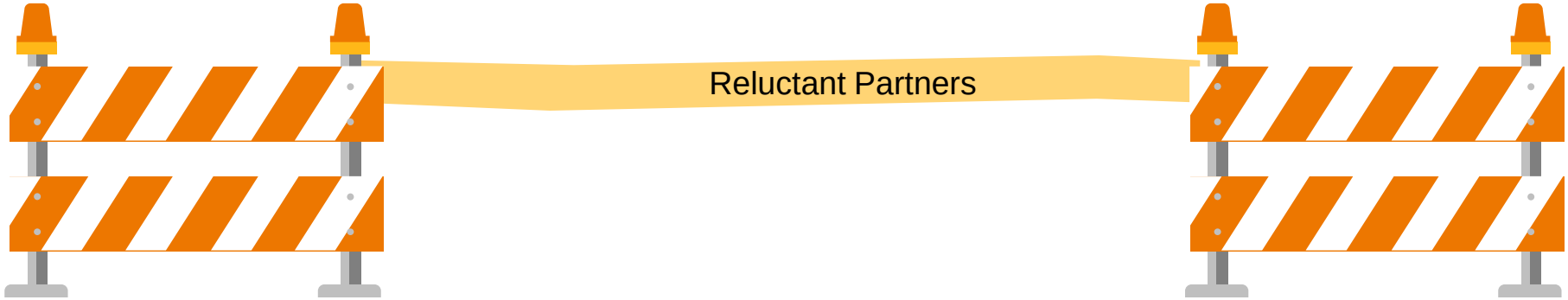

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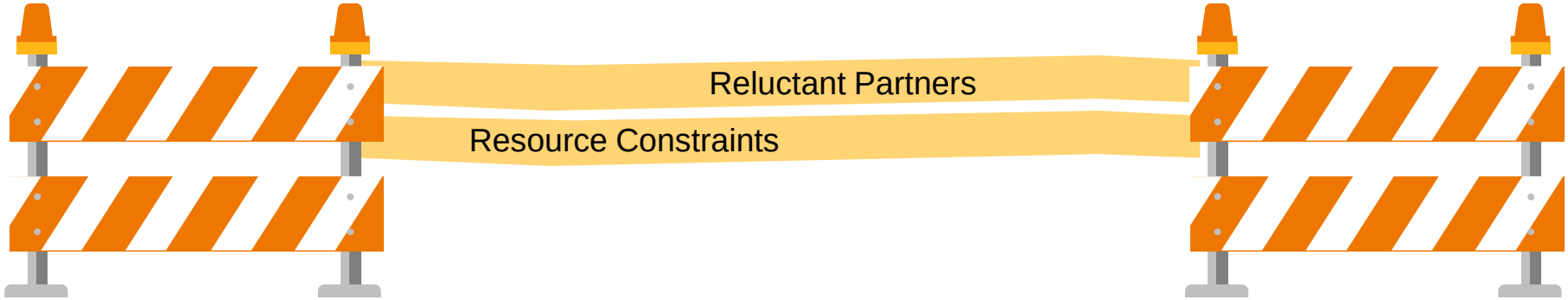

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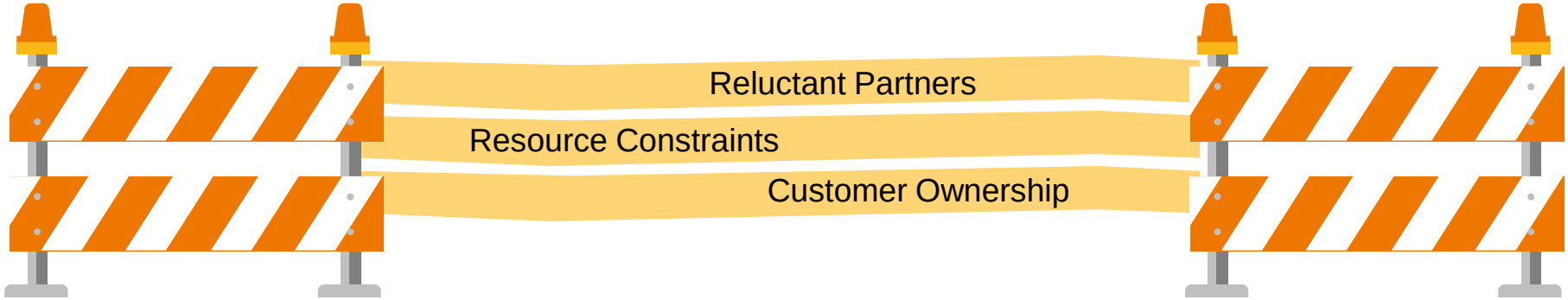

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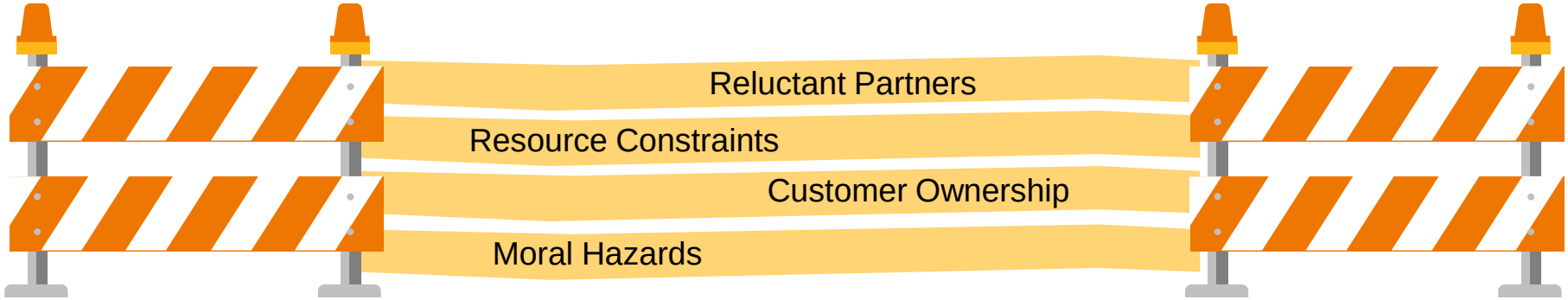

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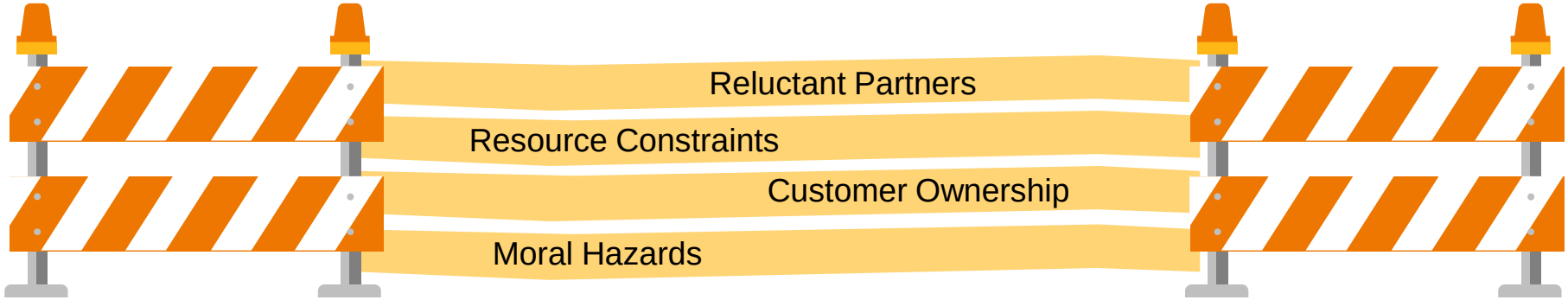

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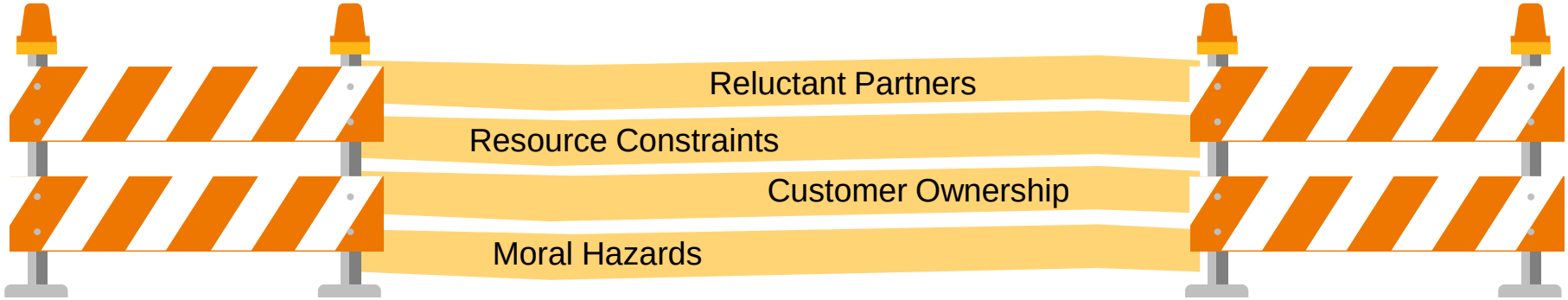

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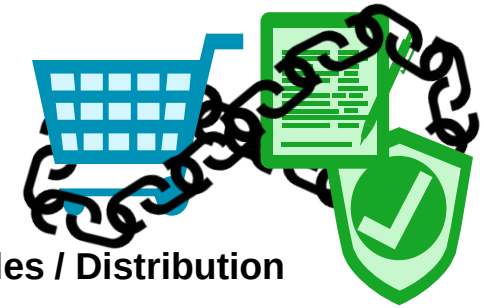

Sales / Distribution

Origination / Underwriting

Collections / Loan Servicing

Customer Support

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What do we mean when we say *servicing*?

"All the various activities that the originator would have, in normal course of business, performed…sending invoices, monitoring collections, sending reminders, taking recovery action, and so on…and all the activities in relation to distribution of the cash so collected to investors are covered by the catchall word *servicing*." (Fabozzi & Kothari, 2008, italics theirs)

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A servicer acts as an intermediary between end borrowers (in this case, energy poor households) and investors.

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What does PAYGo servicing look like?

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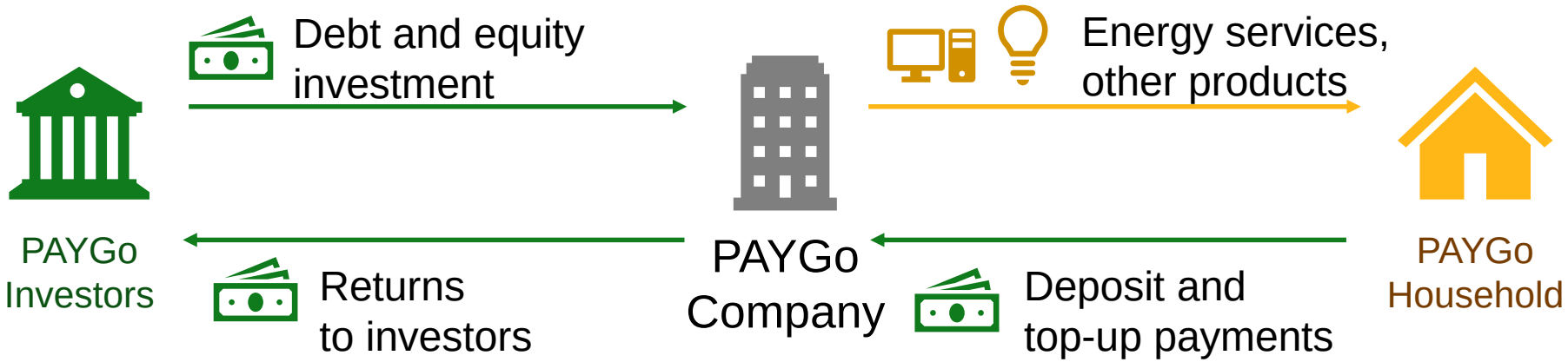

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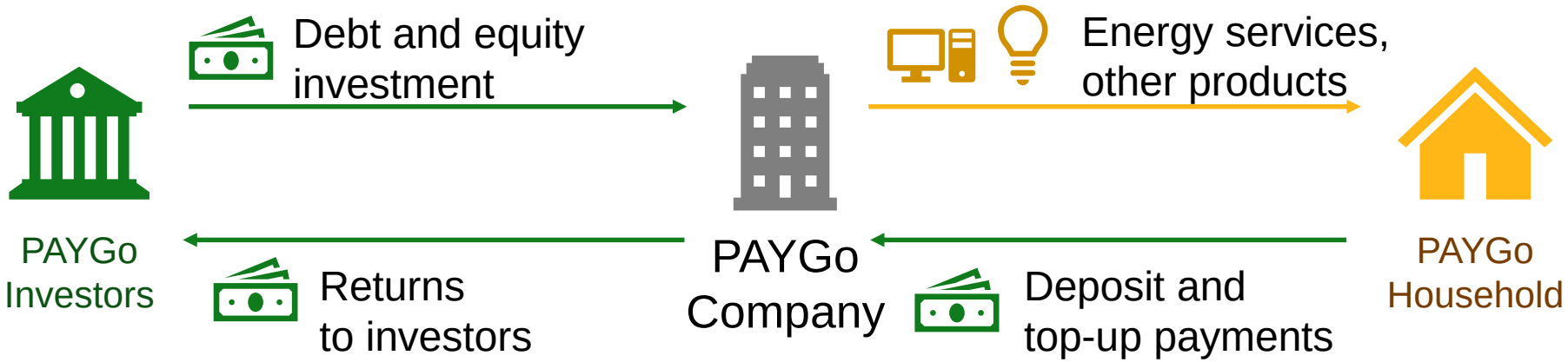

Servicing function

Servicing enables PAYGo households to receive and pay for energy services, which allow PAYGo companies to pay back investors

CRM System

Call Centers

Field Staff

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Okay, but why is it important?

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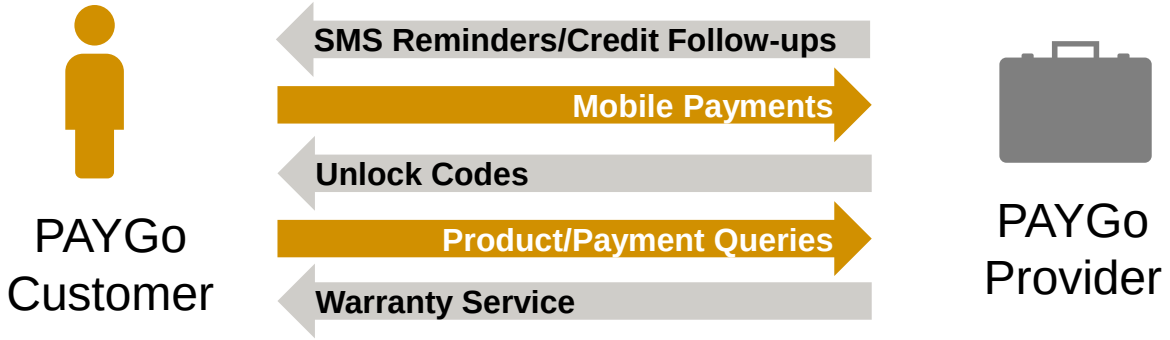
For the customer it is a bundle of interactions w/ a single entity



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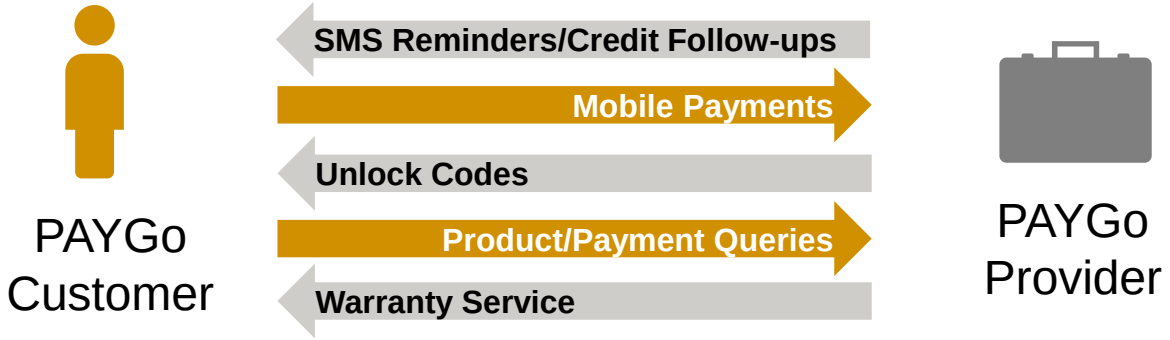

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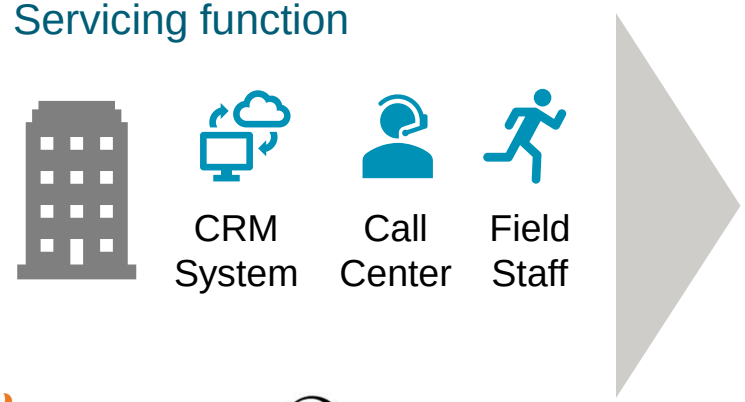

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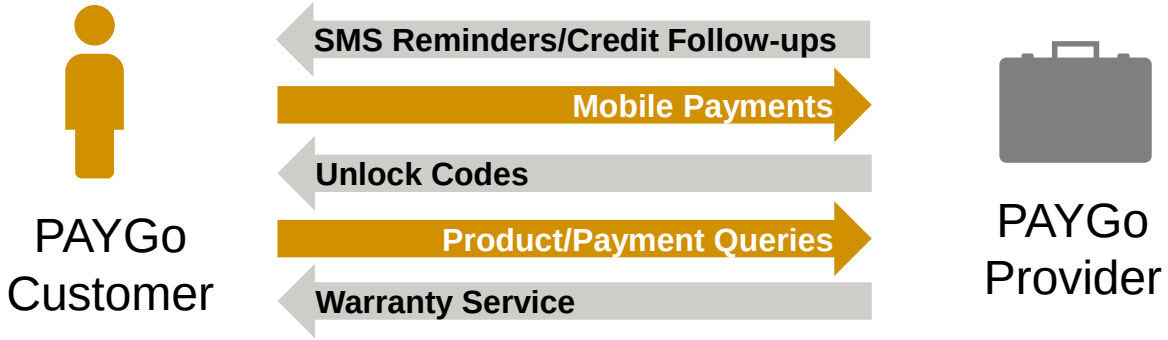

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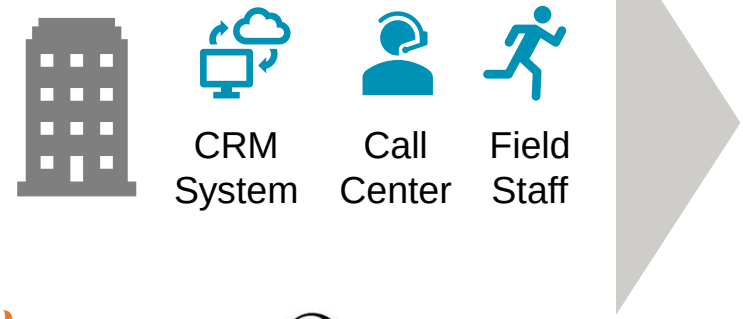

1. The bridge between the two value chains

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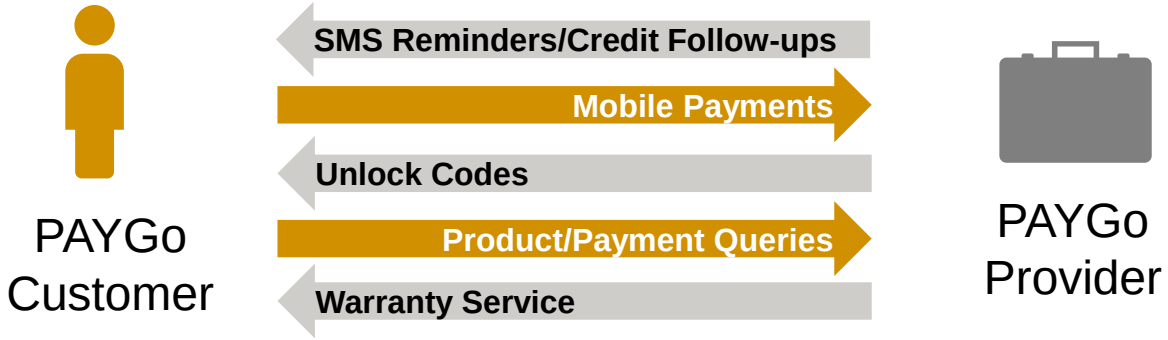

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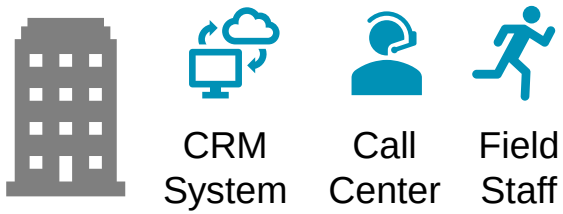

1. The bridge between the two value chains
2. Technically complex

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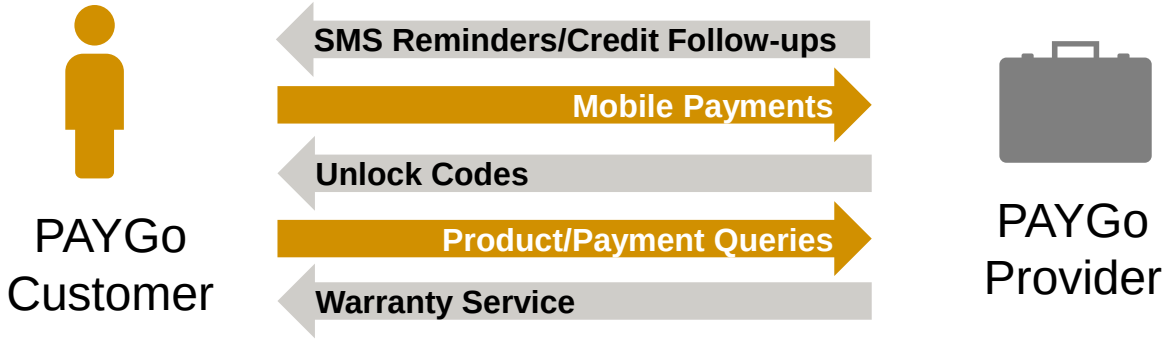

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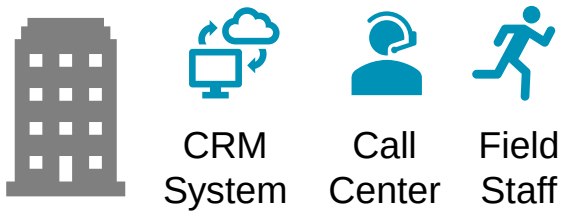

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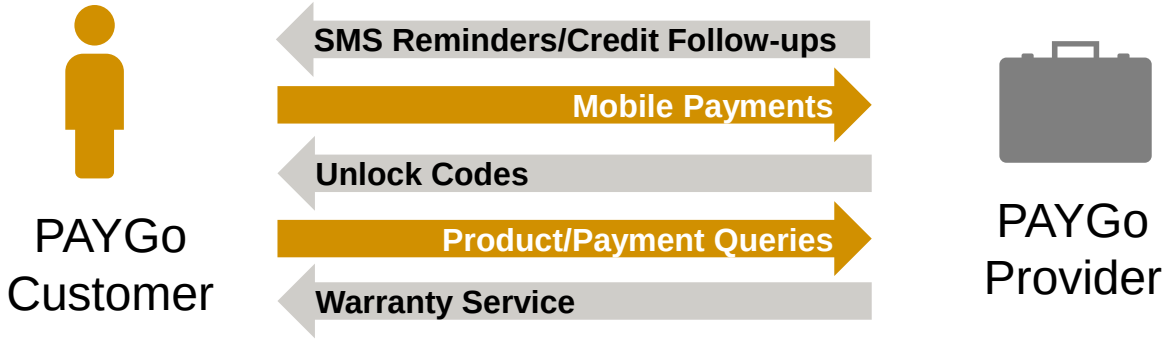

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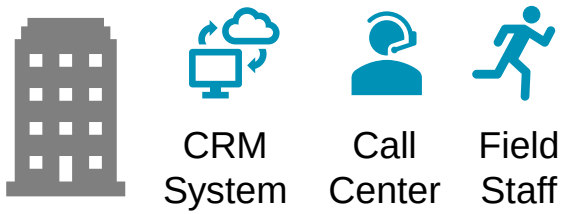

1. The bridge between the two value chains
2. Technically complex
3. High-touch
4. One of the key determinants of receivable value

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Servicing is not just the linchpin of PAYGo solar's success, it drives receivables financing options

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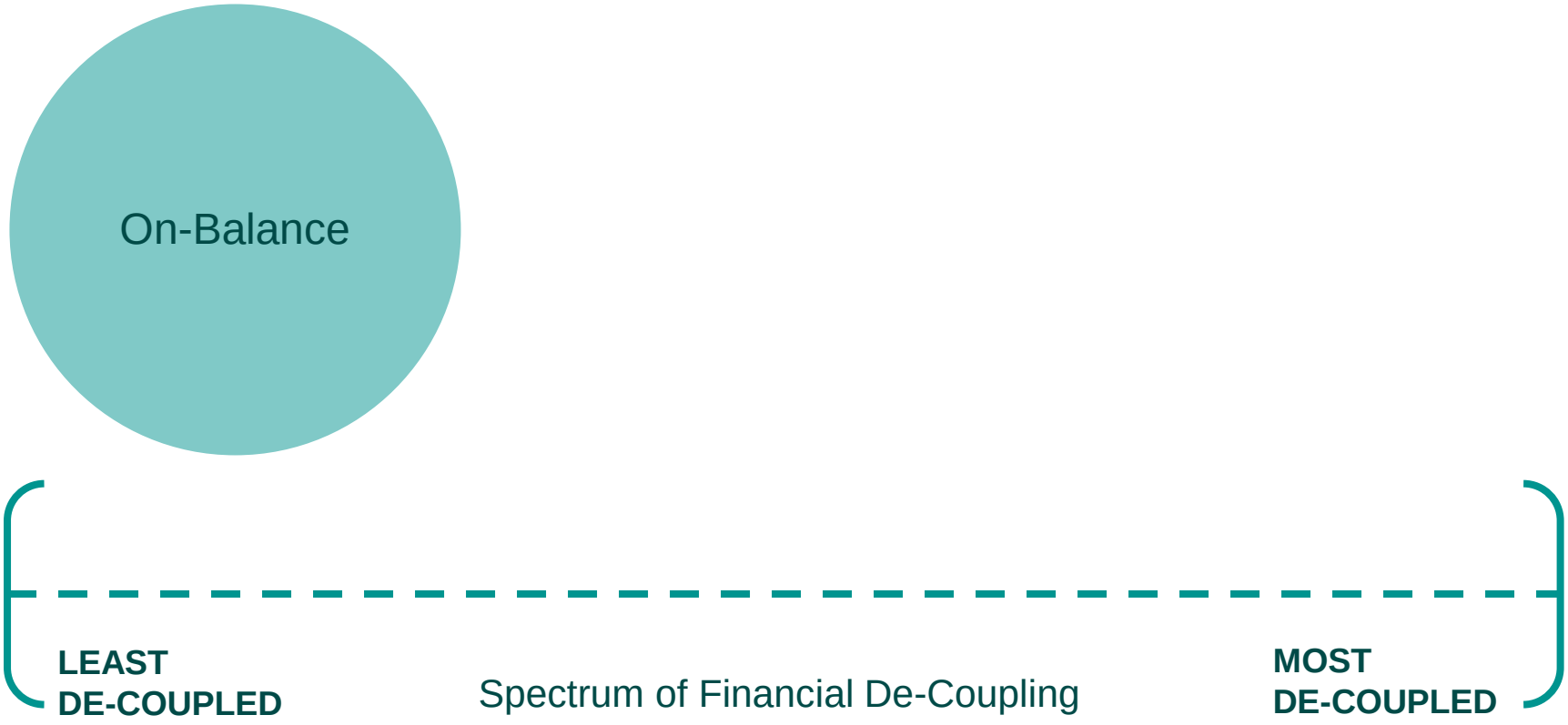

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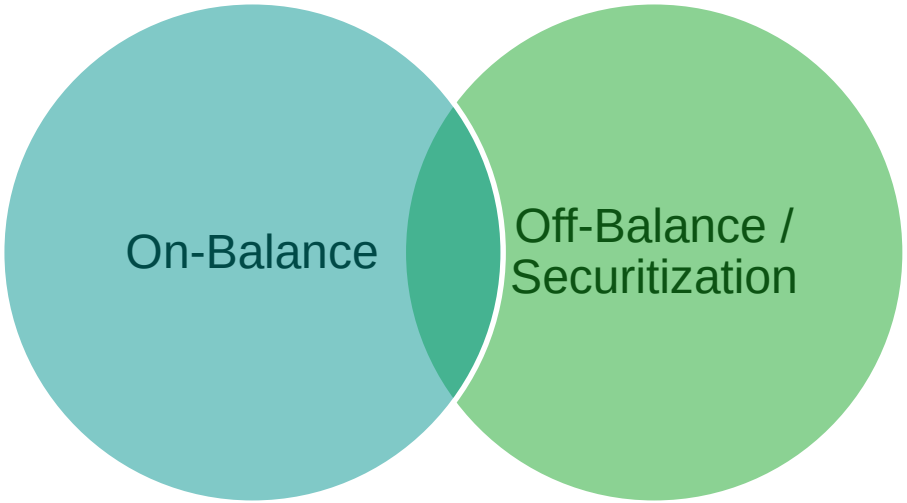

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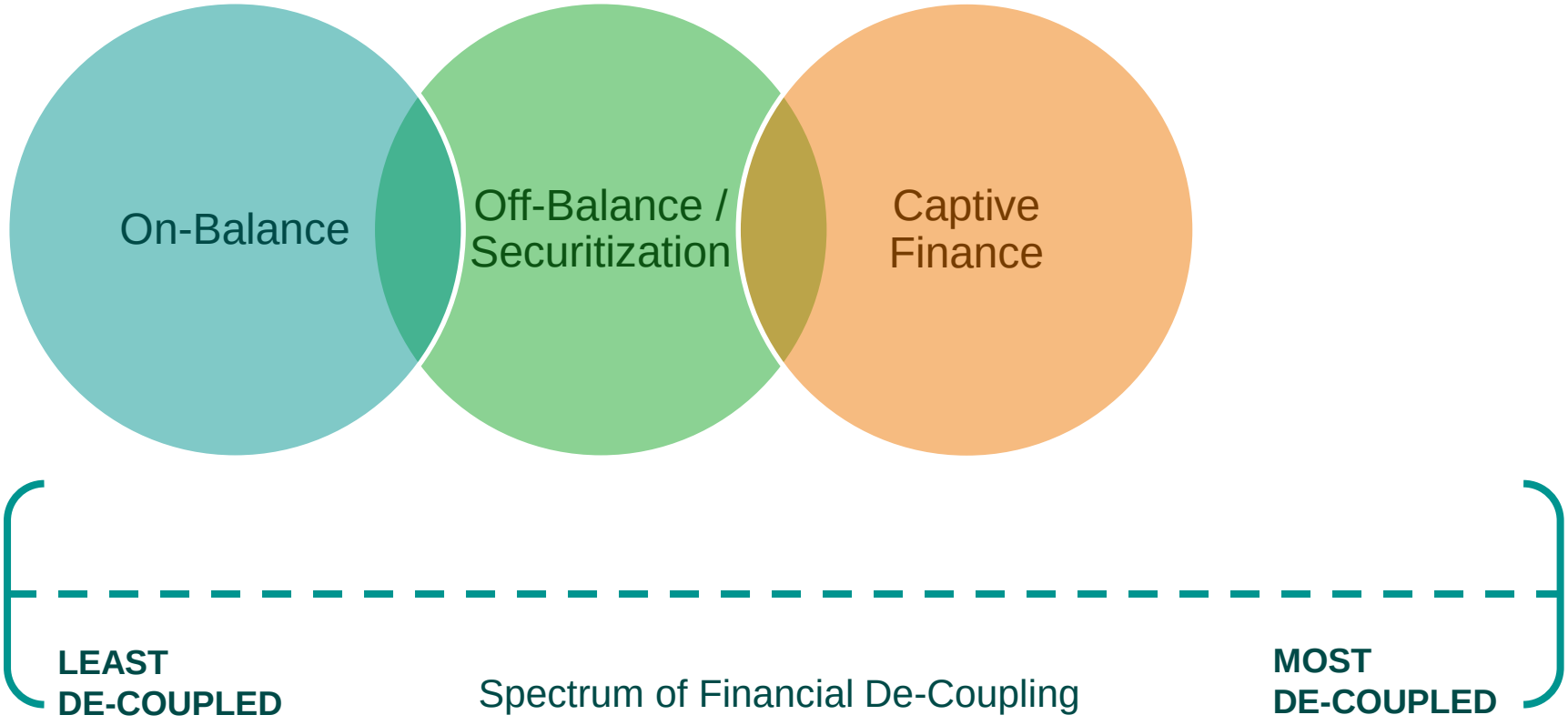

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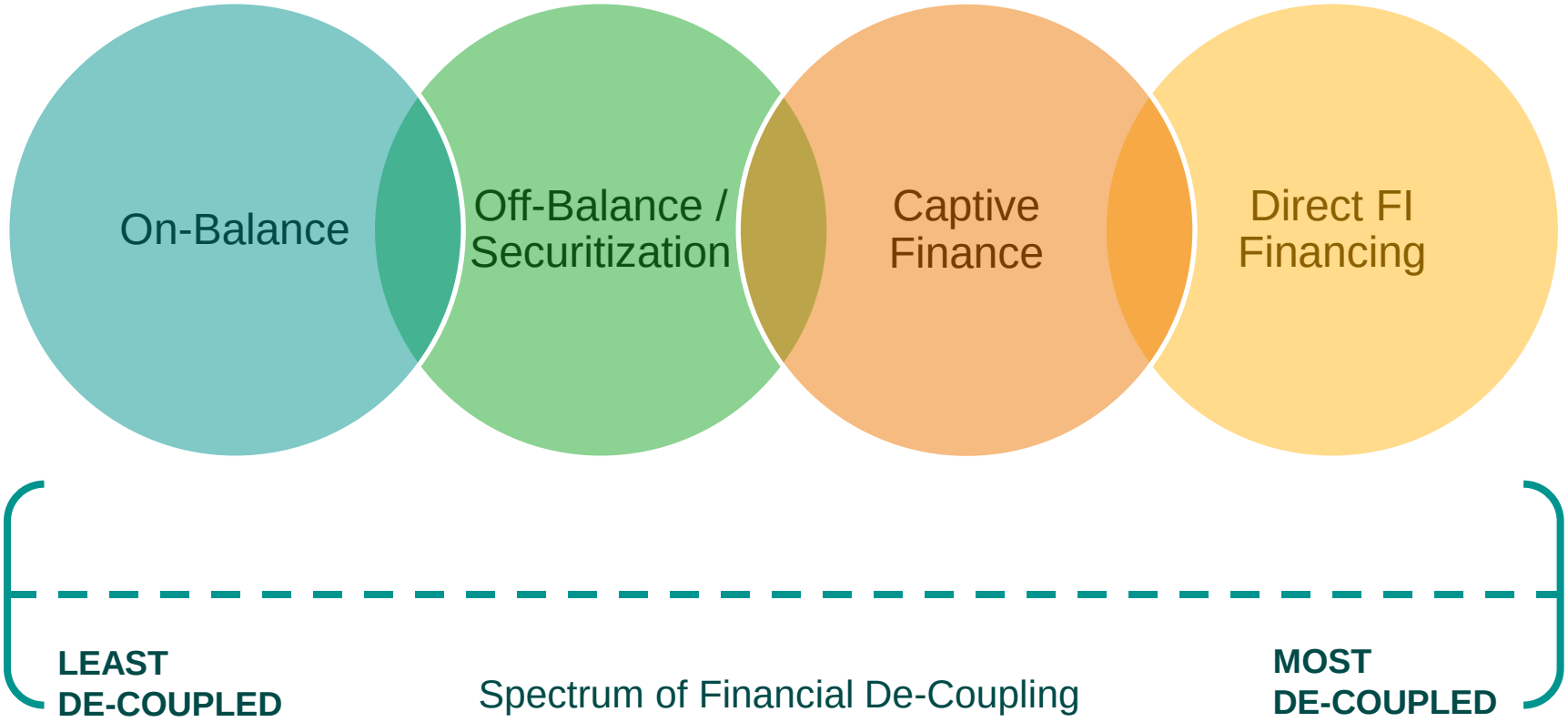

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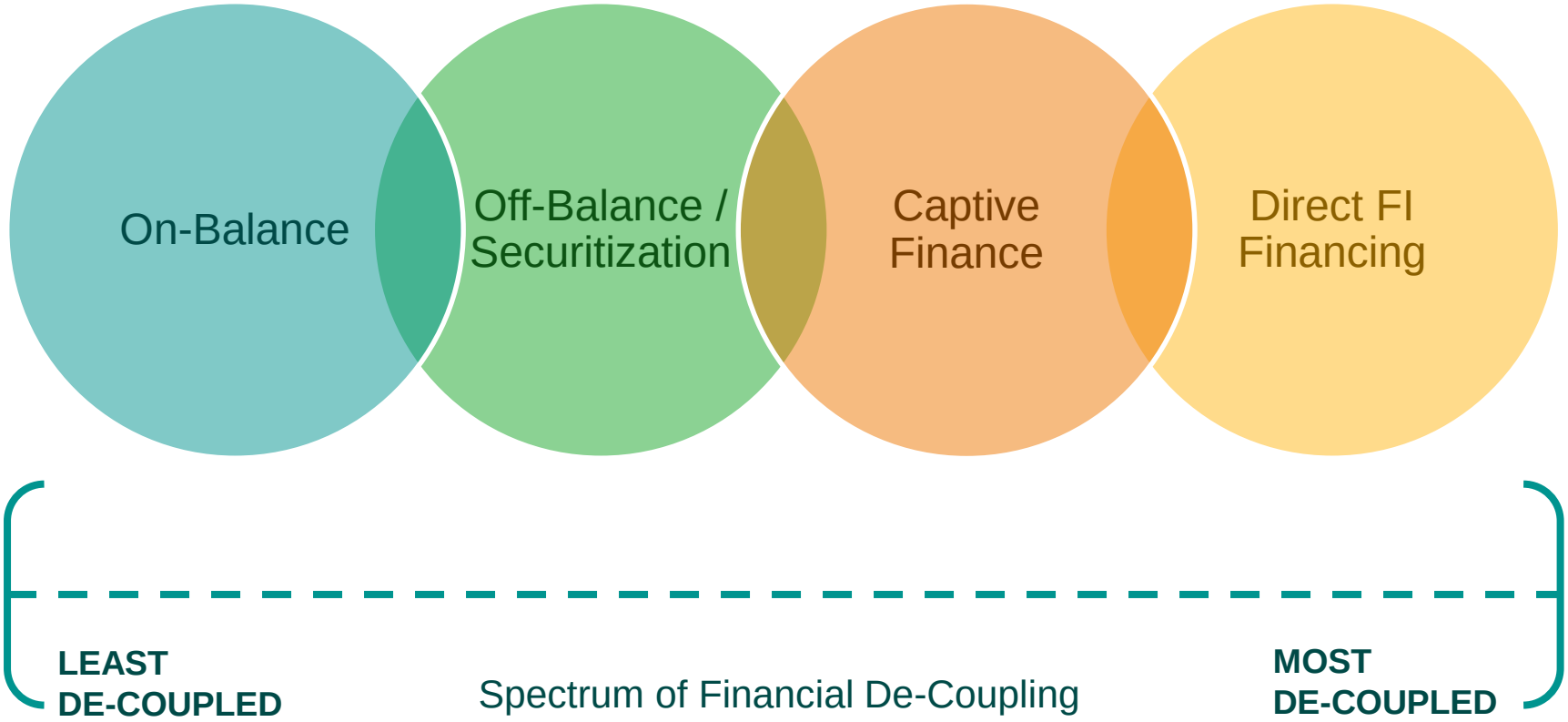

In which of these models is the lender dependent on the PAYGo OpCo today?

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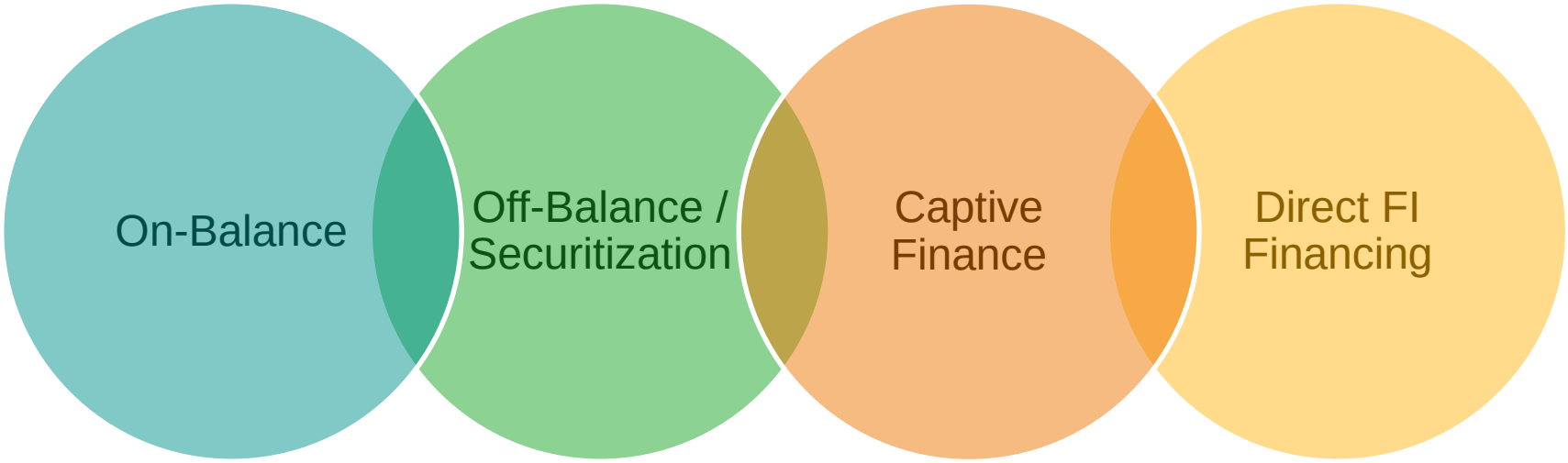
Which of these models would benefit from more robust backup servicing?



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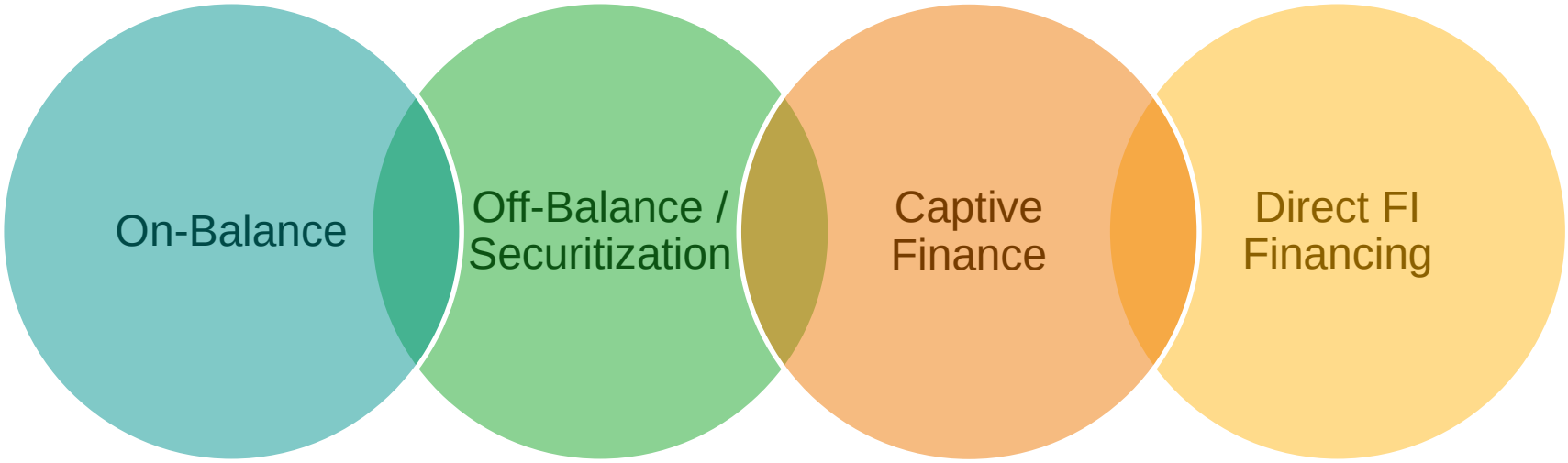

ALL OF THEM

Value chain decoupling and/or developing backup servicing has the potential to mitigate risks and unlock more capital

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Whether you are trying to:

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Calculate your loss-given default

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Isolate receivables risk

Servicer risk in the PAYGo Sector

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The question you need to answer is: can anyone other than the originator service these loans?

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Servicer risk in the PAYGo Sector

Whether you are trying to:

Calculate your loss-given default

Isolate receivables risk

Outsource financing to a bank/MFI

The question you need to answer is: can anyone other than the originator service these loans?

If the answer is no, then you are lending to entire PAYGo value chain, and any servicing disruption will impair the value of your security

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Inter-group back-up

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Living will / run-down scenario

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Living will / run-down scenario

No plan

This is a problem

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How can PAYGo firms (and their investors) reduce servicing risk?

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Backup Servicer Functions:

Tier 1: CRM/SMS
Tier 2: Call center
Tier 3: Maintenance
Tier 4: Collections

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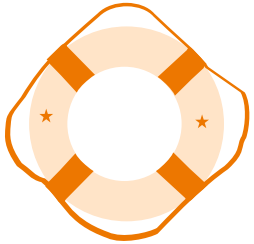

Commercial backup servicers

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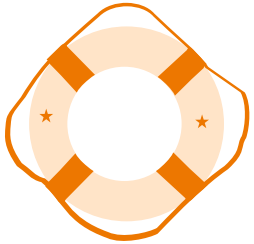
PAYGo hardware or software licensors

Competitors



Commercial backup servicers

Cross-cutting challenges: systems compatibility, data sharing, etc.

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Recommendations

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- PAYGo providers: find a way to standardize and outsource certain activities without disrupting their overall functions
- FIs: if you want to expand your retail operations, develop partnerships with PAYGo companies to combine strengths.

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Discussion

Alexandre Coster

CEO, Baobab+

Michael Nyaga

General Manager – Digital Lending, Equity Bank

Hugh Whalan

CEO, PEG Africa

CGAP

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Q&A

Please submit your comments and questions using the chat box. Be sure to send them to "All Participants." Thank you!

Michael Nyaga

General Manager – Digital Lending Equity Bank

Alexandre Coster

CEO Baobab+

Hugh Whalan

CEO PEG Africa

Daniel Waldron

Financial Sector Specialist CGAP

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Thank you

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Michael & Susan Dell FOUNDATION

THE WORLD BANK
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Italian Development Cooperation
Ministry of Foreign Affairs and International Cooperation

FOMIN Fondo Multilateral de Inversiones
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IFC International Finance Corporation

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