WEBINAR

Introducing the PAYGo PERFORM Key Performance Indicators

29 June 2021 at 9:00 AM (ET)

FinDev Gateway
FINANCIAL INCLUSION FOR DEVELOPMENT
A PROGRAM OF CGAP

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Opening Remarks

Russell Sturm
International Finance Corporation

Send your questions through the chat box

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PAYGo PERFORM

The PAYGo Performance, Reporting and Measurement (PERFORM) KPIs are the result of a collective, transparent, industry-led process to standardize financial reporting and key performance indicators for the PAYGo solar industry.

Timeline

Nov. 2018: Launch Initiative

2019: More than 24 Working Group meetings to refine KPI definitions

2020: Data collection pilot with 8 companies to test practicality

Jun. 2021: KPIs v2.0 Technical Guide to be published

Going forward: Industry adoption, benchmarking

Why PAYGo PERFORM?

~$6-11B

Investment need for off-grid solar through 2030

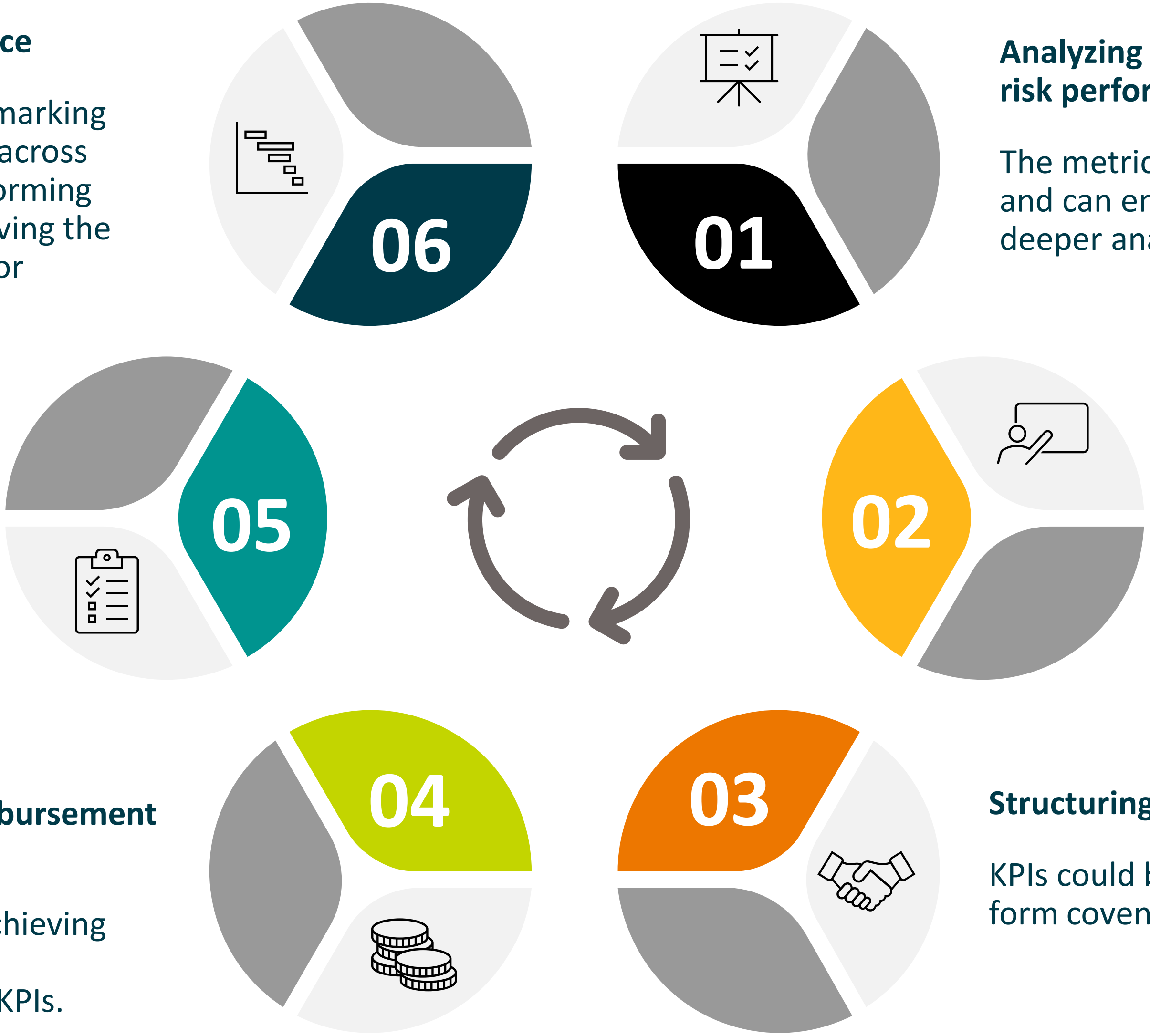
- Investors often don't **understand** the off-grid solar business – leading to inappropriate metrics and lack of confidence in their appraisals.
- Perception of risk is high; difficult to **promote** the off-grid solar sector without neutral, understandable, trustworthy, standardized information.
- No current ways to benchmark operations in order to understand performance and **enhance performance**

PAYGo PERFORM:
An Industry-Led Initiative

- ✓ Benchmarking
- ✓ Transparency
- ✓ Increased investment flow
- ✓ Improved allocation of capital
- ✓ SDG 7

PAYGo PERFORM's output:
A standardized nomenclature for describing PAYGo company performance and a reporting mechanism that will facilitate tracking, investment screening, and industry insights

PAYGo PERFORM Use Cases



Analyzing financial, operational, and risk performance.

The metrics themselves give insights and can enable more advanced and deeper analyses.

Facilitating investment appraisals

Interesting for funders when screening a company and conducting due diligence.

Structuring deals

KPIs could be a basis to set targets or form covenants for a contract.

Designing milestone and disbursement payment structures

Payments are triggered by achieving certain goals or milestones defined using the PERFORM KPIs.

Reporting and monitoring investments

Enables funders to track investment performance, while also easing the reporting burden on companies, and allowing for management and tracking of a PAYGo solar companies portfolio.

Developing market intelligence

PERFORM KPIs enable benchmarking and enhance market insights across PAYGo solar stakeholders, informing strategic decisions and improving the overall understanding of sector performance.

Introducing the PAYGo PERFORM KPIs

Nicky Khaki
CGAP

Roan Borst
GOGLA

Kevin Kennedy
International Finance Corporation

Send your questions through the chat box.

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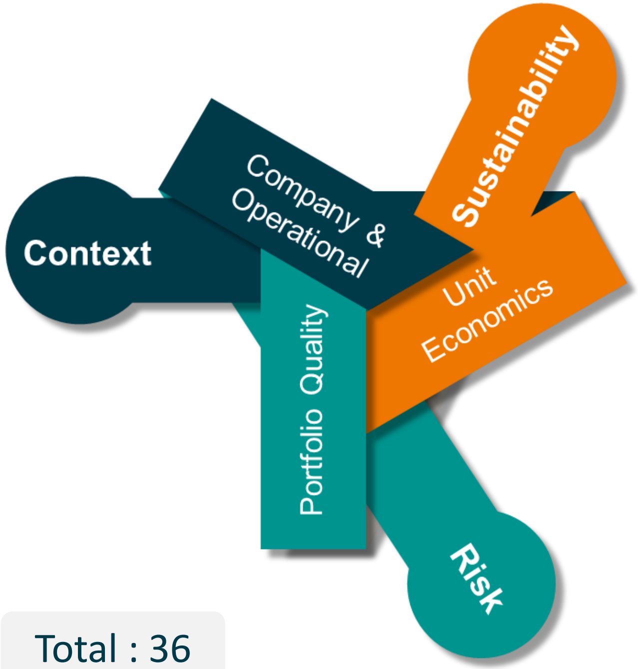
Three categories of KPIs

1 Company & Operational

1. Sales Model
2. Sales Distribution Model
3. Country Sales
4. Total Net Sales
5. Repeat Sales
6. Product Sales
7. Average Selling Price
8. Sales per Distribution Channel
9. Sales Point Rate
10. Net Promoter Score



Total : 36

2 Portfolio Quality

1. Receivables Portfolio Size
2. Receivables Portfolio Growth Rate
3. Collection Rate
4. Write-off Ratio
5. Receivables at Risk
   a) Using Consecutive Days Unpaid
   b) Using Collection Rate
6. Repossession Ratio
7. Contractual Credit Period
8. Effective Credit Period

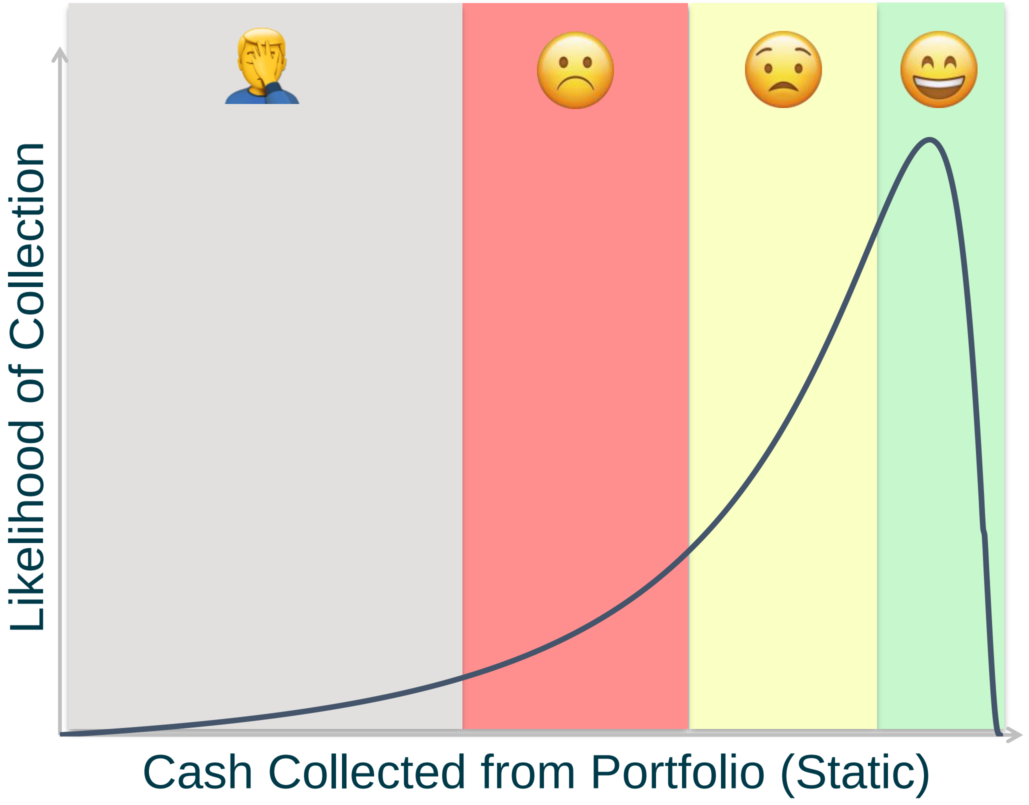
3 Unit Economics

1. Total Cash Receipts from PAYGo
2. Contribution Margin
3. EBT Margin
4. Sales & Maintenance Cost Ratio
5. COGS Ratio
6. Fixed Cost Ratio
7. Provision Expense Ratio
8. Financial Expense Ratio
9. Fixed Operating Cost Ratio
10. Unit Follow-on Payments
11. Unit Customer Deposits
12. Unit Cash Sales
13. Unit Device Cost
14. Unit Contribution Margin
15. Unit Sales & Distribution Cost
16. Unit Servicing & Maintenance Cost
17. Unit Credit Cost
18. Liquidity / Total Costs

Portfolio Quality KPIs Overview

Helping draw the distribution of repayment

- Credit sale + 🧪 → Cash
- Distinctly PAYGo: asset financing, payment flexibility, lockout technology, etc.
- 8 KPIs, 5 subcategories:
  - ➢ Repayment: Collection Rate
  - ➢ Risk: Receivables at Risk (RAR), Write-off, Repossession
  - ➢ Size: Outstanding Receivables
  - ➢ Growth: Outstanding Receivables Growth
  - ➢ Tenor: Contractual & Effective Credit Periods
- Have a slice: period of measurement, cohorts, geography, product, etc.
- Don't forget: "Intra" & "Inter" relationships



PAYGo Collection Rate and Risk

Collection Rate can be a useful tool for risk screening and segmentation

	1	2	3	4	5	6	7	8	9	10	Collection Rate
Customer #1	$		$	$	$	$		$	$		70%
Customer #2	$						$				20%
Customer #3	$			$			$			$	40%
Customer #4	$		$	$	$	$	$	$	$	$	90%

- If we use traditional PAR30 (Portfolio at Risk), all customers are “at risk” by period 5
- If we only use RAR30 (Consecutive Days Unpaid) evaluated after period 10, only Customer #2 is “at risk”
- If we instead apply a *threshold* of 50% collections, Customer #2 and #3 are considered at risk

Firm Level KPIs – the Challenge

KPIs present a hybrid business model in a comprehensive, consistent and coherent way

Solar Sales

- Sales oriented
- Stock purchases
- Distribution costs
- SME cash flow
- Short cycle

Solar Finance

- Credit oriented
- Portfolio management
- Customer service
- Financial cash flows
- Long cycle

What is a sale?

What are the elements of profitability?

Are credit provisions fixed or variable?

Not Just For External Consumption

KPIs help companies measure and benchmark their performance and find areas for improvement. Better informed businesses can be more responsive to client needs and offer better service to their customers.

Unit and Firm Level KPIs – a Solution

Start from Financial Statements

Familiar cost categories and formulae such as Contribution Margin etc from both sides of the business model

Easy to adapt
Choose frequency according to capacity

Vs.

$$$$$

Use cash receipts as a proxy for sales until common accounting policies agreed

Stop Press!! Accounting Guidelines Briefing Imminent

Fixed, Variable and Semi Variable Costs

All costs eg credit provisions remain identifiable within clear categories

Credit provision policy still to be defined

Financial KPIs should be presented as the foundation of a discussion about policies and key variables

Company and Operational Indicators

Contextualizing and tracking companies

1 — Business Model & Context

Sales Model, Sales Distribution Model, Average Selling Price

2 — Sales Performance

Country Sales, Total Net Sales, Repeat Sales, Product Sales, Sales per Distribution Channel, Sales Point Rate

3 — Distribution Performance

Sales per Distribution Channel, Sales Point Rate

4 — Consumer Satisfaction & Loyalty

Repeat Sales and Net Promoter Score

Use

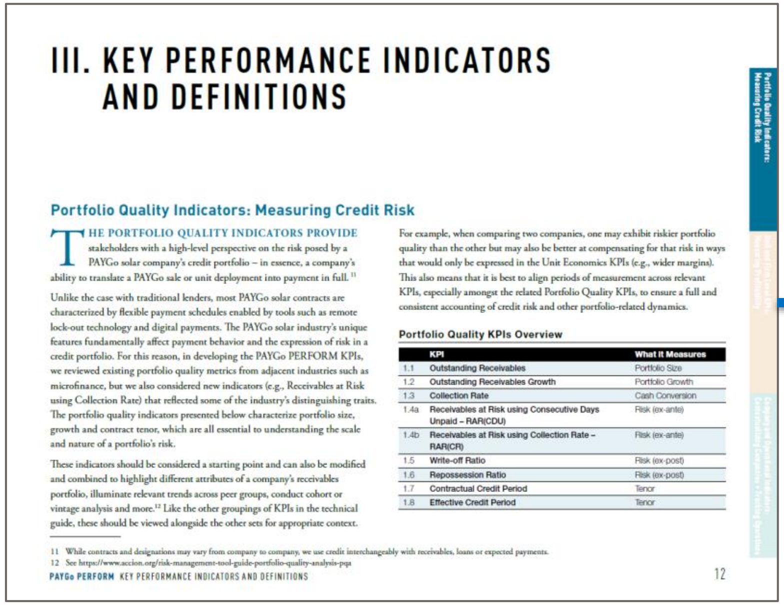
- Gain understanding
- Deduce Ops. performance
- Infer typical Financing needs
- Perform Benchmarking

PAYGo PERFORM Tools & Knowledge Products

Data Collection Pilot Report	Technical Guide	Excel Tool	PAYGo Solar Industry Accounting Challenges Guide
Lessons learned from the data collection pilot as well as the journey to getting to KPIs v 2.0.	The Technical Guide sets out in concise terms what the KPIs are and how each of them should be calculated.	Accompanies the Technical Guide. It makes it easier for companies or investors to calculate or report on the metrics.	This work will highlight the need for commonly accepted accounting guidelines, by using priority cases and potential treatment as tools.

Technical Guide Sneak Peek

Portfolio Quality


III. KEY PERFORMANCE INDICATORS AND DEFINITIONS

Portfolio Quality Indicators: Measuring Credit Risk

Portfolio Quality KPIs Overview

	KPI	What it Measures
1.1	Outstanding Receivables	Portfolio Size
1.2	Outstanding Receivables Growth	Portfolio Growth
1.3	Collection Rate	Cash Conversion
1.4a	Receivables at Risk using Consecutive Days Unpaid – RAR(CDU)	Risk (ex-ante)
1.4b	Receivables at Risk using Collection Rate – RAR(CR)	Risk (ex-ante)
1.5	Write-off Ratio	Risk (ex-post)
1.6	Repossession Ratio	Risk (ex-post)
1.7	Contractual Credit Period	Tenor
1.8	Effective Credit Period	Tenor

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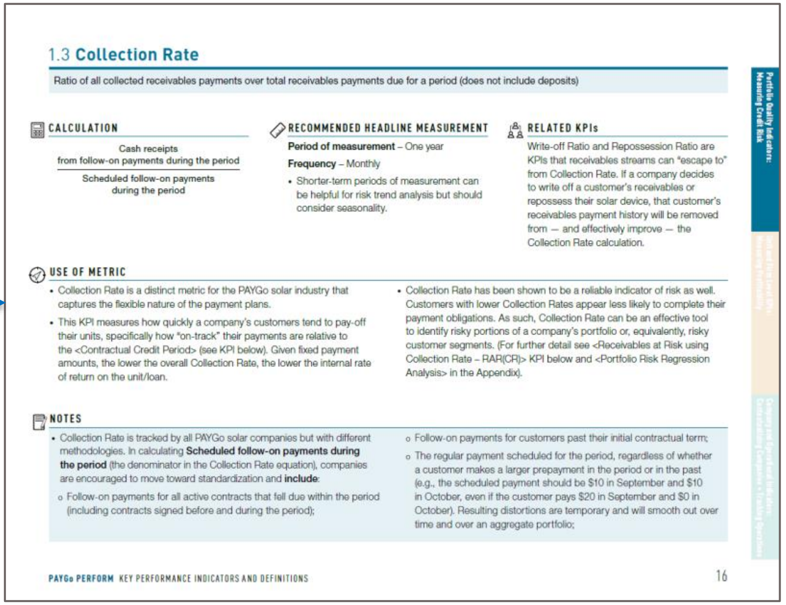
1.3 Collection Rate

Ratio of all collected receivables payments over total receivables payments due for a period (does not include deposits)

CALCULATION

$$\frac{\text{Cash receipts from follow-on payments during the period}}{\text{Scheduled follow-on payments during the period}}$$

RECOMMENDED HEADLINE MEASUREMENT

Period of measurement – One year

Frequency – Monthly

- Shorter-term periods of measurement can be helpful for risk trend analysis but should consider seasonality.

RELATED KPIs

Write-off Ratio and Repossession Ratio are KPIs that receivables streams can "escape to" from Collection Rate. If a company decides to write off a customer's receivables or repossess their solar device, that customer's receivables payment history will be removed from — and effectively improve — the Collection Rate calculation.

USE OF METRIC

NOTES

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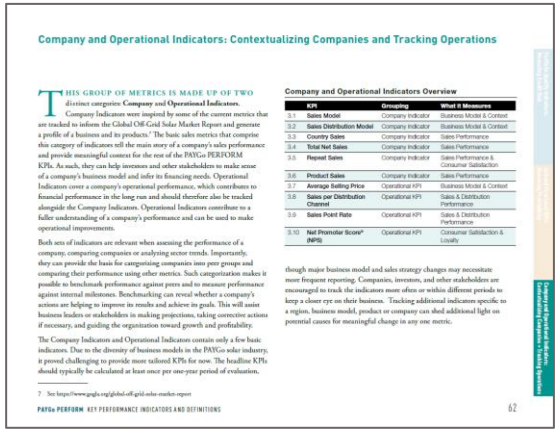
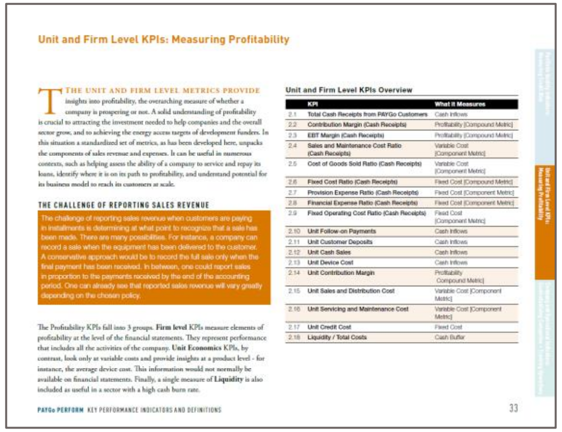
- The PAYGo PERFORM Technical Guide dedicates comprehensive sections to each of the three KPI categories
- Walks through each of the 36 KPIs including definitions, calculations, related KPIs, use of metrics, notes, and, when helpful, illustrations
- Appendix with quick reference guide and additional portfolio quality insights from pilot

Unit Economics


Company and Operational Indicators: Contextualizing Companies and Tracking Operations

Company and Operational Indicators Overview

Company & Operational


Unit and Firm Level KPIs: Measuring Profitability

Unit and Firm Level KPIs Overview

THE CHALLENGE OF REPORTING SALES REVENUE

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MODERATOR

Geoffrey Manley
CDC Group

PANELISTS

Sarah Mijabi
Greenlight Planet

Thebean Gilfillian
Oolu Solar

Tobias Ruckstuhl
Persistent

Send your questions through the chat box.

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How the KPIs are already being used to monitor the PAYGo Industry

Lucia Spaggiari
MFR

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Value of KPIs was demonstrated through COVID

Objectives PAYGo COVID Impact Monitor

1. Enable **companies to better understand challenging market dynamics** and inform business decisions and contingency plans.

2. Provide market insights to **inform funding decisions** that promote business continuity and promote growth of the sector.

3. **Inform the recovery and response strategies** of sector support partners and programs, to help companies and customers get targeted and effective assistance.

18,163 data points, up to February 2021

20 affiliates participating, amounting to 13 PAYGo companies

Representing **8 countries**

Cohort is NOT representative of entire PAYGo sector

Market size:

Representativeness of the data based on the highest number of companies reporting (not current) and in volumes of PAYGo lighting products sold:

- Sub-Saharan Africa: 56%
- East Africa: 66%
- West Africa: 25%

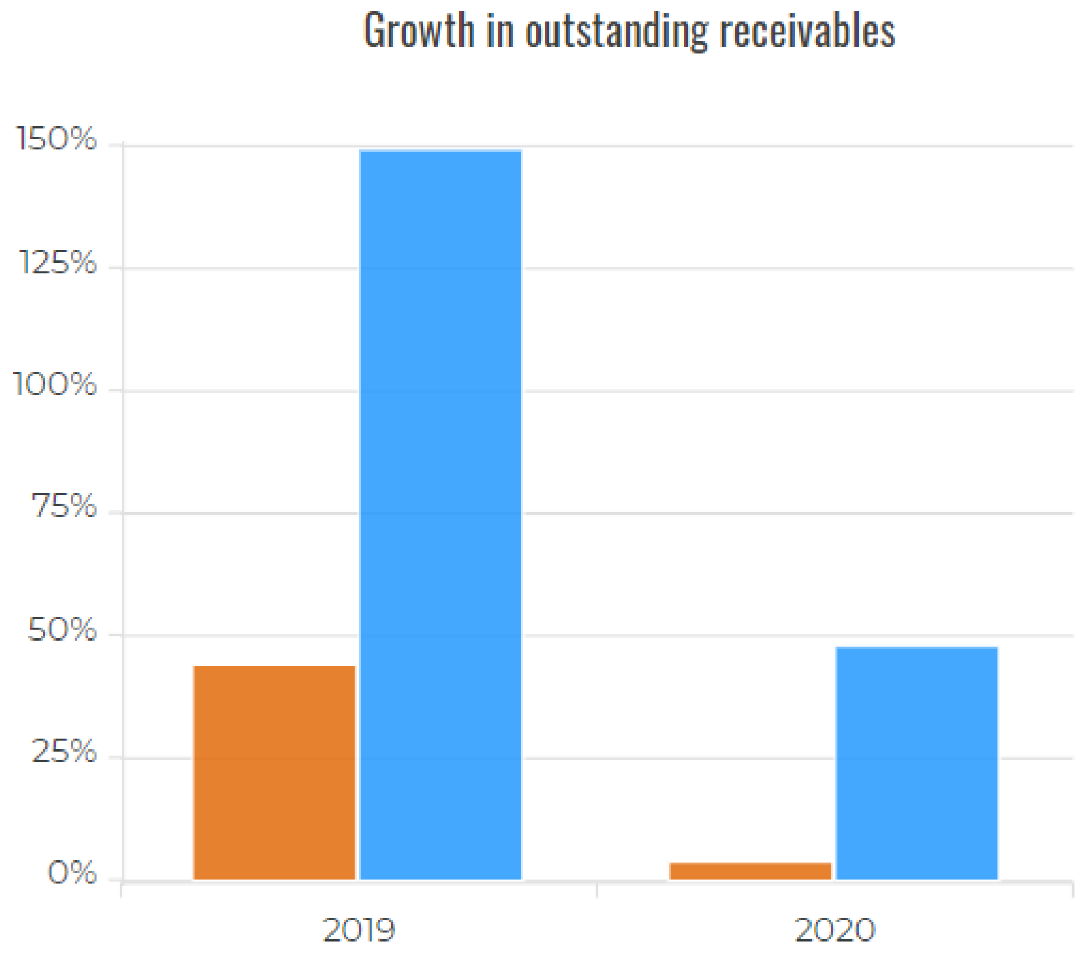
Other factors:

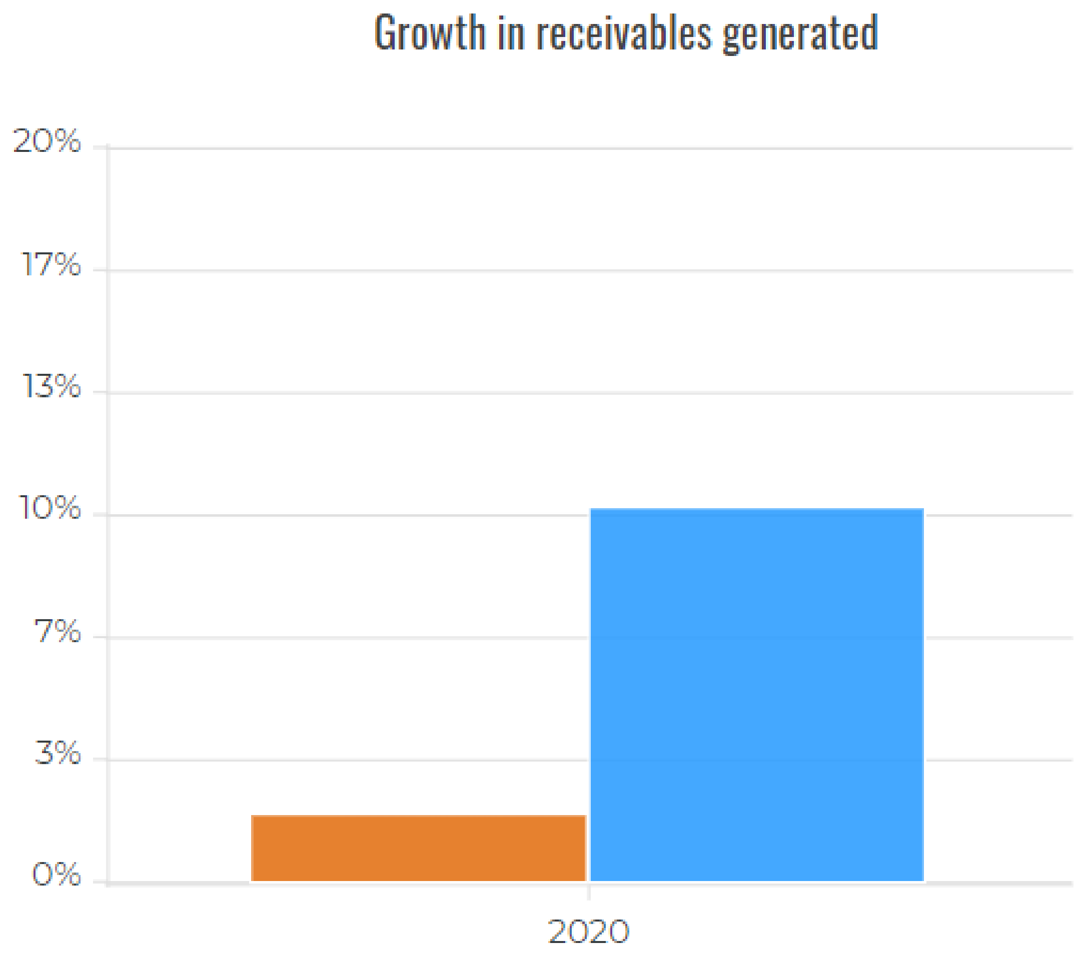
1. Data not weighted by company size or portfolio
2. Average presented is of affiliates, not firms

PAYGo COVID Impact Monitor

Key takeways

1. **High standard deviation** not only during COVID but also during pre-COVID: typical performance has not emerged yet.
2. **Sales** have **slowed down**, **liquidity** as a proportion of total costs has **increased**.
3. **Write-off ratio** has **increased** since COVID 19 outbreak.
4. **Portfolio quality** shows **room for improvement**: importance of credit risk management.
5. **PERFORM KPIs** enable early benchmarking, trend analysis, and data driven decision making.





Medium scale firms Small scale firms Median. Annual. Same firms across periods.

Sales growth has **continued**, albeit at a **slower** rate. Growth in outstanding receivables decreased form 108% in 2019 to 38% in 2020.

Medium scale firms (i.e. total assets 10-100 M USD) display lower growth rates than small scale firms (i.e. total assets < 10 M USD)

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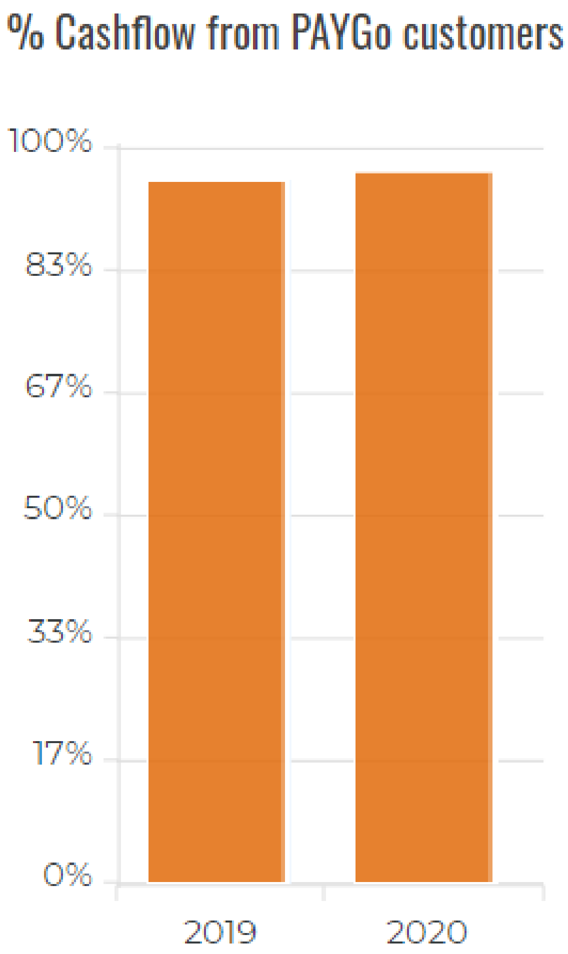
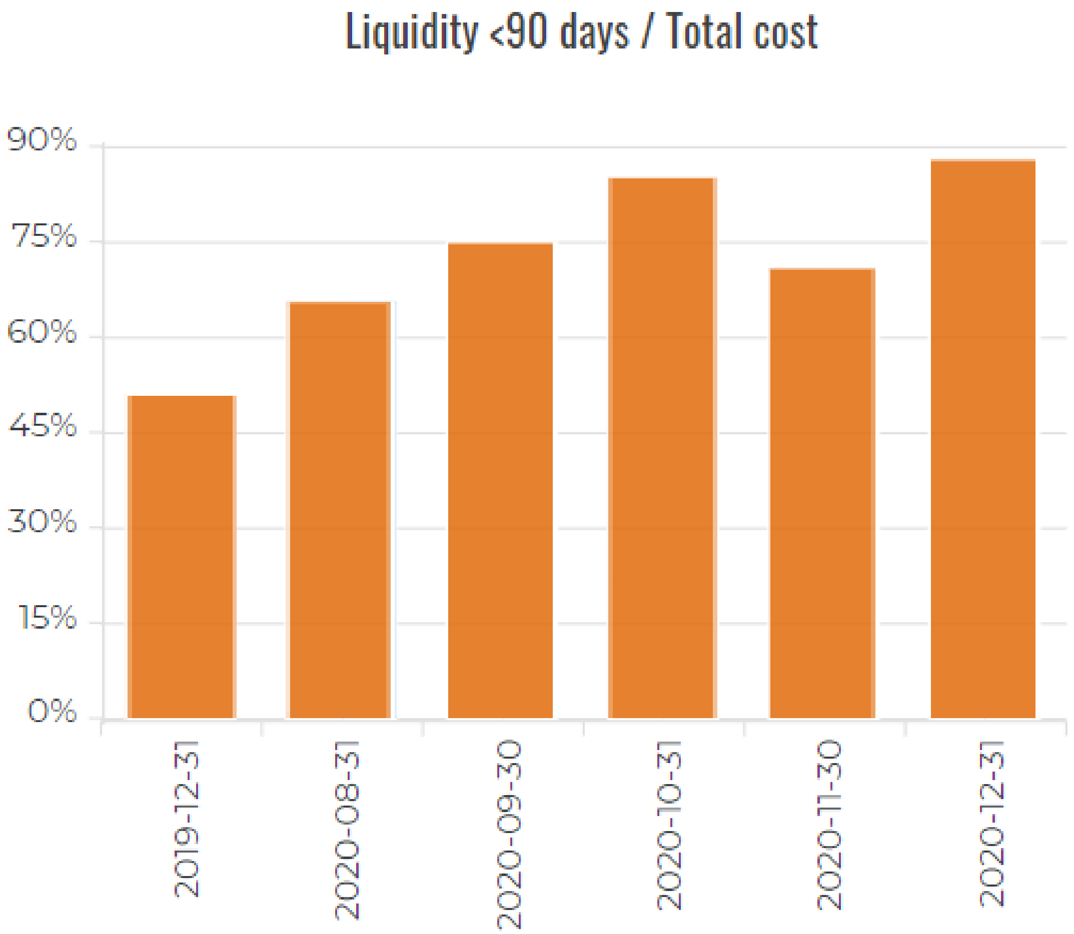
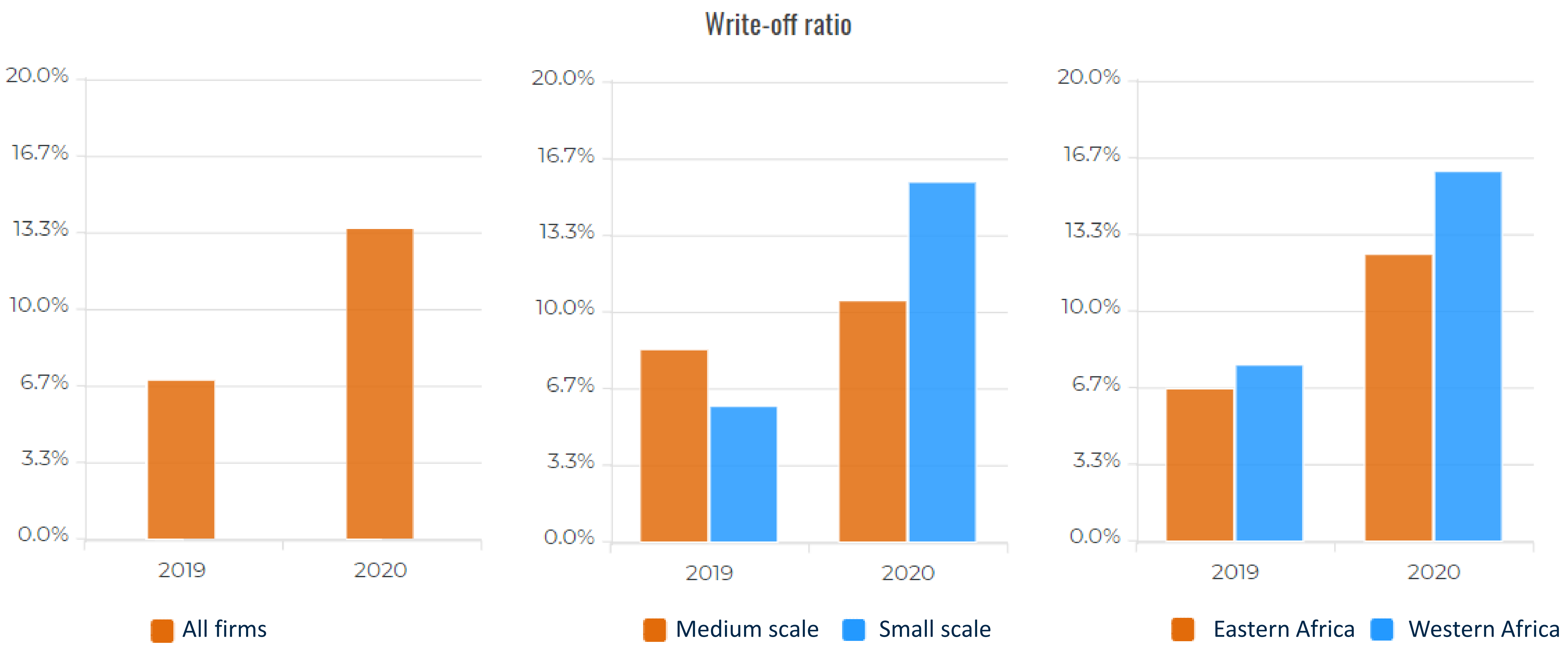




All firms   Median. Annual (Cashflow from PAYGo); monthly (Liquidity). Same firms across periods.

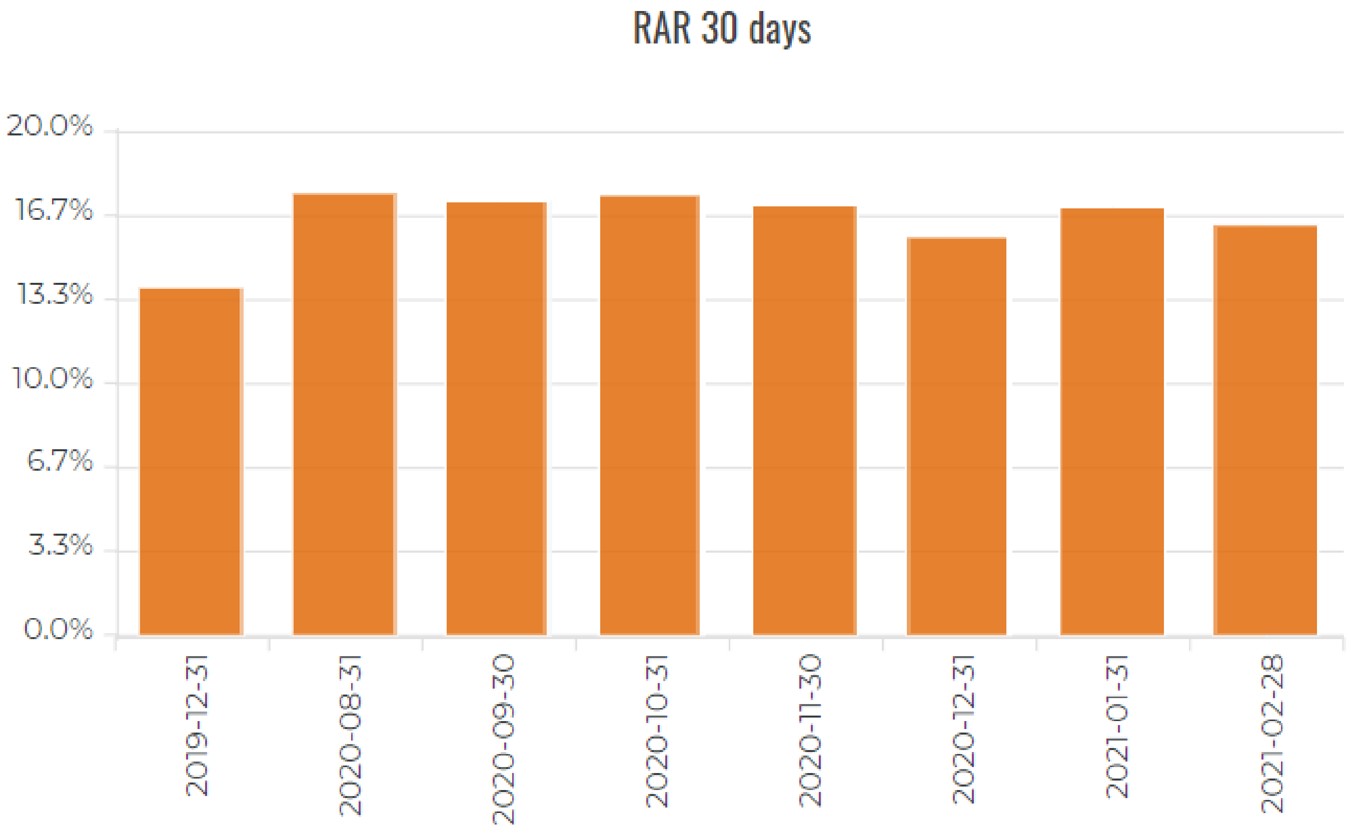
No shift from **PAYGo sale model** to cash sale model was observed. Related to the sales slowdown, **Liquidity <90 days / Total cost** has **doubled**, from 51% (182% SD) prior to COVID in 2019 to 89% (249% SD) during COVID. 73% of firms have increased their liquidity as a proportion of total costs. However, liquidity remains low overall in absolute terms.

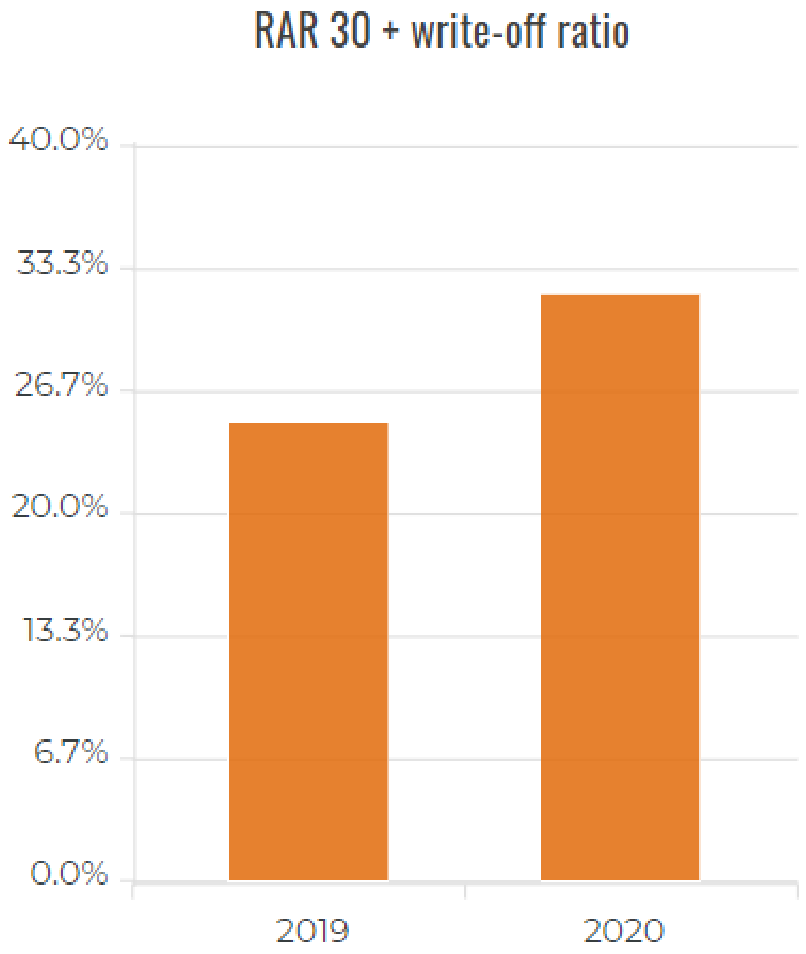
LIGHTING GLOBAL   WORLD BANK GROUP   GOGLA   CGAP   MFR



Median. Annual. Same firms across periods.

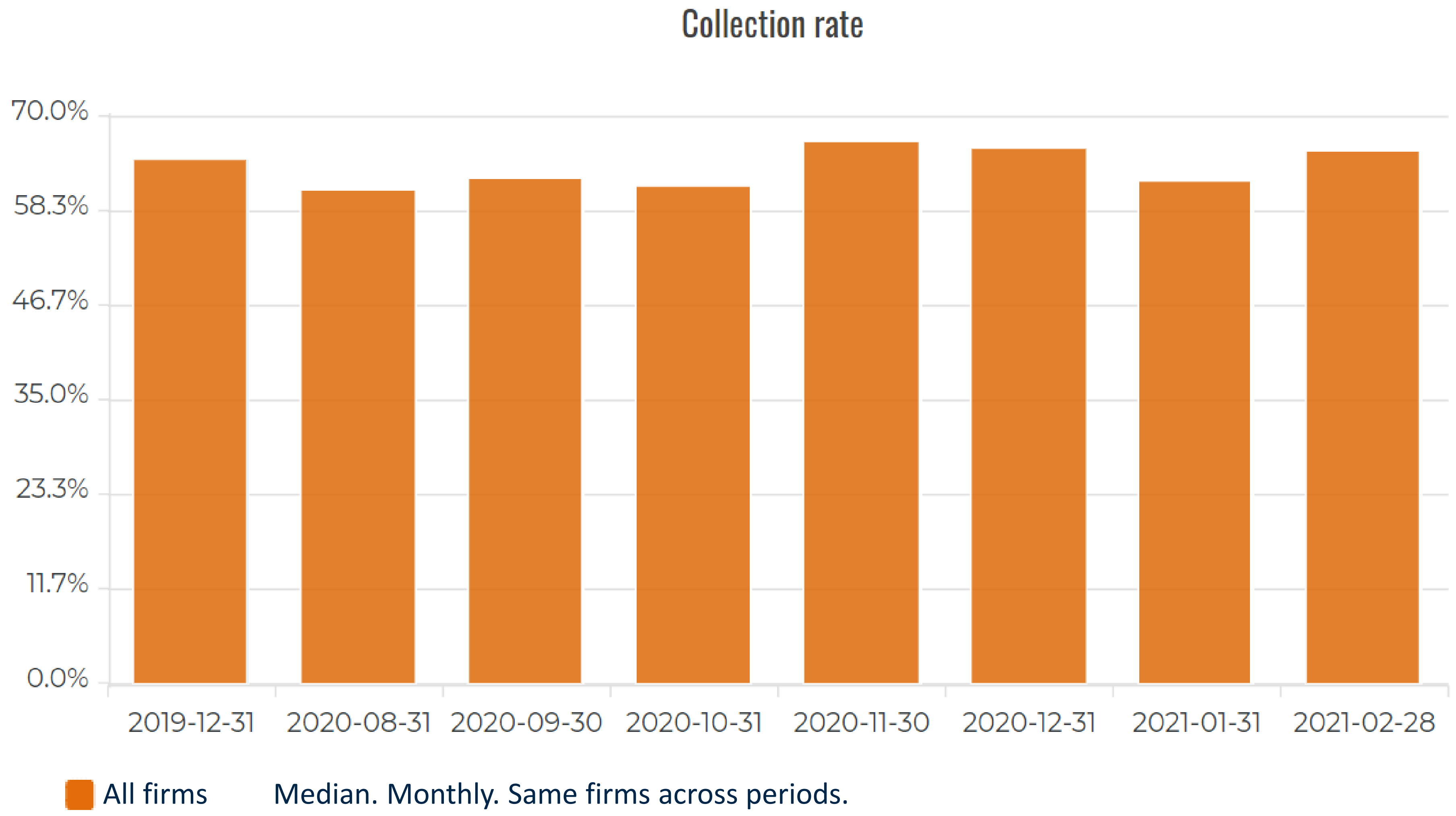
Write-off ratio increased from 6.9% in 2019 (7% Standard Deviation, hereinafter SD) to **13.6%** in 2020 (14% SD). 75% of firms experienced an increase in write-offs from pre-COVID to COVID times (statistically significant). Higher levels of variation during COVID, combined with a positive skew, suggests that some firms have written-off at significantly higher rates than before.





All firms. Median. Monthly (RAR 30 days), annual (RAR30 + write-off ratio). Same firms across periods.

RAR 30 increased from 13.9% in 2019 (10% SD) to 16.3% in 2021 (13% SD). **High levels of variation** reflect the varied performance of firms, both pre and during COVID, with **50%** experiencing a **decline** in **RAR 30** from pre-COVID to COVID times. However, 75% of the firms that saw RAR 30 decline saw an increase in write-offs, suggesting that **write-offs** contribute to **reducing RAR 30**.



Collection rate remained stable, increasing by 1% from 65% in 2019 (16% SD) to 66% in 2021 (14% SD). Performance is highly varied, and 50% of firms experienced a decline in collection rate. Similarly high levels of **variation** both pre-COVID in 2019 and during COVID suggest that COVID may not be the primary driver of change in collection rate. **Portfolio quality** displays **room for improvement**.

Q&A

Please submit your questions via the chat

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3 For more resources on financial inclusion, visit www.FinDevGateway.org and www.cgap.org

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