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Accelerating Investment for Climate and Clean Energy

The Private Financing Advisory Network

2nd October 2020

REEEP

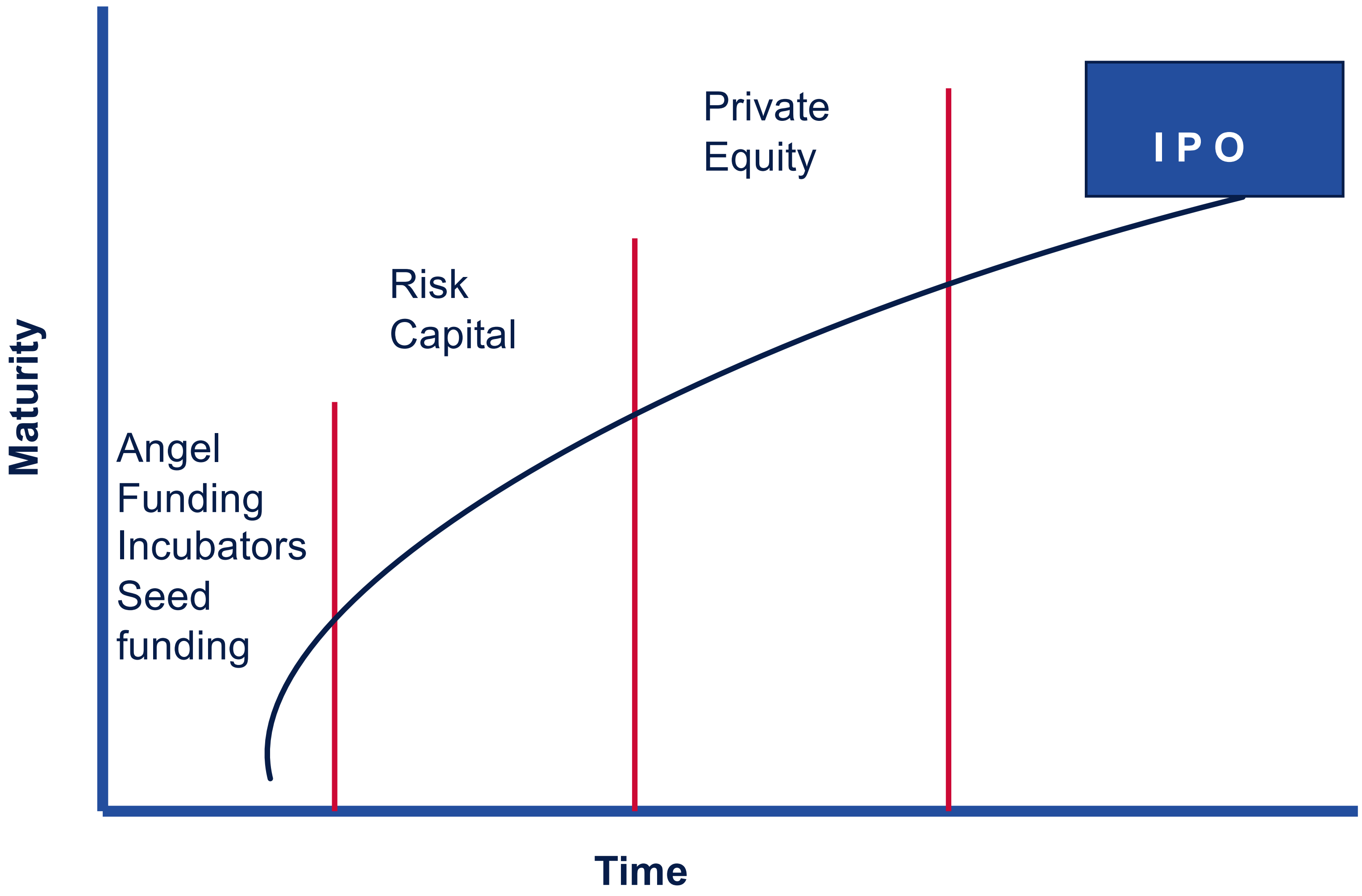
UNIDO

Different types of funding

Session's Objectives

- Different funding types available at various stages
  - Different stages of funding
  - Types of Funding
  - Exit for investor
- Strategic implications of the choice of funding instruments
  - Capital structures
- Practical application of financing tools
  - Equity, Mezzanine, Debt

Stages of equity funding



Sources of Equity Investment

- Self funding/Owner's equity/Friends and family
- Angel Investment
- Impact investors
- Private equity
- Venture Capital
- Initial Public Offer (IPO)

Expected Risk Returns

Expected IRR	Type of Funding	Type of Investor
Negative - 0 %	Grants & Subsidies	Donors/ Government
7 – 12 %	Impact/ Development Funding	Donors / Philanthropic Investors
6 - 12 %	Development Funding	Specialized Investors / Lenders looking for blended value. TBL
10 - 18 %	Growth Capital	Hedge Funds / Private Investors / Strategic & Industrial Investors
18 – 25 %	Growth Capital	Private Equity Funds
> 25 %	Development / Risk Capital	Venture Capital
> 30 %	Seed Capital	Angel Investors

Different rounds of funding

- Series A
  - When: Once a business has developed a track record
  - Why: Scale the product or services
  - How much: US$ 1 to 10 Mn
- Series B
  - When: Proven track record
  - Why: Expanding the market
  - How much: US$ 10 to 50 Mn
- Series C
  - When: Strong presence in the market,
  - Why: Look for next level of growth, Acquisitions
  - How much: US$ 50 to 100 Mn +
  - Providing exit to early stage investors

Choosing an Investor

- Targeting your investor based on project maturity
- Look for long-term relationship
- Don’t forget about your long-term plan
- Clearly defined value additions
- Referrals from companies where the Investors have invested in the past
- Referrals from Financial institutions and other Investors
- Professional conduct
- Assistance with business strategy, recruitment, fund raising, partnering, customer contacts and exits (IPO, M&A)

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Exit possibilities

- Secondary Sale/Strategic Acquisition
  - No cash inflow to the business in this model
  - Suitable for institutional investors
  - Should be win- win combination
  - Focus for long-term growth
- Merger and Amalgamation
  - Identify the economies of scale and "Synergy"
  - Identify incremental value to the shareholders
  - Diversification of risks
  - Tax impact

Types of Debt funding

- Senior debt
  - Suitable for matured projects with steady cash flow
  - Takes priority over other unsecured
- Subordinated debt
- Unsecured debt
- Project Finance
  - Suitable for long-term infrastructure, industrial projects, and public services
  - Non-recourse or limited recourse
  - Forfaiting

Debt funding

- Developmental Financial Institutions
  - Suitable for large scale projects
  - Relatively cheaper compared to commercial lending
- Working capital funding
  - Bills discounting
  - Factoring
  - Supply Chain finance
  - Cash credit and Over draft
  - Commercial paper
- Crowd Funding
  - Suitable for relatively early stage projects
  - Innovative Fintech startups have successfully raised funding
  - Peer to Peer lending
- Guarantee

Hybrid/ Mezzanine funding

- Convertible debt/ Notes
  - Investors benefit from the upside potential
  - Suitable for early stage projects
  - Allows Developers to improve valuation
  - Longer terms and low cost compared to equity
- Convertible Preference shares
- Venture loans
- Convertible Debentures

A quick take away

- A business needs both debt and equity
- They are suitable at various stages of the project.
- Understand your credibility, capability and capacity – do not default
- Do not overtrade – Never
- Do not use short term money for long term use.
- Special circumstances have special solutions.
- Take a reality check at least once in a quarter
- Seek Professional help. Choose wisely.

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Thank you

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