

June 2018

# → **Transaction Summary**

## **M-KOPA, LLC**

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.

## Transaction Description

M-KOPA, headquartered in Nairobi, Kenya, is a supplier of "pay-as-you-go" ("PAYG") off-grid solar home systems and consumer products for low-income households that have historically relied on kerosene and other traditional fuels. The Company's goal is to bring affordable solar energy and lighting to rural households for less than the daily cost of kerosene and employs an innovative mobile payments model that simultaneously provides unbanked customers with a credit history and an upgrade path to finance additional household products such as televisions, refrigerators, cooking stoves and smart phones.

## Transaction Details

<b>Counterparty</b>	M-KOPA, LLC
<b>Domicile of Operations</b>	Kenya, Tanzania, Uganda
<b>Domicile of Incorporation</b>	United States of America
<b><u>IFC Performance Standards</u> Transaction Category</b>	Category B
<b>Other Canadian Participation (if applicable)</b>	N/A
<b>Financial Product</b>	Equity
<b>Transaction Amount</b>	USD 10 million (CAD 12,800,000)
<b>Date of Signing</b>	February 28, 2018
<b>Date of Transaction Summary Publication</b>	June 30 2018

## Summary of Anticipated Development Impacts

The transaction is expected to drive outcomes in all of FinDev Canada's three development impact goals.

### Market development:

- *Creating good-quality jobs in East Africa:* M-KOPA currently employs over 800 staff, works with approximately 1,600 direct sales representatives, and is planning to nearly double its workforce in the next 5 years and increase the number of direct sales representatives to 2,500;
- *Economic contribution:* M-KOPA generates direct economic value in Kenya and Uganda through the payment of salaries to employees and commissions to sales agents; this economic contribution will increase by 160 percent over the next five years;
- *Domestic manufacturing supply chain development:* M-KOPA commissions a portion of its solar panel production from a Kenyan manufacturer and plans to expand its domestic procurement by 40% by 2020, enabling growth in jobs in its supply chain, as well stimulating growth across the entire solar system value chain in East Africa.
- *Linkages with downstream service providers:* M-KOPA works with local service providers to securely dispose of its batteries and other e-waste and to refurbish used system components to enable their future use. This creates additional local economic linkages that are expected to grow in the coming years.

### Women's economic empowerment:

- *Creating good-quality jobs for women:* In East Africa, more than 50% of M-KOPA's employees are women (two times higher than the average utility) and 38% of commissioned direct sales representatives are also women. Women employees have access to training opportunities, and other benefits such as healthcare, pension, and maternity leave.
- *Women in governance, ownership and leadership:* M-KOPA employs a significant proportion of women in leadership (29%) which is expected to grow over the coming 3-5 years. M-KOPA will also look for opportunities to increase women in leadership and governance of the organization.

## Climate mitigation and adaptation

- ➔ *Providing renewable energy to rural East African households, thus reducing carbon emissions:* More than 3 million people across 600,000 households use affordable electricity supplied from M-KOPA solar home systems rather than thermal sources; this is expected to grow to over 1.5 million households (> 7.5 million users) by 2022. M-KOPA's current fleet helps avoid approximately 140,000 tonnes of carbon emissions each year and contributes to the reduction of kerosene use by households by about 90 million lighting hours per month;

## Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada undertook a review of the operations of M-KOPA including the company's environmental and social management system, policies and procedures, as well as other relevant documents. The IFC Performance Standards were applied as the international benchmark standards for the transaction, including for human rights-related issues. FinDev Canada has determined that the transaction is in compliance with applicable host country environmental and social requirements, as well as the IFC Performance Standards, with the implementation of a discrete number of recommendations in the form of an Environmental and Social Action Plan (ESAP). Key environmental and social areas reviewed associated with the transaction, and related mitigation measures include, but are not limited to, the following key areas:

1. To date, M-KOPA has taken significant steps to improve the governance of environmental and social issues within the company, including hiring a full-time Environmental, Health and Safety Manager and improving its internal systems and controls. The company also has an Environmental and Social Management System (ESMS). The ESMS could be further developed to address a broader range of potential environmental and social risks and impacts resulting from the company's direct and indirect operations, including, for example, risks associated with its contractors, supply chain, and direct sales representatives. As part of the ESAP, the company will continue to assess these potential environmental and social risks / impacts and incorporate proposed mitigation measures into their environmental and social management system.

2. The company has done considerable work to engage with its internal stakeholders, including their employees. Further, to address internal labour grievances, the Company has a whistleblowing hotline in place, which is managed by a third party. With respect to external stakeholders, as part of the ESAP, the company will develop a more comprehensive stakeholder engagement plan that includes the full suite of M-KOPA stakeholders (e.g., customers, direct sales agents, employees, community members, government, or others) and continue to improve its external stakeholder feedback mechanism.
  
3. M-KOPA has taken a proactive approach to managing a potential key risk area for the company linked to electronic waste, specifically the waste resulting from the solar home system components at the end of their useable life. Although the volumes of waste are relatively low overall, the expectation is that they could increase over time. To manage this risk, M-KOPA partners with a local e-waste recycler to securely dispose of its batteries and other e-waste and refurbishes damaged system components to enable their future use. The company has also been very active and at the forefront of discussions in relevant international industry associations (e.g., Global Off-Grid Lighting Association [GOGLA]) to contribute to the development of a coherent, unified industry approach to address the e-waste challenge.

## Documentation Reviewed

The following is an illustrative list of key documentation that was reviewed as part of the transaction assessment.

- ➔ Environment Health & Safety Management System (2017)
- ➔ Environment Health & Safety Policy (2017)
- ➔ Third-party Environmental and Social Due Diligence Assessment (2017)
- ➔ Various Environmental, Health and Safety policies, plans, procedures, reports and audits

Applicable International Finance Corporation (IFC)  
Performance Standards used in FinDev Canada assessment, in  
addition to host country requirements:

- ➔ IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- ➔ IFC Performance Standard 2: Labor and Working Conditions
- ➔ IFC Performance Standard 3: Resource Efficiency and Pollution Prevention