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COVID-19 RESPONSE INFORMATION SHEET 6

FINANCIAL RUNWAY PRACTICES FOR OFF-GRID SOLAR COMPANIES

Lockdown and social distancing measures implemented in many countries to prevent the spread of Coronavirus Disease 2019 (COVID-19) have a serious impact on the ability of off-grid solar companies throughout sub-Saharan Africa to continue selling their products and services as normal. This is having a knock-on effect on the financial viability of these companies. This information sheet summarizes general guidance on how off-grid solar companies can mitigate the impact of the pandemic by extending their financial runways to allow them to stay in business.

FINANCIAL STRATEGY

It is recommended that off-grid solar companies start adjusting their financial strategies as soon as possible to ensure they are positioned to cope with the impacts of the pandemic.

MANAGEMENT STRATEGY:

- Extend financial runways for the maximum possible timeframe.
- Assemble a COVID-19 Financial Management Task Force to develop the company's strategy including defining and ranking risks within each area of operations *(such as inventory, financing, portfolio management, and staffing)*.
- The Financial Management Task Force should be aware of the company's current financial runway and plan to meet regularly to provide fact-based analysis and enable fast, quality decision making on how to extend the financial runway.
- In addition to analyzing accurate figures for accounts payable, accounts receivable, and inventory, companies can establish their burn rate, estimate duration of inventory, understand shortfall, and prepare action plans to reduce shortfall.

For more information, refer to:
GET.invest: https://www.get-invest.eu/2020/05/14/covid-19-response-page/

REDUCING EXPENSES:

The following are suggestions on what off-grid solar companies can do to extend their financial runways:

- Carry out rigorous, prudent cash management and governance – this can entail categorizing all expenses into critical and non-critical, then trying to postpone, reduce, or eliminate any non-critical capital expenditures.
- Reach out to suppliers to discuss potential options for extending payment terms to help balance current cash flow.
- Reassess the cost structure of day-to-day business to identify potential savings. This might pinpoint immediate and long-term cutbacks such as narrowing product range; using local operations and maintenance support; and relocating offices to more affordable locations.
- To keep staff motivated, companies can consider providing compensation such as company shares instead of bonuses. If companies start reducing salary costs, it is important for company image that the pay cut includes senior management to demonstrate solidarity with the rest of the team.

For more information, refer to:
Boston Consulting Group: https://bcg01.egnyte.com/dl/q2jvgqEENN/

INCREASING INCOME STREAMS:

- Investigate the development of new income streams, but keep in mind that this often involves spending money, which may be counter-productive.

DISCUSSIONS WITH LENDERS

- Talk with lenders as early as possible, including discussions on loan restructuring/refinancing if needed. It is important to note that these discussions:
  - Should be well thought through to ensure that term revisions do not trigger defaults or cross defaults across various facilities.
  - Can include strategies such as increasing delays in repayments and renegotiating current debt facilities if possible.
- Identify suitable international and local relief funds that can help reduce loan repayments, but be aware of any senior loan rescheduling required to access concessional or relief fund capital.

For more information, refer to:
Energy Access Action Network: https://www.energyaccessrelief.org/