



SELCOIncubation

2016-2019

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BACKGROUND & OPPORTUNITY

The Origins of the SELCO Incubation Program

SELCO Incubation program was started because of numerous reasons. Many of the poor around the world could become inclusive in every form of life provided equal opportunities are provided to them. Access to reliable energy is one of the missing pieces of the puzzle that could provide some, if not all, segments of the poor an avenue to have better quality of life or/and access to better livelihoods. SELCO belief, because of its two decades of experience, is there is a strong linkage between reduction in poverty and sustainable energy. One of the crucial ways to link them together is by spawning numerous enterprises that are driven by passion to solve the critical issue of poverty in a socially, environmentally and financially sustainable manner.

SELCO felt that it was imperative to share the learning's of over two decades in the realm of energy access for the poor – especially from a practitioner's perspective.

Some specific areas or examples that the Incubation Center has and will be focusing on for the younger enterprises, in addition to typical incubation process, to be successful are:

1. Understanding the Eco-System: Generally, both entrepreneurs and investment houses lack an understanding of what constitutes an "eco-system". An ecosystem for energy services for the poor while external to the enterprise is integral to the successful operation of the energy enterprise. Often, this ecosystem is absent and the entrepreneurs have to take on the cost and effort involved in building this ecosystem. Underestimating the importance of this ecosystem by either the entrepreneur or the investors will at best lead to an average performing energy enterprise.
2. Customization of Solutions: Entrepreneurs often fail to distinguish between needs and wants. While wants can be standardized, needs must be customized. This failure to distinguish needs and wants leads energy enterprises down the path of selling products rather than offering services. Offering a standardized solution where a customized solution is desired comes in the way of establishing a successful social enterprise.
3. Balance of Social and Financial Impact: Entrepreneurs driven by investors' expectations are often pursuing scale by numbers alone. The emphasis is on building robust, replicable processes leading to a proper mix of investments and realistic return expectations.
4. Changing the mind-set of an Investor: One of the primary goals of the incubation program is to educate the investor community on the different ways of thinking about impact investing.

This initiative hopes to address some of these issues that are currently impeding more widespread energy access for the poor.

The Origins of the SELCO Incubation Program

Globally, 1.6 billion people do not have access to electricity. Lack of access to energy and poverty are linked; the areas with the highest levels of poverty also have the lowest levels of modern energy consumption. Within sub-Saharan Africa, less than 10% of people are reliably electrified. Kerosene lamps used in much of the world emit 200 million tons of CO2 annually and present terrible health risks – the World Bank has stated that using a single kerosene lamp is like smoking 2 packs of cigarettes a day. Modern energy solutions bring a great opportunity to improve lives and generate revenue.

According to the UN, the Millennium Development Goals that seek to address income poverty, hunger, education, gender equality, health, environmental sustainability, and water and sanitation are all dependent on increasing access to modern energy services for the poor and "Without scaling up the availability of affordable and sustainable energy services, not only will the Millennium Development Goals not be achieved, but by 2030 another 1.4 billion people are at risk of being left without access to modern energy."

Despite hundreds of millions of dollars and much concerted effort by development agencies, NGOs, governments and business, there are few success stories that can boast of true impact.

The most successful local efforts to bring energy solutions to the poor are those that engage at the SME (Small and medium enterprise) levels. A diversified, vibrant SME level seems best positioned to handle the unique needs of poor clients, create new jobs, and exhibit necessary flexibility in the underdeveloped energy market.

Inclusive Small and Medium Enterprises play a crucial role in successful programs that allow access to the poor. They provide the essential bridge between the need of the poor and the required services to serve the need in order to improve their lives and generate supplemental income. Unfortunately, those passionate entrepreneurs capable of starting and running an energy enterprise are hindered by many barriers to entry.

SELCO Incubation believes that entrepreneurs, and the small and medium enterprises that they create, play a crucial role in the successful provision of energy access to the poor. With a special focus on providing sustainable energy to end user by incubating local entrepreneurs.

THE CHALLENGE

Energy access for underserved communities is a very challenging terrain. Problems are very segmented and contextual – thus the solutions also cannot be standardized. The eco-system required to run a sustainable enterprise has to be built along with the enterprise itself. The challenges an entrepreneur, in this sector, needs to solve are very different from a typical retail or a product selling company: where the end-value and financial products are very well defined. The field of energy access is still very green and numerous of those processes have to be experimented with and worked on to make them replicable: all this requires time and capital which many of the entrepreneurs do not have the luxury of.

Also one needs to be very sensitive about 'selling' the product to the poor where financial resources are minimal and is at competition to cater to other needs. A true enterprise and entrepreneur would always make sure that the interventions his or her organization does would always have a positive impact on the end-users (from a quality of life or increased incomes).

There are several barriers to the growth of rural energy services and some of them are:

- **Limited access to working capital and innovation money.**
 - o Lack of history and experience prevents many of the young entrepreneurs from accessing affordable working capital from local financial institutions – which is one of the biggest challenges.
 - o Entrepreneurs require high-risk innovation monies to experiment and create new products (technical and financial) in their areas of operations. Lack of such avenues forces many of the entrepreneurs from selling standard products, which are not designed for the needs of the local segments: thus leading to unsustainability of their ventures.
- **Poor access to end-user capital and to custom designed rural credit.**
 - o Many of the existent mechanisms of formal financial institutions are extremely risk averse in the informal sector, where the potential clients have no assets to guarantee. As many of the interventions in the energy access sector are asset-based interventions, they would require longer term financing: thus constraining the entrepreneur to grow if financing is not available.
 - o Many of the energy services require financing that is cash flow based and thus there needs to be availability of multiple financial options for the poor: which today is absent in many of the underserved areas of India.
- **Geographical and Supply Chain Constraints**
 - o Many of the entrepreneurs who cater to remote underserved households also face the issue of enormous transaction costs to serve them. Hilly topography, inaccessibility during floods and rains are some of the barriers they face: making the delivery of service more expensive for the poor.

- o Entrepreneurs based out of such above mentioned terrains also face the issue of stable supply chain of products. Blockades, bad roads etc. make their delivery time unpredictable thus adding another complication to their business planning.
- **Lack of trained personnel**
 - o There is a dearth of skilled (in the sector of energy services) personnel. There is a shortage at all levels: technicians, service providers, holistic planners and innovators. Thus it takes considerable time for the entrepreneur to build the team right from the management to the grassroots level.
- **Lack of market perception regarding the requirements of the poor households.**
 - o There is a big gap between the actual requirements of a typical poor household and what is perceived to be the requirement by the implementers. One needs to understand the needs very carefully before creating an appropriate intervention list. The entrepreneur needs to spend enough quality time immersing himself/herself in the areas of operations to understand the market place better. Due to financial constraints and other pressures the entrepreneurs are not able to give enough time for building that knowledge.
- **Lack of defined available products that are poor-centric**
 - o There is a general tendency to believe that affordability can happen only if there is mass standardization of products. Mass standardization assumes that the societies are homogenous in nature: which is not true at all. The needs and expectations of different segments are unique and solutions need to be tailor made. Thus many of the upcoming entrepreneurs find it difficult to intervene in a sustainable manner with existent basket of products available in the market. The balance act of finding the right product for intervention and doing the implementation itself does take a toll on the entrepreneurs.
- **Non-existent, changing, or poorly formulated rural energy policies**
 - o Policy, in the energy service area, is one that is the least matured. Today's policies are totally top driven. Many of the persons in responsible positions are not able to relate to the problems of the poor and the enterprises that cater to them. Many of these young entrepreneurs are not able to absorb the shock of sudden changes in policy and the consequent impact it has on the eco-system.
- **To keep the social mission intact**
 - o Due to pressures from the investors and board many a time entrepreneurs find it difficult to balance the social and financial aspects of the organization. Many of them sacrifice the long-term goal and building the processes by concentrating on short-term revenue targets. Only getting the right type of investors and board eases the pressure: which is not many new entrepreneurs pay attention to.

INTRODUCTION

The SELCO Incubation Program is an initiative of SELCO Foundation and SELCO India to incubate and support entrepreneurs and enterprises involved in the delivery of sustainable energy services to the poor. These entrepreneurs and enterprises will contribute to the development of a world where provision of affordable, reliable, appropriate and sustainable energy solutions will enable the poor to break away from poverty and lead lives of inclusivity, dignity, and opportunity.

The initiative leverages the on-the-ground experience of SELCO India and the eco-system experience of SELCO Foundation. The program hand holds potential entrepreneurs and like-minded enterprises to evolve geographic and segment specific business model and processes, which is based on SELCO's philosophy – customized solutions, doorstep financing and service. The initiative also enables potential entrepreneurs and enterprises grow their business and secure appropriate investment, one that is tailor made to their business model and needs.

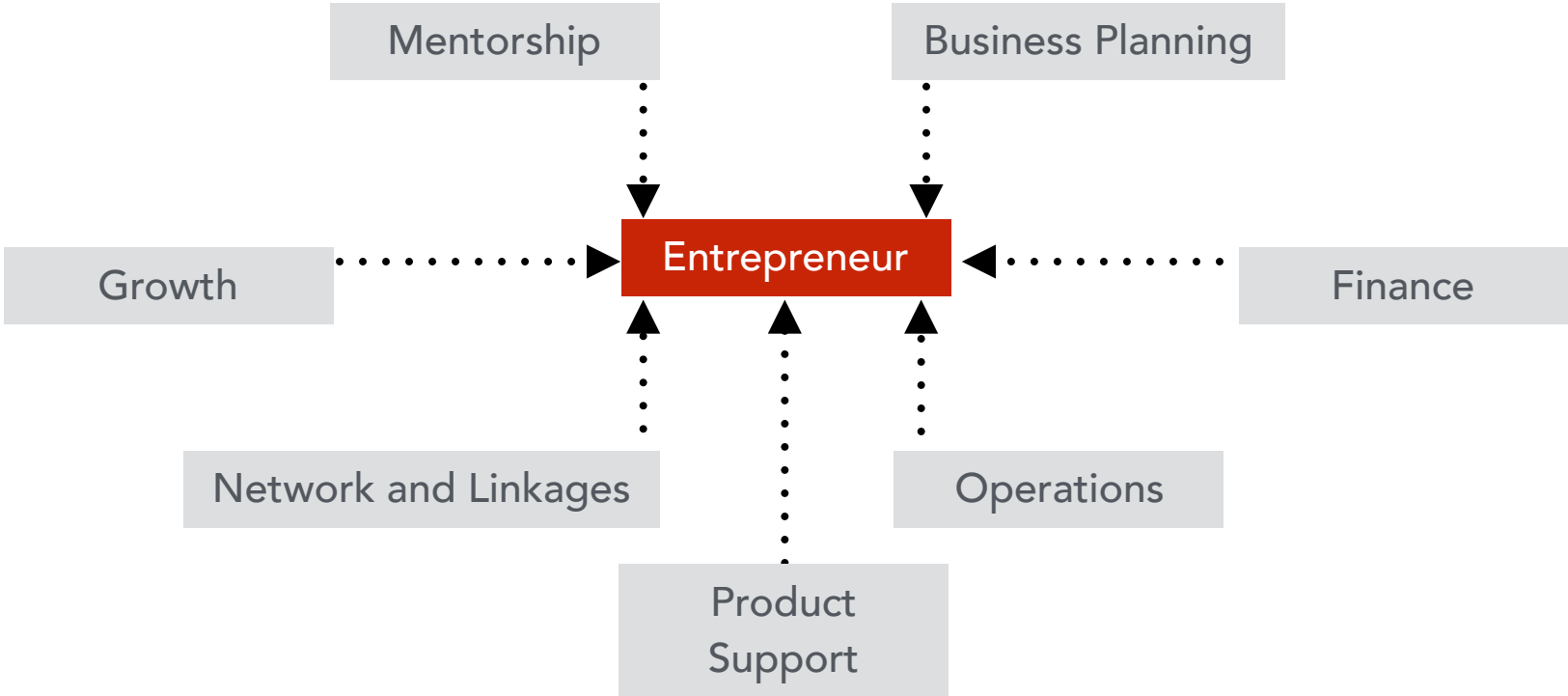
Over the past 3 years, the initiative has worked with more than 50 small and medium size enterprises and entrepreneurs in various parts of India, with varying backgrounds and stages of development, from Rajasthan, Uttar Pradesh, Madhya Pradesh, Maharashtra, West Bengal and the North East. The progress of these entrepreneurs has been varied. Most of them establishing operations (from small to medium scale) on the ground, and developing their business plans to raise their first round of investments. Out of the 50+ enterprises, two of them went on to secure multiple rounds of funding from social impact investors.

The next phase of the initiative intends to develop projected 63 energy enterprises (of different sizes), which will provide energy service solutions to households and small businesses in India. The initiative will achieve this through:

- An incubation module which transfers key elements of SELCO or related models and processes
- Mentoring and business process/planning support to help establish the operations
- Support for creation of appropriate eco-system
- Support for creation of necessary linkages for supplies and end consumer financing
- Support for development of business plan and enabling access to seed and later stage capital

The Incubation process of SELCO will provide a comprehensive and a holistic package for the upcoming enterprises

- i. Training and capacity building
 1. Energy sector and the technologies
 2. Running an ESCO (Energy Services Company)
 3. Practical immersion at all stages of ESCO business operations and management
- ii. Staged Financing
- iii. Introductions and relationship building with End-User-Finance Partners (MFIs, Banks, Social Impact Investors) and other critical sector players
- iv. Product (procurement and supply chain management)
- v. Product Quality Assurance
- vi. Product Innovation (including financial products)
- vii. Mentoring and shadowing



Providing the Entrepreneur with a holistic and immersive experience

ABOUT SELCO Incubation

THE Concept of SELCO Incubation

The Incubation Process utilizes SELCO’s shared resources, management expertise, intellectual capital, and learning over the past 21 years to enhance the capacity of potential local energy enterprises to deliver energy solutions to low-income communities by:

- Replicating decentralized Inclusive business models and processes
- Providing mentorship in social enterprise management and business planning support
- Assisting in developing the enabling conditions to support delivery of energy services to the underserved populations
- Enabling access to seed and later stage capital
- Establishing a platform for networking, sharing of best practices, common sourcing , etc

The key differentiator from other incubation vehicles is mentorship and support during the critical early growth phase of the enterprise under a successful operational social energy enterprise like SELCO and the need based individual focus on all SELCO Incubatees.

Entrepreneurs can engage with SELCO Incubation at various stages:

- Stage 0 - Entrepreneur with intent
- Stage 1 - Entrepreneur with an idea
- Stage 3 - Entrepreneur with a start-up enterprise (reaching 5-50 end users a month)
- Stage 4 - Entrepreneur with an on-going enterprise (reaching 50-200 end users a month)

Entrepreneur evaluation criteria:

SELCO Incubation has only three major criteria for the early stage evaluation of individuals:

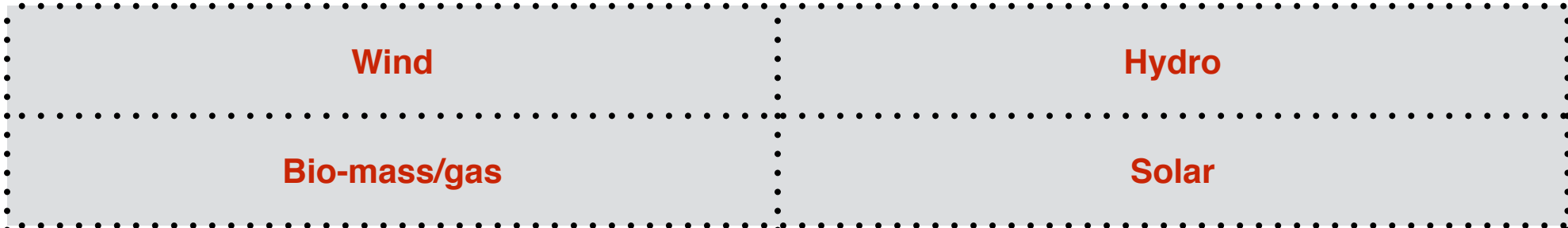
- Should aim at setting better standards of social, financial and environmental sustainability
- Should passionately and genuinely strive for development and empowerment of under-served communities
- Should possess a strong intent to reach scale by positively impacting multiple end users with sustainable solutions

There are ten types of incubation and mentorship support provided to an entrepreneur

1. Mission and vision alignment
2. Human resources, skill development, training and orientation
3. Operations, finance and supply chain management
4. Technology (product support)
5. Finance know-how
6. Process and model transfer
7. Business plan development
8. Marketing and communications support
9. Partnerships, networks and linkages
10. Helping in securing and managing appropriate funding/ investment

The goal of SELCO Incubation is to inspire, encourage and enable entrepreneurs to provide decentralized sustainable energy solutions by developing a plethora of small, medium and large scale enterprises in India. Incubation aims at further empowering small to grow into medium and eventually larger enterprises with the ability to reach more end users. In some cases the medium and large enterprises can also become a support system for smaller entrepreneurs to bridge the last mile gap.

A special focus will be maintained on non-english speaking local entrepreneurs.

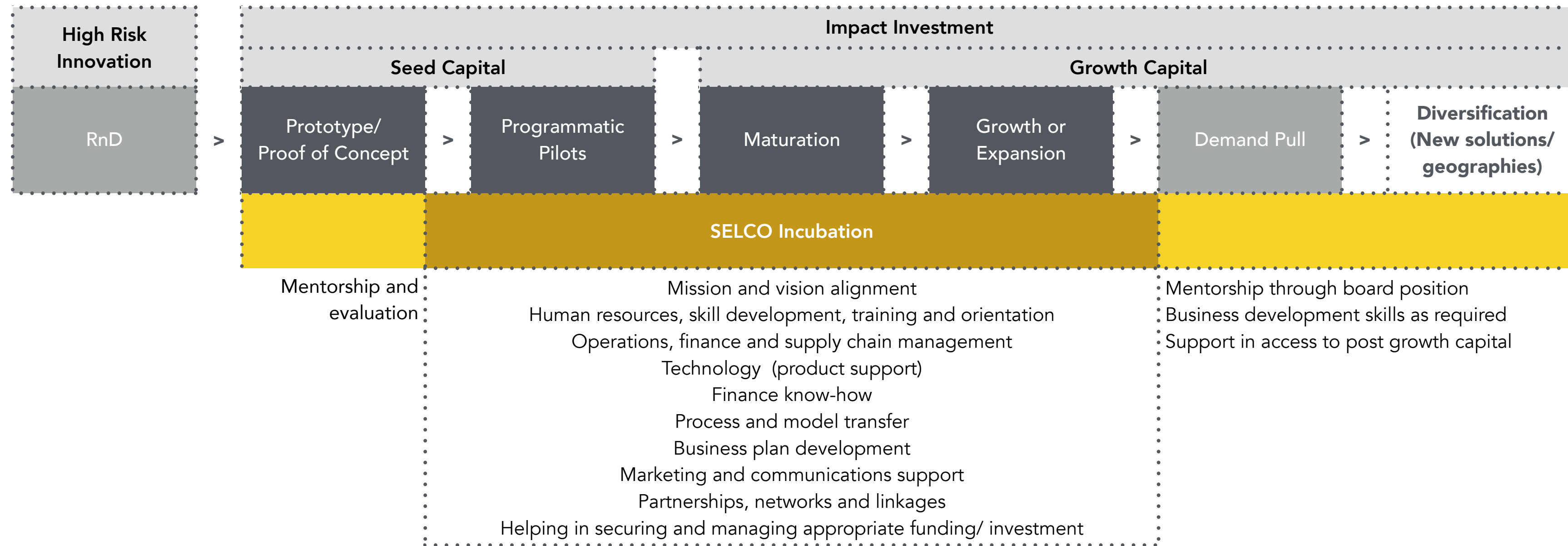


Incubatee focus areas: Sustainable Energy Solutions for End Users (households, businesses, institutes, communities)

SMALL	MEDIUM	LARGE
Serving 5-50 end users with asset based energy solutions ((per month) or 100-250 end users with service based energy solutions	Serving 50-250 end users with asset based energy solutions (per month) or 250-1000 end users with service based energy solutions	Serving 250-1000 end users with asset based energy solutions (per month) or 1000+ end users with service based energy solutions

Types of Enterprise Incubation

Clean-Tech Social Enterprises : Stages of Development

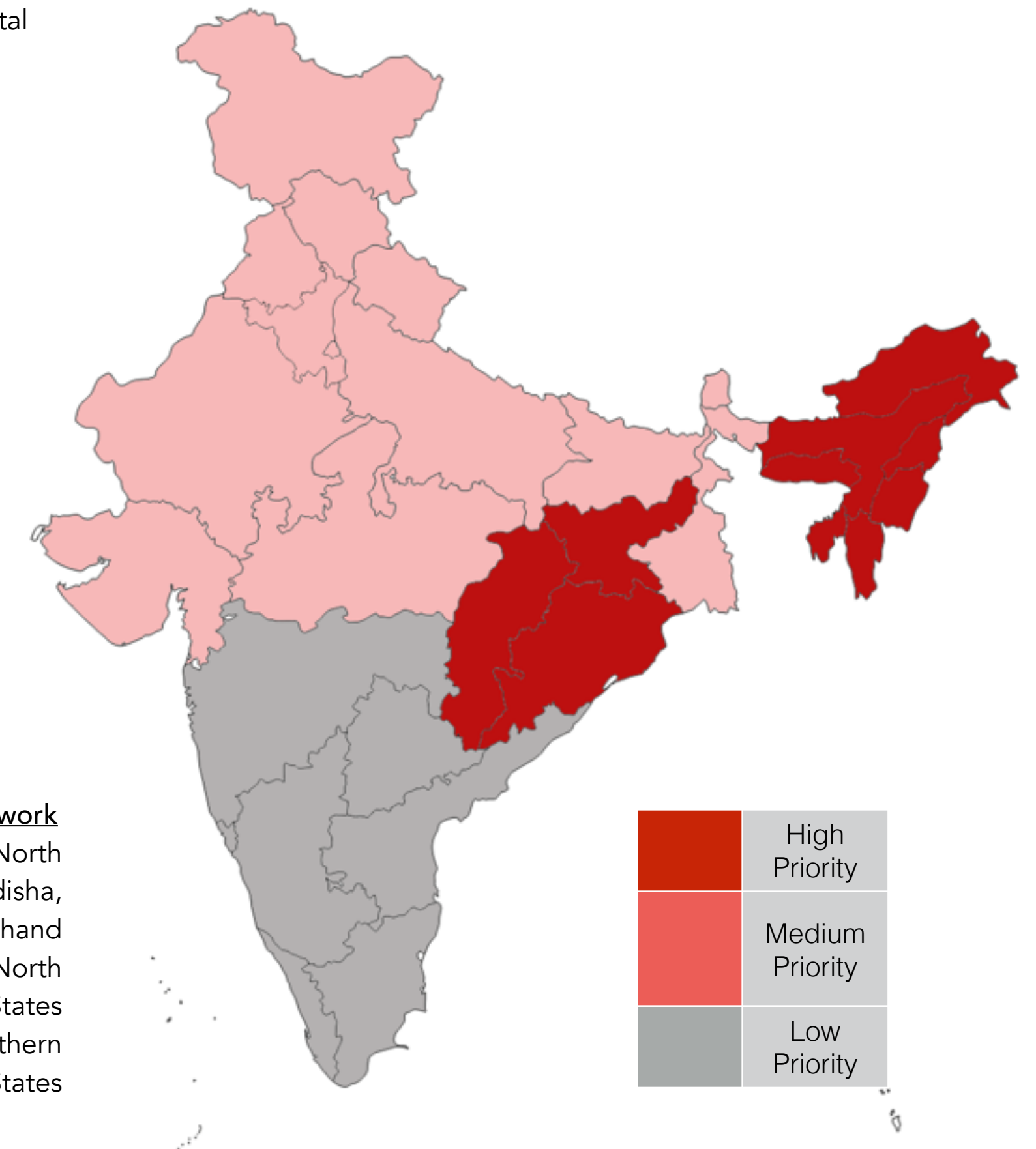


Role of SELCO Incubation

SELCO Incubation will be involved in primarily in the pilot, maturation and growth phase of the enterprise for a minimum of 2 and maximum of 5 years, prior and post which the entrepreneur will receive mentorship and advisory support.

The energy access and poverty and the related consequence of human development index is very evident in many of the northern states of India as well as the North East. Many of the geographies and segments, in the North and North East, do require new and innovative solutions to cater to their immediate needs to enhance their quality of life and incomes. Thus is critical for the SELCO Incubation center to continue and strengthen its presence in these parts for the next 5 years.

SELCOIncubation
SCOPE



Incubation areas of work

High priority - North Eastern States, Odisha, Chattisgarh, Jharkhand
Medium Priority - North Indian States
Low Priority - Southern States

High Priority
Medium Priority
Low Priority

SELCOIncubation PROCESS

Identification

Identification methodology will be through referrals, network outreach like workshops or conferences, local competitions to name a few.

Major channels to identify potential entrepreneurs will be: RUDSETI's, ITI's, Universities, Manufacturers/ suppliers, Local NGOs and other incubation centers.

SELCO Incubation aims to reach out to over 3000 individuals through the above channels.

Identified entrepreneurs will go through:

- Face to face interviews + References
- Field/site visits to SELCO operations and end users, OR other relevant partners and home base (optional)
- Orientation session
- An assessment process that selects the candidate to begin the incubation process on criteria that measures entrepreneurial ability such as their innate talent, personality, ability and dedication to go through the incubation process

Initiation

Selected entrepreneurs from the identification stage, move on to the initiation stage. Within this stage there is a much deeper engagement with the entrepreneur, specifically on the following areas:

- Enterprise planning workshop (Vision and mission alignment, Understanding of user base/context, articulating solution and challenges)
- Personality assessment
- Setting expectations (on both sides)
- Discussion and feedback on initial/draft business plans from entrepreneurs.
- Developing a strategy for the enterprise in terms of types and times of support and services needed for the next few years.

Lock in process: By the end of this phase chosen entrepreneurs move forward to become full fledged incubates

Incubation

Incubation process begins for chosen entrepreneurs/ enterprises. Based on the custom strategy prepared for each entrepreneur in the initiation phase. Combinations and intensity of each resource required is planned and executed.

Through out the process SELCOIncubation works in close partnership with the entrepreneur.

- Mission and vision alignment
- Human resources, skill development, training and orientation
- Operations, finance and supply chain management
- Technology (product support)
- Finance know-how
- Process and model transfer
- Business plan development
- Marketing and communications support
- Partnerships, networks and linkages
- Help in securing and managing appropriate funding/ investment

Growth and Analysis

SELCO Incubation:

- remains a part of board
- continues to provide mentorship and advisory services when needed
- Helps with Future strategy and expansion
- Conducts Evaluation

SELCO Incubation also facilitates an investment committee assess the geography, operational context, quality of management and business potential of the enterprise and procure investment through an affiliated social venture fund, or 3rd party investments. The investment instruments are normally a mix of debt, equity and grants.

SMALL
MEDIUM
LARGE

120

20

10

150

70

15

7

92

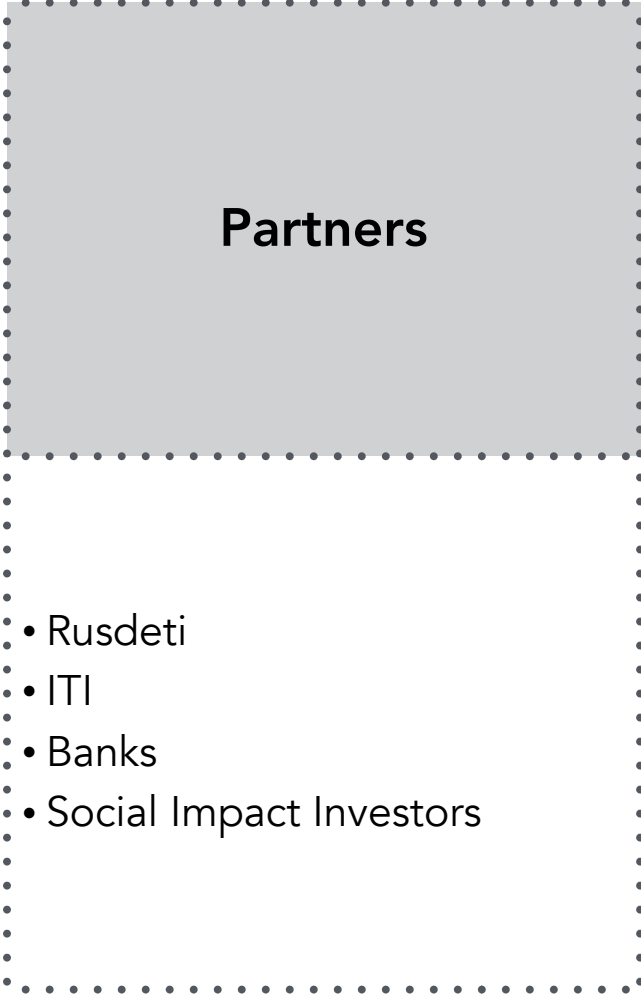
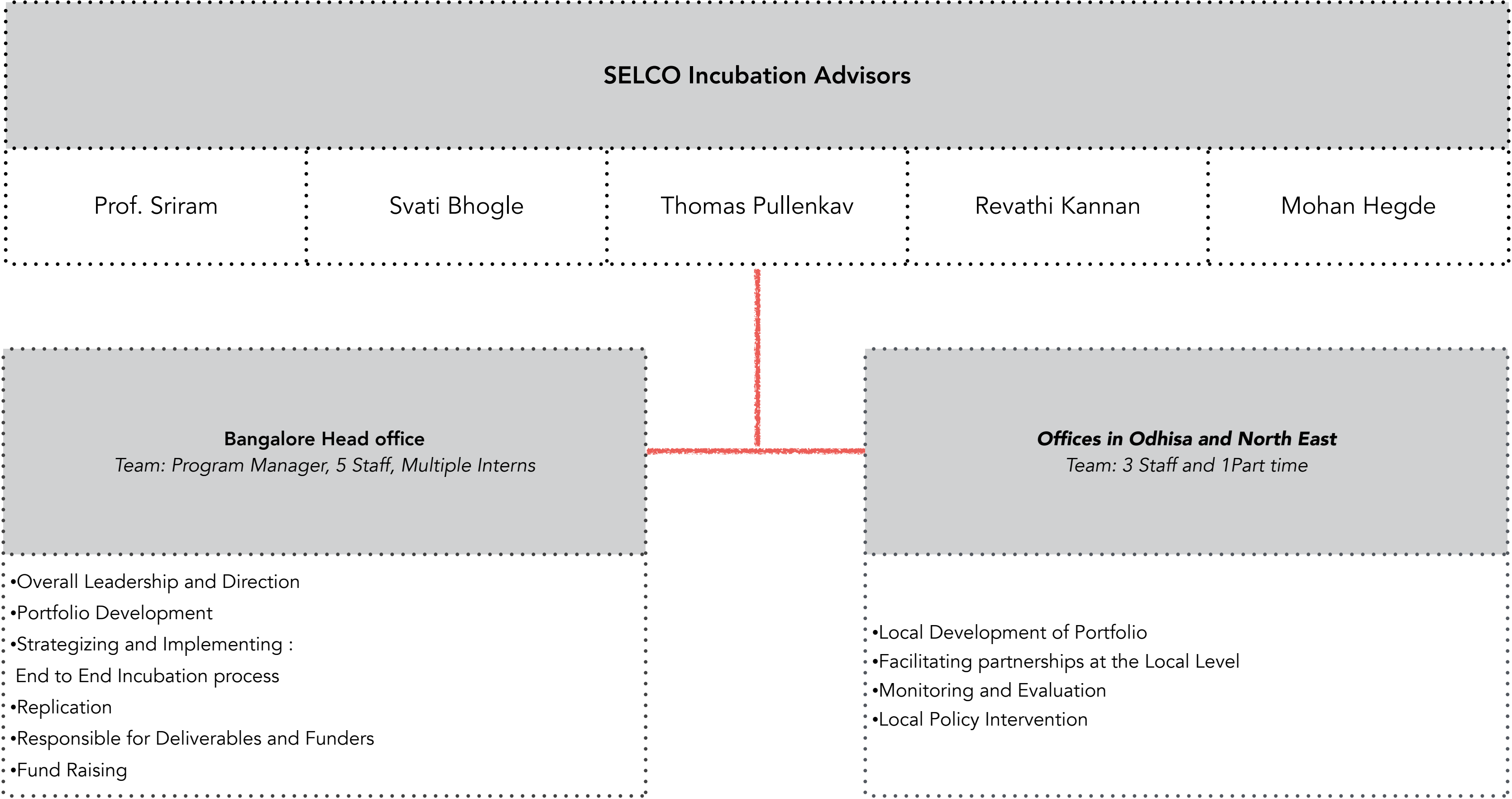
50

8

5

63

ORGANIZATIONAL STRUCTURE



DELIVERABLES

- A. Highly replicable social entrepreneur selection & training processes
- B. Awaress and Outreach to over 3000 potential incubates
- C. Identification Process with 150 candidates
- D. Selection and exposure training to 92 shortlisted entrepreneurs/ enterprises over a 3 year period
- E. Complete incubation training program with 63 promising entrepreneurs/ enterprises
- F. 8 medium size entrepreneurs with investible business plans ready
- G. Develop networks & build partnerships for a conducive eco-system
- H. 4 quarterly reports
- I. 2 internal evaluations

BUDGET

CONCLUSION

Time and again we see, that lack of proper delivery of energy and energy related services in a sustainable manner at the doorstep of the poor has led to skewed development around the world. Many a time it is taken for granted that repurposed products, that have been originally designed for the economically well off populations of the world, is workable for the poor. The result has been either a retarded development process or has left the poor more disillusioned than before: further more increasing the economic and technological divide.

There is a lack of personalized incubation process in the country: a process that truly gets deep into teachings of a holistic methodology to create socially and financially sustainable enterprises that are long term and inclusive: only way to permanently get people out of poverty and in a manner puts the agenda of development and environment in sync with each other.

The above proposal of SELCO Foundation to take forward its Incubation Program does bring in the nuances of holistic development where creation and running of an enterprise becomes a part and parcel of societal development: thus no longer viewed as something done only for wealth generation for a select few and the rest as pure consumers. The Incubation Process pushes for inclusive enterprises, in the area of energy access, with the primary aim to make poor as asset creators and owners.

At the end of 3 years, SELCO Foundation hopeful can create a model that could be replicable in other parts of the underserved world – that is where its true success lies.