Context

Over the past 24 months, the PAYGo Lab has supported dozens of companies in the Pay-As-You-Go (PAYGo) sector, gaining valuable insights into the challenges and opportunities faced by this growing industry. This paper seeks to uncover the root causes of industry challenges, identify key lessons learned from companies that are navigating them successfully, and share best practices for fostering long-term sustainability. By doing so, we aim to provide actionable strategies for investors and industry leaders to enhance operational efficiency, financial resilience, and sustainable growth within this vital sector.

Confronting PAYGo solar's existential threat

The PAYGo industry is facing significant challenges - key companies have been forced into distressed acquisitions, others have been restructured, and some have declared bankruptcy. At the heart of the issue is that companies are selling products on credit to customers who either pay late or stop paying altogether. These customers often lack the ability and/or willingness to repay these loans. This creates a vicious circle: rising default rates lead to worsened unit economics and, consequently, higher product prices to offset defaults, making these products even less accessible for the target customers at the bottom of the pyramid.

In contrast, a more limited set of PAYGo companies are thriving. Some large players have optimized a vertically integrated model (including hardware assembly and end-user financing) alongside achieving economies of scale. A growing number of smaller PAYGo companies have also transitioned from PAYGo 1.0 to PAYGo 2.0. These businesses have implemented systems to improve customer selection, education, and support, resulting in significantly higher repayment rates and profitability.

Understanding the root causes of PAYGo's challenges

Based on interviews with companies and investors, three key factors emerge as the root causes of challenges in the PAYGo industry. We believe these issues stem not from flaws in the PAYGo business model itself but from sub-optimal implementation. These interconnected issues are:

1. Lack of customer-centricity. Most PAYGo companies were originally structured as sales-driven organizations. Their mission was to provide as many customers as possible with sustainable energy solutions in the shortest time—motivated either by social goals or market share capture. This focus led managers, boards, and investors to view customer acquisition and revenue generation as primary success metrics, assuming that high sales volumes would naturally lead to profitability. Additionally, some companies used accounting methods that recorded 100% of sales revenue upfront without accounting for default costs, monitoring expenses, and refinancing needs.

In this pursuit, many companies lost focus on customer needs. Customers are often over-financed, with PAYGo Lab analysis suggesting that around 80% of defaults arise from customer cash flow constraints. Furthermore, many customers lack a full understanding of the product[1] and contract terms[2]. Some mistakenly believe that payments are optional, rather than mandatory, and experience

[1] 60 decibels research shows that 69% of customers have experienced a challenge with the product/service. And only 38% of these people reported it was successfully resolved.
[2] 17% of customers state that they do not understand the terms and conditions of their PAYGo payment plan, according to the same 60 decibels report.

repeated and intrusive reminders from call centers threatening repossession of partially paid products. Currently, approximately one in three customers lose their systems before completing payment, likely forced to revert to using stopgap energy sources.

As such, PAYGo companies must make customer success central to all that they do. As one PAYGo CEO says, "There are no bad customers, only bad sales decisions."

2. Prioritizing sales over credit. Driven by sales targets and their social impact targets, many PAYGo companies treat credit as a necessary but secondary consideration. In many cases, companies accept customers with poor creditworthiness or those unlikely to repay. This translates into PAYGo companies onboarding a meaningful percentage of customers that are either "slow" payers (relative to their contractual payment schedule) or those that ultimately stop paying altogether and default. At the company level, many PAYGo businesses take on loans with specific tranche triggers linked to sales volume; in a cash constrained environment, pushing sales to unlock that financing may prove essential, even if the ability of many of those customers may be at risk. Results-based financing programs also provide substantial incentives to companies, centered on making sales. While catalytic, these types of programs can lead to moral hazard, particularly if their financial incentives are tagged to sales volumes alone.

Few PAYGo companies have staff or board members with experience in end-user credit management. If a company has a credit function, it often reports to the CFO or COO rather than being represented directly at the senior management level. As a result, credit decisions are frequently made by individuals without credit management expertise, and whose focus centers on maximizing the volume of sales (and the "theoretical" revenue associated with each sale). The conflicting priorities between sales (serving short-term interests) and credit (serving medium-term interests) have been overlooked, with many companies relying on financial incentives for sales staff or call center employees to drive repayment. However, repayment figures indicate that this approach is ineffective, and the inherent conflict between pushing *sales volume* as opposed to *quality sales* persists.

3. Lack of a performance culture. Most PAYGo companies are social enterprises, focused on providing renewable energy to underserved rural households and businesses. This mission, combined with the complexities and capital intensity of the business, makes it challenging to establish a culture of disciplined financial rigor and accountability. This difficulty is often exacerbated by:

- **Delivering social impact, yet externalizing issues**: PAYGo companies serve unbanked customers with two products: a physical product, and a loan product. However, failure to implement sound credit analysis can lead to over-financing. Often, management tends to externalize repayment challenges, passing blame on to customers' temporary or structural income problems ("they're too poor"). Boards and investors frequently accept these explanations, reinforcing the myth that the customer is the problem, and as a consequence not insisting on owning the failure and finding structural solutions.
- **Complexity**: The vertically integrated PAYGo business model is complex, and managers and boards often misjudge internal issues, addressing symptoms rather than root causes. Many companies base decisions on flawed unit economics due to unrealistic assumptions about customer repayment and default rates. Additionally, KPIs in PAYGo often fail to measure true health trends and may even encourage counterproductive behavior. As previously mentioned, defining success as the volume of sales sets PAYGo companies up for failure.

- **Poor planning**: Coupled with exogenous factors such as currency fluctuations and convertibility challenges alongside macroeconomic issues, PAYGo companies frequently face cash constraints due to their capital-intensive model and high rates of late or defaulted payments. For those companies that knowingly onboard customers whose ability to pay (either in terms of timely payments, or total payments) is doubtful, it is essential their forecasts and projections factor in these realities. Absent this pragmatic forecasting of slow/non-payment, they must continually revise business plans and financial models for fundraising, which shortens planning horizons and undermines accountability. Effective execution requires stability, yet senior management often spends more time raising capital than managing teams, which can lead to unchecked poor performance and drive away top talent.

These issues underline the need for a robust performance culture that redefines what success looks like for PAYGo companies.

The PAYGo model can be financially sustainable - if done well

Several companies in the PAYGo industry have shown that disciplined credit management can significantly improve both the quality of new sales and the performance of existing portfolios. This shift has had a positive impact on these companies' unit economics. Achieving this requires a coordinated approach across five key areas:

1. Culture. A culture shift is needed where success is redefined—not by the number of sales or revenue generated, but by the volume of high-quality sales. Effective credit management places customer protection at the forefront. This cultural change must be embraced throughout the organization. How much time is spent on the quality of customer onboarding in the board or leadership meetings? Which staff and agents get the most attention and reward? How does the company treat agents and staff who intentionally overfinance or over-promise their customers?

2. Organization. In PAYGo 2.0 companies, credit management is positioned within the organization to protect it from short-term revenue-driven interests. It's essential to establish clear ownership and accountability for both overall credit performance and the outcomes of individual customers. Adopting lifetime customer ownership or dedicated account management encourages accountability and continuous learning within the team. This includes using robust, pragmatic metrics to monitor consumer receivables performance.

3. Managing the credit team. Effective credit management requires the use of the right metrics and a commitment to learning from past mistakes. Credit managers should ensure that continuous learning is integral, with policies, tools, and staff continually improving in credit management practices. Clear accountability is crucial, with no tolerance for poor conduct or a lack of commitment to improvement.

4. Customer onboarding. Research indicates that strong customer onboarding increases the likelihood of successful outcomes. Onboarding new customers requires skilled, personalized interactions. Effective onboarding includes not only thorough credit screening but also ensuring that customers (along with any spouse or guarantor) receive suitable loan terms they fully understand and genuinely commit to. A well-executed onboarding process can minimize the need for stricter loan terms, such as higher down payments or shorter loan tenors, thus preserving sales volumes without excluding potentially reliable payers.

5. Customer engagement. Once the customer has purchased the system, ongoing engagement is

essential to ensure timely payments, generate follow on sales, and referrals. This requires a proactive approach where credit officers move beyond simple payment reminders and develop a deep understanding of each customer's situation. A customer-centric strategy provides tailored solutions to help prevent or resolve payment issues. This approach shifts the focus from merely chasing payments to reduce arrears to prioritizing long-term customer success.

PAYGo investors must be part of the solution

The PAYGo sector stands at a critical juncture. It's increasingly clear that the traditional PAYGo 1.0 model—where credit management is not a priority—cannot achieve sustainable growth, profitability, or long-term impact. Nevertheless, a few companies that have integrated a robust credit function, prioritizing both customer success *and* revenue realization, are beginning to show paths toward profitability.

However, even these companies face significant challenges. Many have financed their customer portfolios with debt, often realizing that the portfolio's true value may fall short of covering all their loan obligations. Lenders, meanwhile, seem hesitant to act, either holding out for new equity or waiting for peers to move first. This unsustainable situation diminishes the likelihood of full repayment, creating an urgent need for investor-driven action to help the PAYGo sector achieve financial sustainability. Below are five key actions investors can take:

1. Redefining Success to Restore Customer-Centricity. Investors, board members, and business leaders must redefine what success means. A sale that ends in customer default is a failure for both the company and the customer. Financial losses and negative impacts demand more attention. GOGLA's Consumer Protection activities are an important contributor to this industry evolution. For their part, investors can foster this shift by:

- Prioritizing high-quality sales (e.g., expected repayment rates above 90%) over low-quality sales (e.g. expected repayment rates below 67%).
- Revising current incentives (grants, loan covenants, disbursement triggers) from total sales to high-quality sales metrics.
- Using reliable KPIs like Paid-versus-Plan (PvP) ratios of customer cohorts to assess sales quality, rather than traditional measures like PaR or collection rates, which can mask deeper issues. Not only are these KPIs complex, ambiguous, and manipulable, but they also encourage counterproductive behavior. For example, quickly ramping sales may cause the PaR and collection rate to look better, while the quality of new loans has actually decreased.

2. Injecting Expertise to Elevate Credit as a Priority. Many PAYGo companies lack professionals with end-user finance experience, though we now understand that sales quality—not just sales volume—is critical to profitability. Investors should require that companies:

- Hire a Chief Credit Officer reporting directly to the CEO.
- Appoint board members with backgrounds in micro or rural lending, perhaps forming a dedicated Credit subcommittee involving both the CEO and Chief Credit Officer.

3. Supporting a Performance Culture. Investors can significantly impact the development of a performance-driven culture by:

- Promoting accountability and discouraging the externalization of issues, particularly those often blamed on market conditions. High default rates should not be excused by customer poverty but instead approached with improved credit protections. PAYGo companies, like

MFIs, have a duty to protect customers from overfinancing.

- Simplifying KPI tracking to focus on 2-3 primary indicators, linked to quality of sale (e.g. at 90 days post-sale) and Paid-versus-plan (e.g. at certain critical points in the loan term). GOGLA's ongoing PAYGo PERFORM 3.0 initiative will bring much needed revisions and rigor to the industry's core credit metrics.
- Encouraging root-cause analysis when issues arise, targeting solutions at root causes rather than their symptoms.
- Implementing PAYGo 2.0, which emphasizes credit ownership, potentially establishing separate profit centers for sales and credit to improve accountability and transparency.

4. Improving Planning for Greater Accountability. Planning cycles within PAYGo companies are frequently too short and optimistic, designed more for fundraising than creating accountability. Investors should:

- Insist that companies operate with fully funded plans, where internal plans project a realistic cashflow forecast and improved loss provisioning, thereby not being jeopardized by a lack of liquidity.
- Support new funding opportunities once a stable, achievable plan is in place, enabling growth without sacrificing accountability or sustainability.

5. Addressing Structural Financial Problems. Many PAYGo companies are burdened by loans they can no longer fully service. Even if loan terms are suspended or new loan quality improves, companies remain at risk without proactive restructuring of their brownfield loan book.

When companies struggle, stakeholders often face a Catch-22, with lenders awaiting shareholder capital injections, while shareholders hesitate, wanting funds to support company growth rather than repay debt. This stalemate can increase the risk of failure, demotivate management, and encourage short-term fixes rather than structural solutions.

To avoid this, lenders should take proactive steps to restructure debt, while shareholders should act decisively—either supporting the company or divesting. Timely decisions can preserve value, ensure customer service continuity, and help avert distressed sales or bankruptcy, benefiting all stakeholders.

The way forward

While the PAYGo sector currently faces significant challenges, the success stories of companies that have implemented the PAYGo 2.0 model show that the sector can be effective and sustainable. These examples underscore the importance of coordinated action and alignment among all stakeholders.

For PAYGo companies to achieve financial sustainability, investors must actively participate in driving change. This can be accomplished by **redefining success**, **bringing in lending expertise, fostering a performance culture**, and **solving structural barriers**. Additionally, lenders must break the cycle of indecision and act decisively to drive short-term solutions and structural change. Coordinating with other investors can help standardize approaches to credit management and foster a sector-wide shift toward financial sustainability.

With a collaborative approach, the PAYGo sector can evolve into a robust, customer-centric model that prioritizes responsible credit management. The result? A wave of financially sustainable PAYGo

companies that not only achieve profitability but also provide life-changing access to energy for millions living without access to power.