

Global Distributors Collective



Early-stage investment in LMD

23 March 2021

globaldistributorscollective.org

**Practical
ACTION**

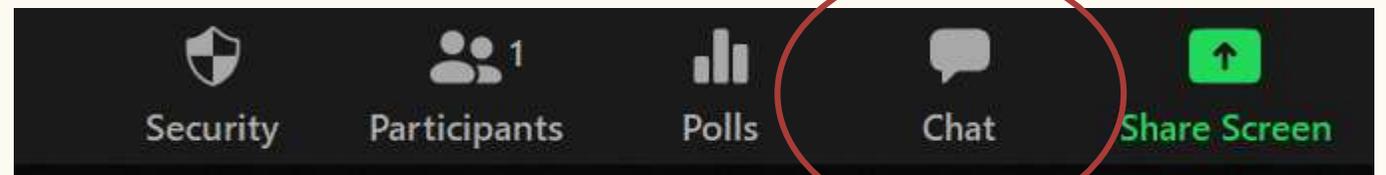
HYSTRA
hybrid strategies consulting

**bop
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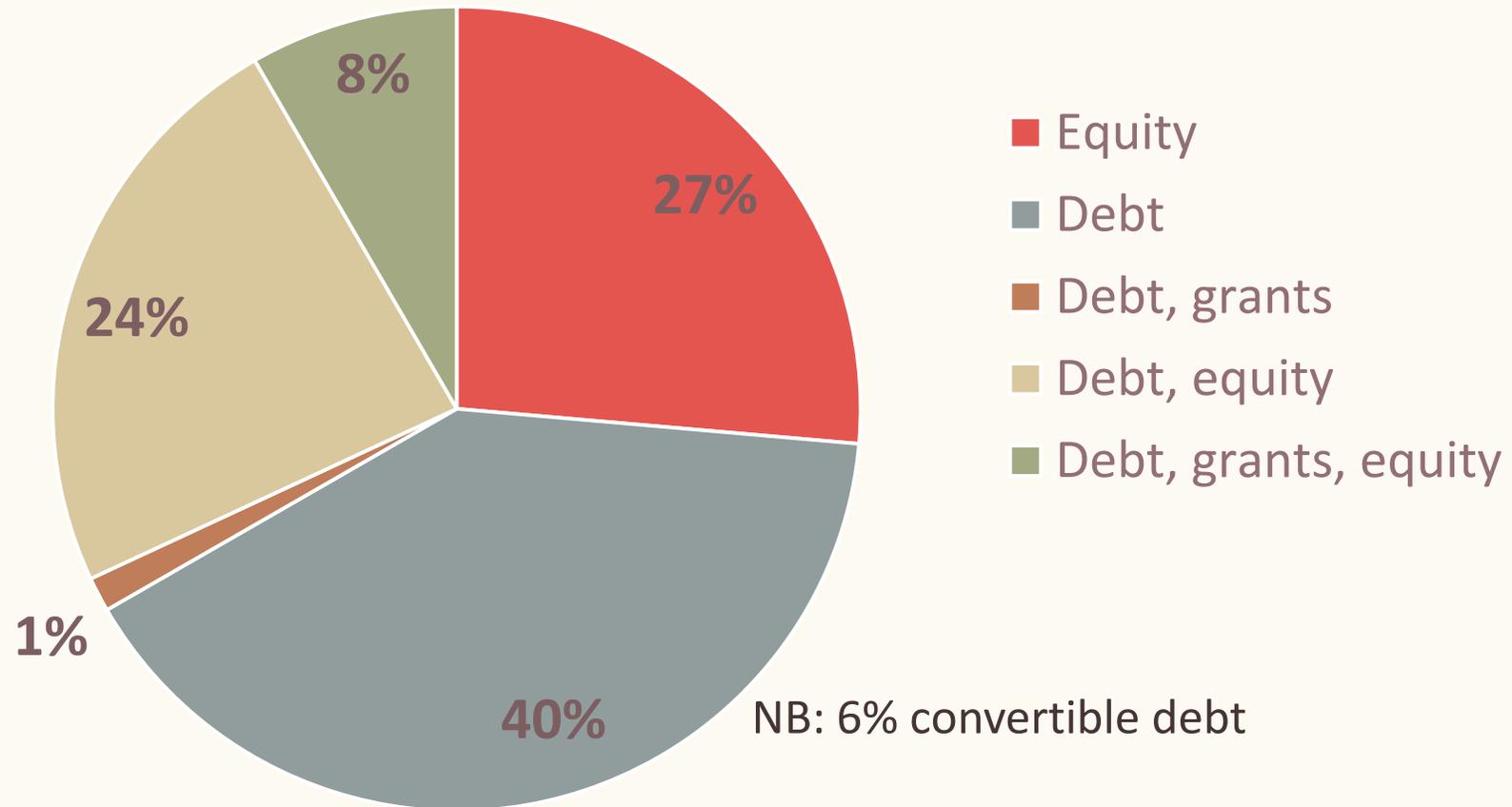


Agenda

1. Introduction and context – what capital LMDs are raising, where from and key barriers
2. Speaker presentations:
 - Charm Impact
 - Persistent
 - SIMA Funds
 - VentureBuilder
 - Elea Foundation
3. Open Q&A
4. Close



What types of funding are LMDs looking for?



What volumes of funding are LMDs looking for?

POLL

What volumes of funding are LMDs looking for?

Comparison with existing data:

From our 2019 State of Sector report, LMDs were seeking on average \$1.3m, although this varied significantly from \$20k to \$5m.

What challenges do LMDs face in raising capital?

From our 2019 State of Sector report, **75% of LMDs cite access to finance as a key barrier to growth**

LMD perspective	Funder perspective
<ul style="list-style-type: none"> • Minimum investment amounts are too high 	<ul style="list-style-type: none"> • Transaction costs are too high on small investments
<ul style="list-style-type: none"> • Collateral requirements are hard to meet 	<ul style="list-style-type: none"> • Loans too risky without collateral
<ul style="list-style-type: none"> • Interest rates are too high 	<ul style="list-style-type: none"> • Last mile distribution is high risk, requiring a high return/interest rate
<ul style="list-style-type: none"> • Application process and due diligence requirements are too complex and heavy 	<ul style="list-style-type: none"> • High-risk transaction requires extensive application process and due diligence
<ul style="list-style-type: none"> • Funders are too focused on technology or SDG 'silos' rather than last mile distribution across multiple product categories 	<ul style="list-style-type: none"> • LMDs have limited track records • LMD performance data is not always reliable and/or is hard to verify • LMDs sometimes have poor governance/financial management
	<ul style="list-style-type: none"> • Foreign exchange risk
	<ul style="list-style-type: none"> • Lack of market intelligence

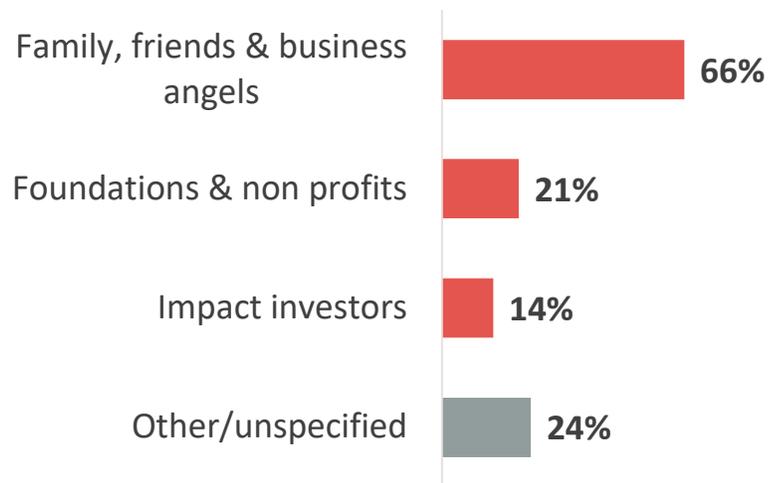
Source: State of the sector report, 2019

What challenges do LMDs face in raising capital?

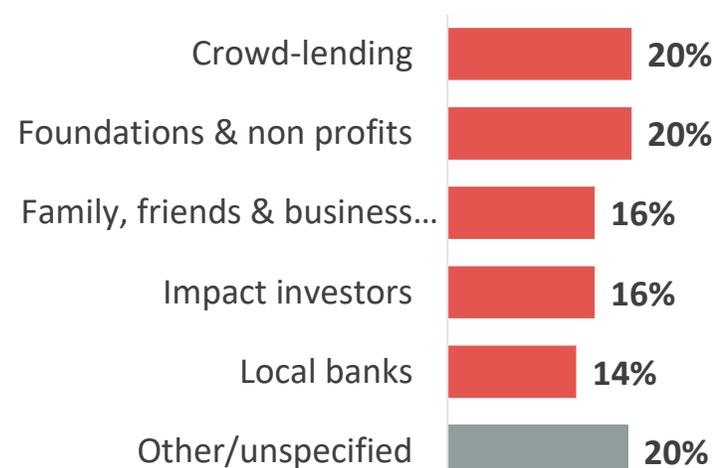
POLL

Who is investing in LMDs?

Sources of equity



Sources of debt



Source: State of the sector report, 2019

Who is investing in LMDs?

- A range of funders support LMDs, although few have an explicit focus on LMD as a sector
- GDC members reported that COVID-19 made raising capital significantly more difficult – not fully clear to what extent this is still the case
- Visit our LMD funding database, highlighting donors and investors with the strongest track record in supporting LMDs:

<https://globaldistributorscollective.org/lmd-funding>

Our speakers: 5 investors who actively support early-stage LMDs



Bethany Larson
Charm Impact



Eva Maria Stolz
Persistent



Ian Muir
Venture Builder



Brian McConnell
SIMA Funds



Paul Kukuk
Elea Foundation

Speakers will be presenting their funding model, eligibility criteria, application processes and examples of investees

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charm



Together we can make an impact

WELCOME TO CHARM IMPACT

Charm is an impact investment platform that crowdsources loans for clean energy entrepreneurs in developing economies.



WHAT WE DO: AFFORDABLE DEBT INVESTMENT

Investment Characteristics

Loan range	£10k - £250k
Management Fee	4% p.a.
Interest Rate	8%-12% p.a.
Loan Length	6 - 24 months
Loan Currency	GBP
Collateral	£0

Eligibility Criteria

Stage	post-product, post-revenue
Operations	1 year
Geography	sub-Saharan Africa, South Asia, Southeast Asia
Sectors	solar, clean cookstoves, biogas
Investment Bias	Local founders, female empowerment



APPLICATION PROCESS & TIPS FOR SUCCESS

Application Process (6-12 wks)

1. Document Submission (2-4 wks)
2. Interview (1-2 weeks)
3. In-person site visit (2-3 weeks)
4. Negotiation and decision (1-3 weeks)

Tips for Success

1. Complete the application form
2. Submit historical financials
3. Be honest
4. Communicate





[Link to Borrower Questionnaire](https://www.charmimpact.com)

www.charmimpact.com

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PERSISTENT

We build
impact
ventures

GDC – LMD Early-Stage Investments Webinar

23 March 2021





**We build
climate positive businesses,
driving social and economic development
in Africa.**

**We fill the gaps in Africa's start-up ecosystem
to enable businesses to be built.**

That is why we are Persistent.

As an impact venture builder, we accelerate growth of partner companies by investing human and financial capital

Human capital investment

- We provide the following services:



Financial function setup and build up of finance teams



Capital Raising & Structuring



Business model strategies



Business Analytics & Development of KPI tools



IT Strategy & Solutions



Investment and Legal Advisory Services

Financial capital investment

- We invest financial capital to take a company to the point where it can attract **3rd party capital** at sufficient amounts



Investments in early-stage high potentials



Tickets from ~\$50k-\$250k



Flexible and fast in the way we originate, make and manage investments

We partner with exceptional entrepreneurs providing essential products and services in emerging markets

We invest in companies that ...



Are based in **Sub-Saharan Africa** (primary focus), and other **global emerging markets** (opportunistically)



Provide **access to clean energy** or other **essential products and services**



Are at an **early stage**: from seed to Series A



Use **commercial discipline** to deliver socio-economic impact



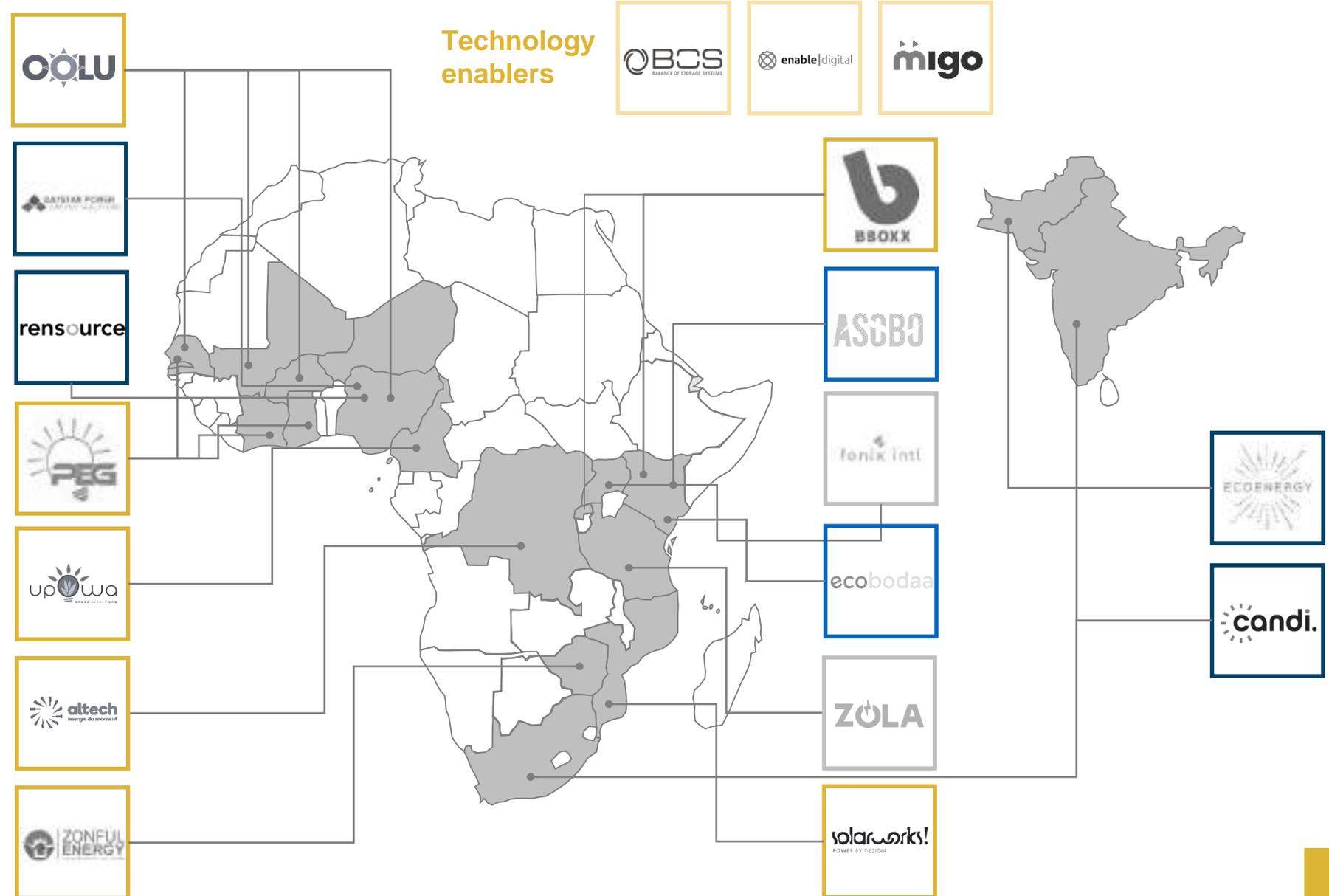
Our partner companies have a strong footprint across sub-Saharan Africa

16 countries
18 partner companies
2 successful exits

Our partner companies:

- Provide **energy access** to households, small businesses and institutions (C&I)
- Provide **E-Mobility** solutions
- Operate in a **B2B model for impact ventures** such as IT service providers, FinTech companies, batteries, etc.

-  Solar Home systems
-  Commercial and Industrial Solar
-  E-Mobility
-  Technology enablers
-  Exited



We are a recognized thought leader in the off-grid energy industry for our contribution to build the ecosystem



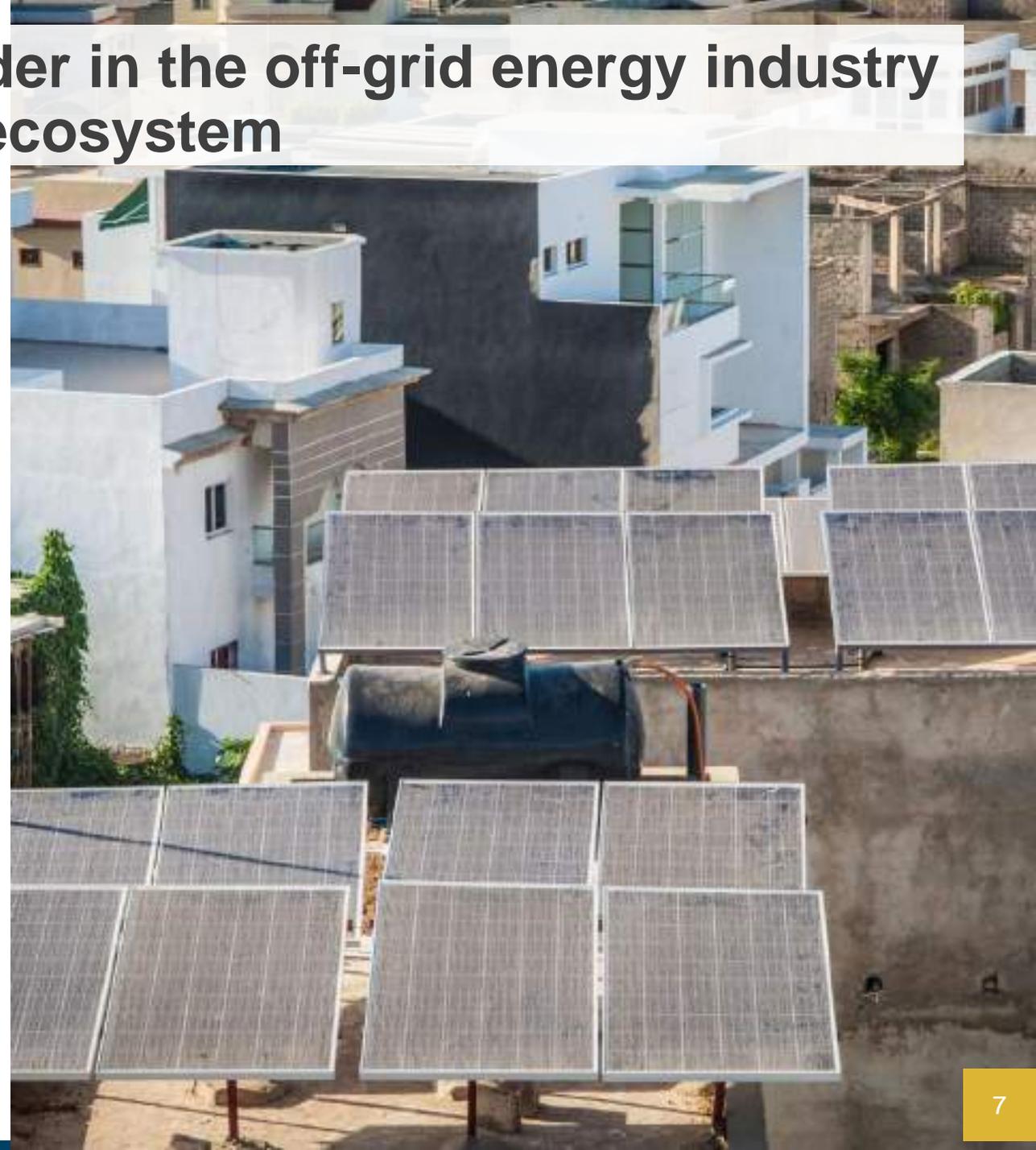
Deep **industry** and **geographic expertise** in **renewable energy** in **Africa**, allowing us to **lead innovation** and open **new markets**



Catalytic role in sharing our **lessons learned** and **innovative solutions** in **14** sector-defining **publications** and **analyses**



Together with **Power Africa**, we developed a **Financial Modeling Tool** which aims to become an “industry benchmark” model for the **PAYGO sector**





PERSISTENT



Contact



Eva Stolz



eva@persistent.energy



www.persistent.energy



We Build Impact Ventures

Additional information and publications can be found on our website at:

www.persistent.energy

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Building a new generation of African off-grid solar enterprises

GDC Early-stage investment for LMDs Webinar

March 2021



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VentureBuilder: A new approach to scaling energy access across Africa



Our mission: VentureBuilder (VB) unlocks the off-grid solar market across Africa using a bottom-up approach to build a portfolio of locally-run off-grid solar businesses that cater to underserved markets.



Our approach: VB provides early-stage equity in the form of cash and enterprise development services (EDS) to African-owned and-managed solar businesses, or 'operating companies' (OpCos), focused on building capabilities, processes and systems around our strategic support pillars: Strategy & leadership, corporate finance, operations, and consumer credit

Our impact: By 2031, VB aims to build a portfolio of OpCos that:



operate at scale in **ten** countries across Africa



deliver **2.4 million** connections



directly impact the lives of **12 million** Africans

Value Proposition: Providing high-potential local enterprises with the resources needed to profitably scale and execute the PAYG distribution model

1



Focus on local entrepreneurs with deep market understanding and local networks

- + Partners with well-established distributors that are **locally-owned and managed**
- + Invests in **strong management** teams that understand their customers and their market
- + Supports **high-potential** local talent with capacity development, technical assistance & capital
- + Focuses resources on teams with a **proven ability** to distribute locally

2



Best-in-class PAYG distribution expertise, combined with deep industry networks

- + Supports OpCos through a **team of experts** with deep sector, business management and PAYG expertise
- + Provides OpCos with **advisory support** and **strategic introductions** for PAYG & last mile distribution
- + Leverages **industry experience** and lessons learned, avoiding mistakes of first generation PAYG models
- + Focuses support on **4 key pillars**: leadership & strategy, corporate finance, operations, and consumer credit
- + Builds on industry trend away from vertical integration, towards **specialization**; less complexity, more scalability
- + Ensures OpCos partner with **best-in-class product & software players**

Value Proposition: Investing patient capital alongside Enterprise Development Services (EDS) through a long-term partnership approach to venture building

3



Long-term, venture building approach investing both capital and high-impact EDS

- + Offers **long-term partnership** with the OpCos, supporting them through their most challenging growth stages
- + Capitalizes EDS as part of the **equity investment** into each OpCo, alongside cash investment
- + Builds OpCo capacity through EDS provided by **dedicated VB experts** and third-party suppliers
- + Provides **ongoing, hands-on management support**, focused on critical success factors that ensure OpCo sustainability, profitability, and impact

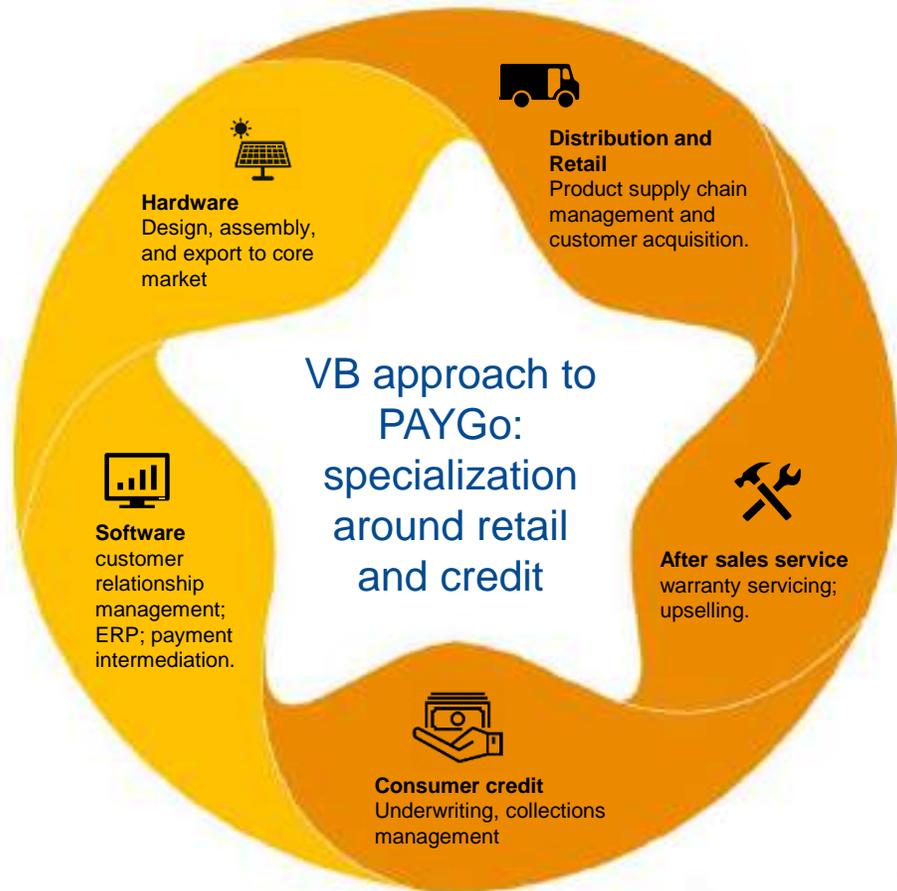
4



Flexible and tailored financing that grows with business needs

- + Starts supporting OpCos at early-stage to help **overcome the missing middle financing gap**
- + Invests over **multiple tranches**, as key milestones are achieved and path to profitability is demonstrated
- + Supports OpCos to **crowd in grant financing**, and looks to leverage VB equity to **raise debt from third parties** to finance working capital needs
- + Supports OpCos to bring in institutional equity investors, potentially serving as an **exit opportunity**, from year 3

VentureBuilder's value proposition: partner with locally-owned and -managed distribution companies; provide resources to deliver energy access at scale



- VentureBuilder focus areas
- Outsourced parts of the business model

Support **local enterprises** that:

- + Know their customers
- + Understand the market operating environment
- + Are targeting significant energy access impact

Provide resources to **build systems and processes for scale**:

- + **Fully fund equity needs for 3 years**, let entrepreneurs focus on building the business
- + **Invest via EDS**, help build systems, processes, culture, and capabilities required to sustainably scale the PAYG model
- + **Co-invest with other investors**, crowding in debt in parallel with VB equity; bring institutional equity investors into transactions from Year 3 onwards

Pass-fail criteria enables VB to quickly establish strategic fit with prospective OpCo partners

Criteria for establishing strategic fit with long-listed distributors

Ownership & management structure

- + **Shareholding structure:** Majority local-owned, with excellent reputations
- + **Leadership structure:** Must have strong, majority local, central management, even if lacking PAYG experience

Target market

- + **Geography and access to electricity:** Serve a core off-grid, rural market, that may be bolstered by additional sales to bad-grid consumers
- + **Target customer segment:** Underserved; middle- and low-income residential customers, as well as small businesses (SMEs)

Go-to-market strategy

- + **Pricing model:** Consumer finance capability with roadmap to PAYG solutions
- + **Distribution model:** Owns the customer relationship and distribution channels
- + **Product strategy:** Upselling and retention to increase customer lifetime value

Traction

- + **Business stage:** Post-revenue, even if revenue is from other activities
- + **Customer reach:** Partners with a broad existing customer footprint (typically translating into hundreds or thousands of existing customers) and deep customer knowledge, especially in rural areas, even if no prior solar experience



For additional information, please contact:

Ian Muir: ian@venture-builder.com

VentureBuilder

2nd Floor, The Axis, 26 Cybercity

Ebenne, Mauritius

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e1ea

Impact through entrepreneurship



elea exists to fight absolute poverty

Creating an ecosystem of social entrepreneurs and philanthropic investors

“
elea exists to fight absolute poverty with entrepreneurial means, capitalizing on the benefits and opportunities of globalization
”

We...

- 🔍 select economically scalable, and innovative business models
- 👥 deploy our team's expertise in value creation
- 📈 help to create profitable, sustainable high social impact businesses
- ⚙️ engage philanthropic capital from individuals and organizations
- 🌐 contribute to and further develop the ecosystem

elea



Informal retail and last-mile distribution ventures

Theory of change: Offering impactful goods and services at fair prices



Open Q&A

Questions from webinar registration forms



1. What type of relationship do you manage with your investees? How involved are they in the impact measurement and evaluation process?
2. What was a recent investment opportunity that you had to decline despite interest? What were the primary risks? What was the deal breaker?
3. How do you balance the debt:equity ratio?
4. How early should a company approach investors?
 - What level of traction is needed?
 - What are options for companies who have not yet acquired collateral?
 - How do you break the chicken and egg cycle, where investors need to see track record, but it's hard to build that without cash?
5. How do we get transaction costs down for SME financing?

Questions from investors for LMDs

1. Where do you look for information about investment, and who do you trust to make recommendations about investors?
2. What are some things that investors can do to build trust and to improve understanding of the products they offer?
3. Any general suggestions or anecdotes of interactions with investors that have gone well / not so well?

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Thank you

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