

VentureBuilder

Learning Report

Building resiliency in African off-grid solar companies in the context of COVID-19

December 2020

This report is produced in partnership with Shell Foundation

Our financing partners include Shell Foundation, Facebook, DOEN Foundation, USAID and Good Energies Foundation



Introduction to VentureBuilder

Launched in 2019 as a joint initiative by [Catalyst Off-Grid Advisors](#) and [Open Capital Advisors](#), [VentureBuilder](#) (“VB”) is catalyzing a new generation of African-owned and managed off-grid solar enterprises that deliver affordable, reliable, and sustainable electricity access across Africa. Supported by the DOEN Foundation, Facebook, Shell Foundation, USAID, and Good Energies Foundation, VB invests equity in its local partners (“OpCos”) in the form of ‘patient’ early-stage capital and specialized systems and business expertise, or Enterprise Development Services (“EDS”), to accelerate each partner’s path to scale.

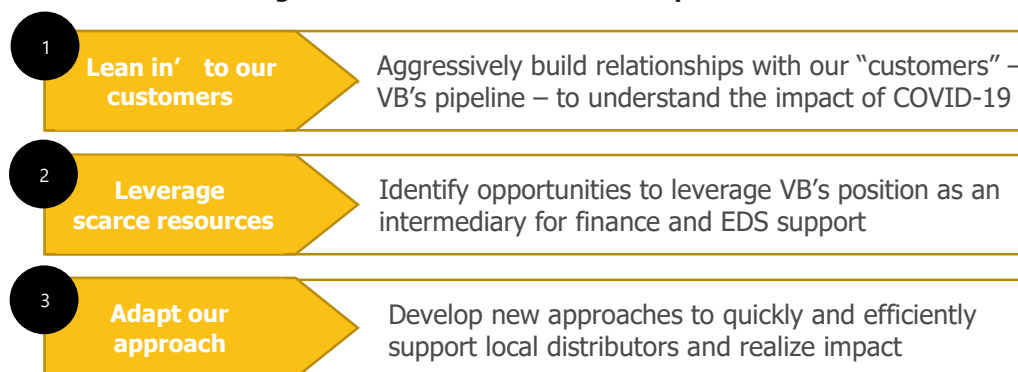
This venture building “partnership” model differentiates VB from traditional investors as it invests only in companies with strong, local, management teams with deep knowledge in markets that international distributors have overlooked, and investment has underserved. This local knowledge is combined with VB expertise in solving PAYG and distribution challenges delivered through its nimble, but intense EDS. As a result, VB is able to partner with companies that may be at an early stage of its PAYG business, unable to meet the investment requirements of traditional investors. To work with these companies, VB takes a patient partner approach to its investment of capital and services, scaling support over time and crowding-in additional funding. By 2022, VB aims to build a portfolio of OpCos that will deliver one million connections across 10 countries in Sub-Saharan Africa, directly impacting five million people on the continent.¹

This learning report focuses on how VB pivoted its approach to support its first portfolio company investment in Mali and advance African-owned and -managed businesses in its pipeline in the context of the COVID-19 (“C-19”) pandemic.

The COVID-19 Pivot

As the impact of C-19 became increasingly clear in mid-March, VB convened a session with the independent members of its Board of Directors to examine how it might best engage its resources in such a period of uncertainty. The guidance received was instrumental in shaping the way VB pivoted its operations to respond to the emerging crisis centered on three core tenets, summarized in Figure 1:

Figure 1: Tenets of VB’s COVID-19 pivot



1. “**Lean in**” **to our customers** to understand the challenges faced by the African-owned and -managed businesses in VB’s pipeline. **Figure 3** below provides insights into how the crisis presents unique challenges

¹ Whitepaper: Introducing VentureBuilder

and opportunities among the OpCos, with priorities and needs varying between businesses - necessitating VB apply a bespoke approach to support.

2. **Leverage scarce resources** of financing (cash) and EDS that have proven extremely elusive for VBs target companies, yet are crucial for maintaining business continuity in the face of C-19; VB needed to challenge itself to think about how best to leverage the resources in the context of the crisis, yet be financially prudent.
3. **Adapt our approach** by focusing on two key areas of support informed by the previous tenets, including:
 - Modifying the screening approach to fast-track EDS support to a limited number of high potential businesses in the VB pipeline who would not yet be ready for a full suite of VB services. As such, VB launched C-19 “resiliency” packages - EDS only packages that would center on the fast-tracked development and delivery of business continuity support targeted to the three main pillars of operations, finance, and contingency planning to mitigate the impact of C-19 on the business.
 - Providing small cash investments to C-19 resiliency EDS beneficiaries to enable business continuity. Investment decisions would be on a case-by-case basis for those OpCos with a clear capital need, de-risked through the resiliency support provided. Investment in the form of convertible debt would be approved through a streamlined process with the VB Investment Committee and Board.

In responding to the crisis and implementing the pivot, three key learnings emerged: the timely assessment of the differing OpCo needs was necessary to prioritise and tailor support to VB’s pipeline; meaningful EDS packages need to be delivered - timely and remotely - to realize impact; and the VB engagement needs to lead to a de-risking of follow-on investment opportunities.

Restructuring VB’s first investment

In early March 2020, prior to a full understanding of C-19, VB’s Investment Committee endorsed the first investment into Energy+, an OpCo in Mali, with the final investment decision set to be discussed with the VB Board of Directors in late March. The emergence of C-19 caused VB to adapt the original investment structure and schedule. In keeping with the tenets that drove the VB pivot, VB worked in partnership with Energy+ management during this period to refine the structure of the proposed transaction, and by April, agreed upon a partnership package that met the emerging needs of the business. The revisions were endorsed by the Investment Committee and approved by the VB Corporation Board on April 10, 2020, establishing Energy+ as VB’s first portfolio company.

As set out in Figure 2, the investment was restructured to a phased approach that would tailor VB’s deployment of cash and EDS to meet Energy+’s evolving needs in the context of the crisis. The initial post-investment EDS package was updated to focus VB’s expertise on key strategic, operations and financial challenges. In addition, recognizing the challenging fundraising market that was emerging, VB redoubled its efforts to support Energy+ to crowd in additional outside financing into the round. By the end of the fundraising round, Energy+ had closed over \$1 million of blended financing from VentureBuilder (equity: cash + EDS), Cordaid Investment Management (debt), and the US African Development Foundation (grant), providing them with the resources needed to thrive despite the challenges presented by the C-19 pandemic.

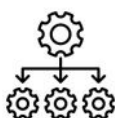
Figure 2: Refining the structure of VB’s first transaction

Developed a flexible investment structure	Phase 1: Refined EDS support to C-19 priorities, March to August	Catalyzed further external investment
<ul style="list-style-type: none"> • The originally proposed investment package was split into a minimum of two phases to accommodate the emerging needs of Energy+ while recognizing the evolving C-19 risks • A detailed package of support for the first four months was finalized; follow-on phased investment of cash and EDS to be agreed later in the partnership 	<ul style="list-style-type: none"> • Strategic support to streamline cash and PAYG sales channels to mitigate portfolio risks • Operations support and planning next steps for the transition of Energy+ from Atlas to Angaza • Financial planning support through short-term cash planning and updated financial projections 	<ul style="list-style-type: none"> • Leveraged VB’s equity investment to support Energy+ management in conversations with other funders • Realized USADF grant financing and Cordaid debt financing • In total, the investment round led by VB totaled over USD 1M, closing in August 2020

Listening to businesses in the VB pipeline

In parallel to restructuring and finalizing an investment into its first OpCp, VB re-engaged with businesses in its pipeline to better understand the broad impacts of C-19 and assess where needs were greatest. The anecdotes summarized in **Figure 3** show that the distributors faced unique challenges resulting from different business models, in-country market restrictions, and existing/prospective financing partnerships. As a result, the impact of restricted operations, extended lead times to secure inventory, depreciating local currencies, changes in revenue realization, and increased credit risk were felt to varying degrees. These insights informed the tailored approach that would be needed to realize business continuity in VB’s pipeline.

Figure 3: COVID-19 impact on local distributors



"Our microfinance partners are no longer able to generate sales as they cannot get products out of the capital city and meet with potential customers in the field – without this revenue we cannot meet our repayments"

Local distributor in East Africa

"Our sales have increased as workers who lost their jobs in tourism are buying units before returning to their village ... unfortunately we lack capital to buy more units and expect a stockout within the next few months"



Local distributor in Southern Africa



"We unlocked a large amount of grant financing to grow our PAYG pilot pre-COVID, but we’ve been told there will be a delay in receiving this, and now we need to plan to extend the money we do have and reduce operations until it comes through"

Local distributor in West Africa

"Our business is growing, and our credit portfolio hasn’t been impacted but the lender we were speaking to for additional debt says they are no longer considering investments into new companies and are focused on their existing portfolio"



Local distributor in Central Africa

The increased investment uncertainty resulting from these observations was the catalyst for developing C-19 EDS resiliency support packages targeting operations, finance, and contingency planning. These packages would be designed to provide meaningful on-time support to companies whilst simultaneously de-risking potential follow-on VB investments.

Deploying EDS resiliency packages

VB's pipeline re-evaluation initially prioritized a small number of OpCos for further consultations to scope resiliency packages. The focus of these conversations was to deepen VB's understanding of the specific local distributor context, challenges being faced during C-19, options to mitigate impact and assess actions already taken by the business. Based on this, VB would develop a tailored package of EDS support for each distributor that could be delivered remotely over a 6-8-week period and produce measurable impact to the business.

As set out in **Figure 4**, VB's C-19 resiliency support focuses on key areas of business strategy, operations and contingency planning, as well as short- and long-term financial planning. In addition, each business will be onboarded onto standard VB KPIs that track commercial and impact performance to ensure management are focused on key performance areas and measure the impact of VB support. Each C-19 package is tailored to the needs of the business, depending on their particular circumstances of how best to mitigate the risks associated with the pandemic. For example:

Figure 4: VB COVID-19 EDS resiliency support



- One distributor experienced a boom in sales early on in the pandemic (sales increased by 13x compared to January), though they had no *ex ante* credit assessment protocols in place. As such VB is helping this business mitigate repayment risk, helping the business come up with robust receivables portfolio tracking metrics and making recommendations to improve overall credit management processes.
- Another distributor recently signed a milestone agreement with a national telecommunications operator that will enable sales through the telco's retail outlets. With a nationwide lockdown ongoing, activating this commercial partnership became a crucial path for this distributor to re-establish new sales in the market, while at the same time presenting the distributor with numerous operational, financial, and strategic challenges. VB is helping navigate these challenges by advising the company on structures to incentivize the partnership and enable sales to creditworthy customers, as well as understand the costs and working capital needed to build this telco channel and achieve management targets.
- A third distributor has focused its sales to date on civil servants, leveraging a partnership with the government and local banks to direct debit from monthly salary payments. However, this dependency on government employees creates a significant risk of portfolio-wide non-payment (in the event government agencies suspend or delay salary payments, which has happened in this market in the past). As such, VentureBuilder is supporting this business to establish distribution partnerships with credit cooperatives that will diversify their customer base and mitigate the aforementioned risk.

The divergent impacts of the pandemic on off-grid solar distributors is clear when examining a set of key performance indicators such as sales volumes and repayment speeds. **Figures 5 and 6** below presents this

data for three VB OpCos. For example, OpCo A saw sales dry up and, in its worst month, average repayment speed dropped by 32 percentage points. However, collections have since rebounded to February levels with a collection rate above 90%; and in the post July period, sales are also rising. OpCo B, on the other hand found that when it restocked in the middle of the pandemic, sales skyrocketed and collections held steady, suggesting that customer interest in obtaining and maintaining a reliable power source was high. OpCo C’s recent sales performance is further evidence of strong demand for OGS products during the pandemic period, although it continues to suffer from slow repayment speed. This divergence in performance across OpCos reinforced the need to tailor support to each company based on the impact being felt, rather than applying a one-size fits all approach across markets and distributors.

Figure 5: OpCo Sales Volumes rel. to Jan. 2020

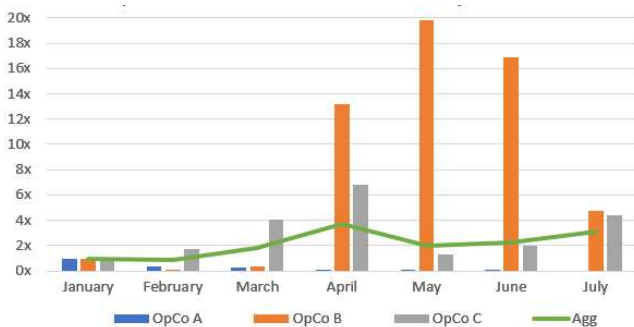
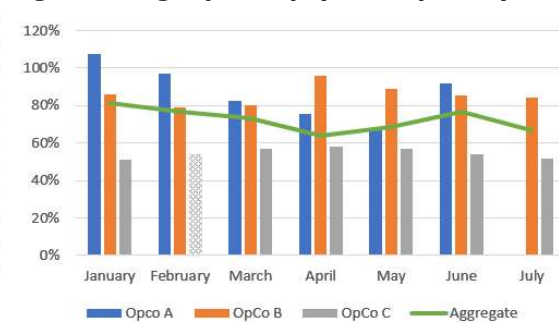


Figure 6: Avg. OpCo Repayment Speed by Month



Note 1: Full OpCo C collection rate data for February was not available and therefore an average of January and March rates has been assumed.
 Note 2: This does not include all the C-19 EDS beneficiaries, as engagement is beyond the reporting period.

Next steps

The emergence and continuing presence of C-19 and its impact on distributors re-affirms the need for the VB’s partnership model and approach of investing cash and EDS. The divergence of reported C-19 impacts across markets and business models exposes the significant needs for financial capital and expertise on operations, finance, and contingency planning to enable the local OpCo’s to continue business operations, refresh strategies and identify and implement interventions to respond to such unplanned crises.

Over the coming months, VB will expand its C-19 resiliency support to up to six beneficiaries. VB expects that this support should lead to an expanded investment portfolio, as cash and further EDS tickets are invested into C-19 resiliency package beneficiaries, de-risking the OpCos for further investment. Lastly, success should also be realized at the OpCo level through improved performance metrics, as tracked through the VB KPI dashboard. As a result, the learnings presented in this report will inform VB validation and scale-up phases under the C-19 influenced new-normal.