

VentureBuilder

Learning Report

Lessons in building a pipeline of locally-owned and -managed off-grid solar companies

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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 report summarizes how VentureBuilder has adapted its approach to identifying and cultivating its pipeline of locally-owned and -managed distribution companies across sub-Saharan Africa. It highlights the critical success factors, along with key lessons, associated with VB's 3 years of experience in sourcing top African talent to become part of its investment portfolio.

VentureBuilder's impact approach

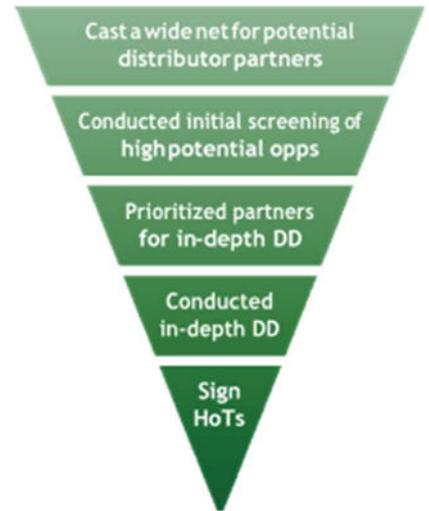
VB seeks to support locally-owned and -managed distribution enterprises. We look for partners who demonstrate a deep understanding of their customers and local market operating conditions. We also expect the founders to have past entrepreneurial success, and/or to have the humility, ambition, and risk appetite required to sustainably scale a business. These distributors in turn, typically lack capacity in systems and processes associated with either scaling an off-grid distribution enterprise, or if they are selling different products, pivoting into off-grid solar. Their businesses are often cash constrained, with many never having taken on capital from outside investors. VentureBuilder looks to fill these critical gaps, fully funding their equity financing needs over a multi-year period and providing them with fully-funded Enterprise Development Support that builds the operational foundation for scale across financial, operational, and governance realms.

¹ Whitepaper: Introducing VentureBuilder

Pipeline development through a “push model”

VentureBuilder’s development phase kicked off in late 2017. An immediate focus of the team was to confirm whether its foundational thesis was correct: that high-potential local distribution enterprises existed and that they were struggling to raise funds from traditional early-stage investors, thus restricting growth of the local OGS industry. To accomplish this, VentureBuilder selected three distinct, high-potential West African markets – Benin, Burkina Faso, and Nigeria to test the thesis. As outlined in its [2018 white paper](#), VB developed a methodical approach to identify pipeline in each market via a “push model” (illustrated in Figure 1). First, a detailed initial market screening was conducted to understand specific market challenges. This included secondary desk research supported by consultations with ecosystem actors, such as energy access program leads and representatives of local financial institutions, as well as heads of local distribution and technology providers. From this long-list, an initial screening process comprising of conversations with management and desk analysis, assessed each company against 36 different criteria to gain insights into VB fit, management, finances, operations, products, and customer base. Priority partners in each market then underwent in-depth due diligence. Subsequently, those that remained attractive were invited to sign heads of terms that outlined key commercial parameters of a future partnership. This approach was broadly successful in sourcing promising prospective partners, but had obvious drawbacks, particularly its resource intensiveness.

Figure 1: Pipeline Development “Push Model”



The businesses with whom VB signed Heads of Terms were in turn provided with “investment-readiness EDS”, consisting of tailored packages to support critical business activities related to finance and operations. This support served to deepen VB’s understanding of the businesses and further de-risk the prospective partnership prior to finalizing terms. In addition, it enabled both parties to get to know one another better, strengthening each’s assessment of whether a partnership was desirable.

Table 1: Development Phase pipeline development

Pipeline stage	Opportunities
Companies identified	62
Companies screened	30
Due diligences conducted	4
Heads of Terms agreed	3

Learnings from the development phase & “push model”

While VB’s pipeline development activities successfully demonstrated that VB could develop and prioritize a pipeline of high-potential opportunities through a rigorous process of screening and due diligence, it also resulted in a number of key learnings, as set out in Table 2, for VB management to focus on as it moved into implementation.

Table 2: “Push” model key learnings

	Long process, low hit rate		High transaction costs
	While rigorous and deliberate, the top-down approach of the push model required significant layers of work in order to surface preferred candidates. Though the outcomes were		The “push” model tied up substantial VB team resources, given extensive documentation and research requirements. From there, screening visits in country necessitated

strong, the team wondered whether there could have been a faster route to them.

additional substantial team resources, as did the follow on vetting and pre-investment EDS support.



Efficient use of team time

The intense pipeline build process managed by a lean VB team was a challenge to maintain alongside other VB priority areas, which were notably occurring at the same time the team was finalizing legal structuring and fundraising for the future entity.



Manage expectations

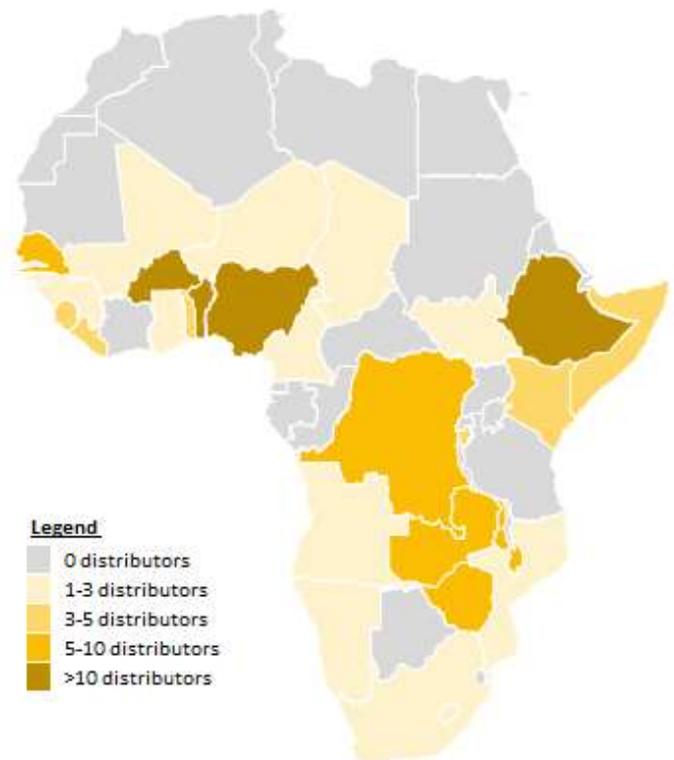
VB was transparent with prospective companies about its limited ability to make firm commitments development phase. VB's first closing was significantly delayed, which also forced the team to slow certain conversations. As such, some prospective partners came to doubt whether VB would be able to deliver on its promise.

Scaling VentureBuilder's pipeline

VentureBuilder finalized its fundraising and launched its 1-year pilot phase in July 2019. The pilot phase's core objectives were to expand VB's scoping into new markets, finalize partnerships with at least two partners, build value in these partners through EDS focused on building systems and processes necessary to sustainably scale the pay-as-you-go business model, crowd additional external capital for partner businesses, and raise additional funding into VB itself. VB had hoped to convert the preferred partners it had identified in each of the three "push" markets into its first investments in the pilot phase. However, for varying reasons these opportunities did not materialize. This included changes in senior leadership in one organization, a deterioration in revenues coupled with an increase in debt burden in another, and a shift in strategic direction that no longer synced with VB's core areas of focus. As such, as the pilot phase kicked off, VB found itself in the position of needing to quickly rebuild its pipeline of prospective partners.

VB's new approach to sourcing pipeline takes a more bottom-up approach, and leverages its extensive networks in the sector to opportunistically identify promising candidates. This "pull model" has placed greater emphasis on partner referrals and organic outreach by local distributors, over intensive market research processes. As VB scaled into new markets, key relationships with technology (e.g. hardware, software) and ecosystem partners (e.g. Power Africa's network of transaction advisors) were leveraged and referrals were solicited from these parties. This approach dramatically increased VB's success rate in not only identifying prospective partners that met VB's core criteria (local ownership and management, market traction, target demographic), but often yielded promising leads. Hardware companies know a local distributors' market traction through their purchase history; the more promising of these frequently receive additional business support from the hardware companies given how crucial these distributors are to their ability to grow their business. Software companies also have a unique lens

Figure 2: VB pipeline by country



and can also spot high performing and/or high potential local distributors. Transaction advisors' role is in part to help connect businesses with financing, and as such introductions to VB constituted a "win-win" scenario.

Where we are now

Since launching its pilot and by deploying the "pull" model referenced above, VB has extended its pipeline footprint across the continent. As Figure 2 illustrates, through concerted outreach to its network, VB was within a few months able to develop a pipeline of referrals in over 25 additional countries in Sub-Saharan Africa, some of which generated recommendations for over ten different local distributors. This extensive pipeline sourcing was achieved without the need for extensive desk research or in-country visits, and has yielded the identification of 113 prospective VB partners.

The efficiencies realized from the "pull model" have helped VB generate traction in a breadth of markets, though this approach does have its drawbacks. Most notably, the detailed country-level intelligence gathering needs to happen on the back-end of sourcing pipeline. These matters, centered around country political economy, market sizing, competition, willingness and ability to pay, regulations, and taxation are crucial elements to consider when assessing the suitability of a business in the pipeline. This research, now conducted downstream of sourcing prospects, is arguably better conducted afterwards given that this enables the team to contextualize these market conditions around the partnership opportunity. The team also works with the prospective partner to see how VB's Enterprise Development Support can be leveraged to better confront these types of considerations.

Opportunity screening & assessment

In addition to the efficiencies realized in opportunity identification, the pilot phase has taken a more focused approach to screening and due diligence, with the ultimate goal of making quicker, more informed "go" or "no go" investment decisions. This process kicks off with a screening exercise that is based on a clear set of pass/fail criteria. These criteria are covered in an introductory call with senior management of the business, and are as follows:

- *Local ownership*: do nationals of the country hold significant shareholding in the business?
- *Local management*: are country nationals involved in most of the management decision-making and activity?
- *Target market*: does the business serve a core off-grid, rural market (with only a minority share of sales to bad-grid consumers)? Are customers underserved; middle- and low-income residential customers and SMEs?
- *Market strategy*: Do they own the customer relationship and distribution channels? Are they willing/able to offer consumer finance (with roadmap to PAYG solutions)?
- *Market traction*: are they post-revenue, even if revenue is from other activities? For those not already doing solar: do they have 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?

If a mutual good fit is identified at this stage, then a deeper due diligence is undertaken that focuses on company operations, finance, and governance. The team takes a risk based approach to vetting the business, flagging key concerns early and seeking to identify ways in which these risks can be mitigated (often either through legal covenants that the company must undertake prior to or during the partnership, or through the development of an EDS package related to it). In parallel to the company-level diligence, the team also undertakes the country-level research and analysis that typically would have been done ex ante in the push model. Because of the COVID-19 pandemic, the VB team has shifted to conducting this due diligence remotely. This experience has been broadly positive; a structured approach to documentation requests, followed by meetings with senior and middle management of the company are undertaken. Frontline staff (e.g. sales agents, call center staff) are also interviewed, as are customers themselves. Though this approach is spread over several days, it often winds up being more efficient and yields better insights than the classic in-person approach to due diligence.

Table 2: VB pipeline status

Companies	
VB pipeline	113
Status	
- Due diligence completed	7
- Screened, still under consideration	11
- Screened, not advancing	23

Key takeaways

- VentureBuilder’s design phase necessitated a more retail, hands on approach to proving out its core thesis around the existence of locally owned and managed last mile distribution businesses. The “push model” enabled VentureBuilder to demonstrate the depth of the market in each of the initial three countries of focus.
- The more wholesale “pull model” leverages referrals from market actors to source potential partners. These third parties often have direct experience working with the businesses, which enables VB to establish credible longlists at the time of initial intake.
- VB’s two-step vetting process allows it to make more efficient decisions regarding the viability of particular prospects, including ensuring that prospective partners are aligned with VB’s key criteria.
- VB’s pipeline vetting process has also been adapted to undertake all activities remotely, which is an absolute necessity in the context of the COVID-19 pandemic. On balance, remote engagement has proven to be time and cost efficient, and has yielded positive outcomes.
- VB now enjoys a geographically diverse portfolio of businesses in its pipeline. This enables VB to focus on identifying the most promising commercial prospects that, with VB’s combination of early equity and bespoke EDS, can deliver impact and value for VB’s investors.