

## VentureBuilder: Partnering to build Malawi's premier PAYGo solar company

This report was produced by VentureBuilder and captures its collaboration between July 2020 and September 2022 with Zuwa Energy, an off-grid solar company operating in Malawi. The research was commissioned by the Shell Foundation (SF), with funding from the UK Government's Foreign Commonwealth and Development Office (FCDO) under the Catalysing Agriculture by Scaling Energy Ecosystems (CASEE) programme. The objective of the learning report is to illustrate VentureBuilder's unique approach to building the commercial viability of African-owned and -managed off-grid solar companies. The insights outlined below are intended to illustrate key successes and learnings from VentureBuilder's approach, and to inform future interventions by VentureBuilder and other industry players.

### 1.1 The Zuwa Energy story

It was July 2020, and Jones Ntaukira was worried. Zuwa Energy, the off-grid solar distribution company he co-founded in 2016 in his home country of Malawi, was struggling amidst the COVID-19 pandemic. With a national electrification rate hovering at around 15%,<sup>1</sup> Zuwa was founded with the ambition to provide access to modern, affordable, and reliable power and powered devices to thousands of Malawian businesses and households. As a locally-owned and -managed company with a strong leadership team possessing 40 years of experience in renewable energy, finance, sales, and business development, Zuwa are experts in understanding the conditions on the ground and delivering value to their customers.

Zuwa generated revenues of US\$100,000 in 2019, and their 2020 revenue projections were promising yet realistic, set to double compared to the prior year. As the pandemic took hold, these projections seemed to be bordering on the impossible. While Zuwa's concerns mounted, their customers' livelihoods were also profoundly impacted by the pandemic's broader economic downturn, and many were struggling to make payments for their Zuwa products. By July 2020, Zuwa was only collecting 44% of the expected revenue from customers each month - an unsustainable path for the company and its customers.

Meanwhile, Jones' team was suffering from low morale whilst trying to identify a viable path forward for the business. Though they had received a grant award from Africa Enterprise Challenge Fund (AECF) in 2019, they were struggling to meet the sales-based milestones for tranches to be released. The small line of credit they'd secured from a local bank in 2019 had helped them purchase inventory, but now repayments were coming due, and Zuwa was in no position to service the debt. With its inventory depleted, and with falling revenue from customers, Zuwa found itself in a financial crisis. Jones was forced to make difficult decisions around cutting costs to ensure the business could survive the pandemic.

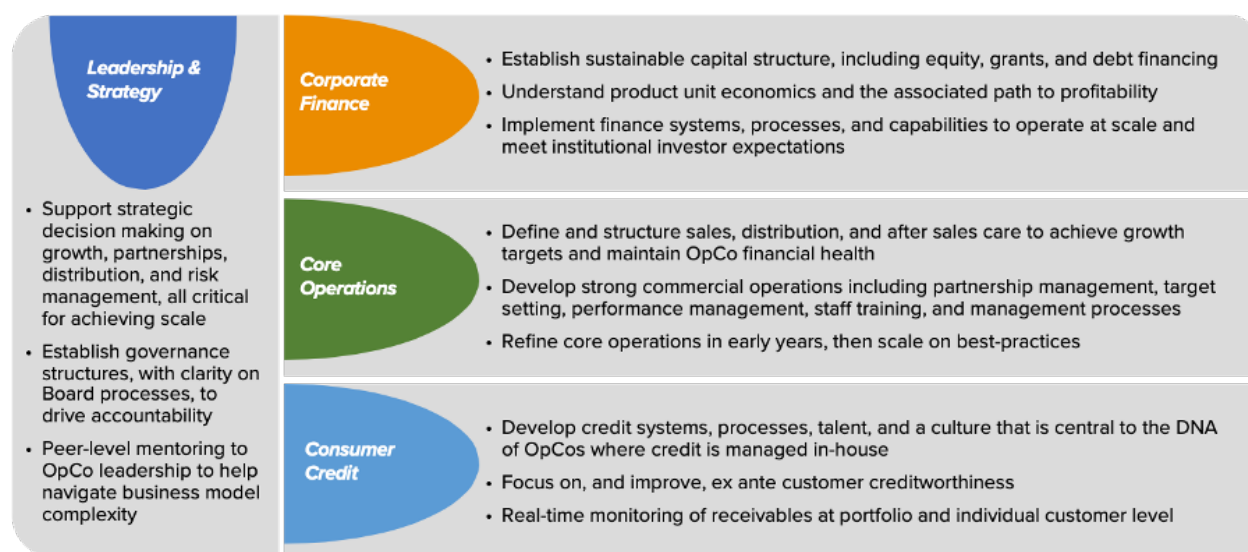
### 1.2 The VentureBuilder solution

Amid this backdrop, Jones was introduced to VentureBuilder, a specialized investment vehicle that provides early-stage equity and enterprise development services (EDS) for locally-owned and -managed off-grid solar enterprises in African frontier and growth markets. The VentureBuilder team consists of highly regarded industry veterans who bring deep experience and an approach that mentors local partners while building their internal capacity. To date, VentureBuilder has invested in local companies in Mali, Malawi, Zambia, and Zimbabwe. As part of this, it deploys a set of critical innovations relative to supporting the off-grid solar industry to sustainably address the world's energy access deficit.

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<sup>1</sup> IEA, IRENA, UNSD, World Bank, WHO. 2023. Tracking SDG 7: The Energy Progress Report. World Bank, Washington DC

First, VentureBuilder flips the incumbent pay-as-you-go business model on its head. Historically, investors have backed talented expatriate-founded and -managed companies that look to operate in multiple countries, often using a vertically integrated approach that entails developing proprietary technologies (hardware and software) in addition to building out supply chain, sales and distribution, and asset financing capabilities. The complexity of this model and approach has led to a series of challenges in the industry over the past decade, including high profile restructurings and insolvencies. In contrast, VentureBuilder looks to support African-owned and -managed off-grid solar distribution businesses. These enterprises know their customers and their operating environments better than their expatriate peers and can develop local talent and capacity at a fraction of the cost of their vertically integrated peers.



**Figure 1: VentureBuilder's Enterprise Development Services "pillars"**

A second innovation is VentureBuilder's partnership model. VentureBuilder supports its local partners with multi-year investment packages that provide them with the scarcest form of financing - cash in the form of equity, alongside EDS that help de-risk and build systems, processes, and capabilities for the companies to sustainably operate at scale. The value of the EDS becomes part of the equity investment in the company, which helps align VentureBuilder's interests around the success of the business while at the same time motivating our local partners to ensure EDS activities are mainstreamed into their core operations.

A third innovation is the EDS itself, which is built around four strategic pillars (strategy & leadership, corporate finance, operations, and consumer credit) that are widely seen as the critical building blocks to scaleable delivery of the PAYGo model. The Leadership and Strategy support focuses on establishing governance structures and peer-level mentoring to the leadership team. Corporate Finance helps companies establish a sustainable capital structure, understand product unit economics, and implement sound financial systems and processes. The Core Operations EDS supports companies to define and structure sales, distribution and after sales care, develop strong commercial operations, and refine core operations to allow scaling. Under Consumer Credit, VentureBuilder helps with developing credit systems and processes, improve ex-ante customer creditworthiness, and enable real-time monitoring of receivables at portfolio and customer levels.

The greatest risk associated with the PAYGo model is the provision of credit to customers who live in underserved areas and who have intermittent or unpredictable income streams. The past decade of PAYGo has shown that there is a strong demand for off-grid solar products; unfortunately, it has also shown that most customers struggle to make the requisite installment payments for these systems. For this reason, VentureBuilder helps its partners transform their businesses into asset financing companies that focus on identifying customers who are both willing and able to pay for solar-powered electricity services, thereby reducing consumer default risk that is carried by the companies. This necessitates building out a culture and capabilities of credit management that spans from the boardroom down to individual sales agents at the village level.

Having launched in October 2019, VentureBuilder itself was forced to pivot its activities due to COVID-19. As part of this, VentureBuilder identified a handful of high-potential businesses in its pipeline to provide COVID-19 "resiliency" EDS support. The goal was to help entrepreneurs navigate the uncertainty of the pandemic and build relationships and capabilities that might materialize into a commercial partnership at a later date. Zuwa was one of those high-potential companies that VentureBuilder identified and supported during this critical period. Based on this collaboration, and given the impressive resilience and potential exhibited by Jones and the Zuwa team, VentureBuilder and the company entered into a commercial partnership in late 2020. This included multiple tranches of cash financing, alongside EDS activities that were tailor-made to de-risk and build value in Zuwa. The following sections map out some of the highlights of this commercial partnership, centering on the key EDS themes that are found in Figure 1 above.

### 1.3 The Zuwa – VentureBuilder partnership

VentureBuilder's first investment into Zuwa was finalized in November 2020. As is always the case, VentureBuilder's investment took two forms: cash financing, and the value of Enterprise Development Services delivered into the company. This initial EDS package focused on supporting Zuwa with some of the fundamentals underpinning the four EDS pillars, and due to the pandemic, was conducted remotely via regular working sessions on video calls, and asynchronous work on various shared documents and files. VentureBuilder and Zuwa concluded their Year 2 partnership in January 2022, which again consisted of cash investment and advisory services. Thanks to the improved situation relative to the pandemic, the VentureBuilder team was able to travel to Malawi to work directly with the team. This consisted of a one week "sprint" visit, where the teams worked together to map out critical challenges alongside a corrective action plan. This action plan was then followed up remotely, enabling the team to jointly troubleshoot emerging issues alongside working on core challenges that were identified as part of the sprint. On balance, VentureBuilder's support to Zuwa has enabled them to de-risk and create value in the company in several

ways. Some of the most critical activities and value creation are summarized below, organized across the four EDS pillars.

**Corporate Finance:** Prior to the pandemic, a donor paid for consultants to develop a financial model for Zuwa. Unfortunately (and all too typically), Zuwa's finance team was not involved in developing the model; once it was handed over, they struggled to update it and soon abandoned it altogether. As a consequence, they lacked visibility around the company's financial health and future needs. To remedy this, the VentureBuilder team worked closely with Zuwa's finance team to construct simplified financial projections, a profit and loss statement, and a balance sheet. These were based on detailed discussions around sales volumes and targets, revenues, costs, and provisioning for losses and delayed payments to inform the financial model. They also defined, together with the Zuwa team, what assumptions were realistic within the model, and supported Zuwa staff to revisit and revise key assumptions on a regular basis. To complement this, VentureBuilder helped Zuwa undertake forensic unit economics analysis on specific product offerings. This enabled Zuwa to rationalize product pricing and streamline their product offering to only those that would generate a profit on a per unit sold basis.

VentureBuilder ensured that the finance team mastered the tools underpinning the financial projections and unit economics and could use them to make operational and strategic decisions. As a result, and despite the difficulties brought by the pandemic, Zuwa increased sales rate by 93 percent from the second half of 2021 to the second half of 2022, more than doubling its revenues thanks to revised pricing and the sale of larger systems. In contrast, most of Zuwa's competitors' sales fell during the same period.

Zuwa's strengthened corporate finance function positioned them to secure additional financing over the past months. It was able to leverage the equity financing provided by VentureBuilder to crowd in significant new debt financing from the Government of Malawi's Ngwee Ngwee Ngwee Fund and Charm Impact. Both loans are denominated in local currency, and cover Zuwa's debt financing needs for well into 2024. In addition, the Ngwee Ngwee Ngwee financing includes a results-based financing (RBF) grant component that will further strengthen Zuwa's ability to sell in underserved parts of the country.

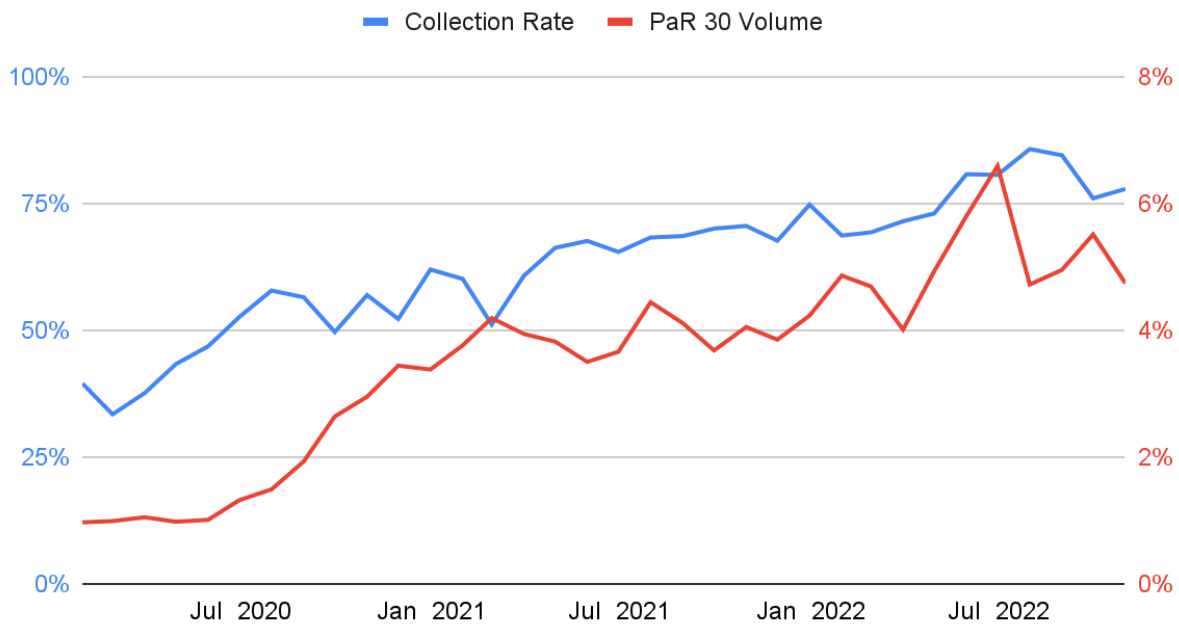
**Core Operations:** On the operational side, VentureBuilder supported Zuwa in undertaking an organizational restructuring over the course of 2021, which included revamping its call center to a well-organized Customer Service Team with individual client portfolios. To complement this, VentureBuilder provided strategic support around governance and human resources (HR), including helping Zuwa instill a performance culture, including rolling out performance contracts for key staff. A branch-level profitability analysis supported by VentureBuilder revealed the high costs of establishing and maintaining distribution hubs. Based on this, VentureBuilder helped Zuwa leverage its existing partnership with Malawi Post Corporation, to use their infrastructure to act as Zuwa warehousing and distribution hubs. This shift enabled Zuwa to recalibrate its geographic expansion plan, to lower customer acquisition costs by 40 percent, and to reduce turnaround time for product delivery to customers by 50 percent.



Figure 2: A Zuwa customer in Lilongwe

**Consumer Credit:** VentureBuilder supported Zuwa with a change management process that transformed the company from focusing on making sales to ensuring customer success, as measured through the willingness and ability of customers to pay in a timely manner. A critical success factor was the rollout of a dedicated team in charge of final credit decision-making and client monitoring throughout their repayment journey. In addition to this recommendation, VentureBuilder also helped Zuwa set up a corrective action plan for slow-paying customers, an algorithm-based dashboard with early warning indicators to monitor customer repayments, and an upfront credit assessment, including strengthening its credit scoring. Thanks to these initiatives, Zuwa customer repayments went from a low of 40 percent in January 2020 to 86 percent in July 2022. This striking transformation is even more powerful given that off-grid solar industry data from the Global Off-Grid Lighting Association (GOGLA) shows that the average collection rate for the sector stands at 62 percent<sup>2</sup>. That same data shows that Zuwa is one of the top performers with respect to collection rates across the entire industry. In addition, Zuwa's Portfolio At Risk (PAR) over 30 days (PAR-30) remained under 5 percent during this period; in stark contrast, the industry average stands at 30 percent<sup>3</sup>.

### Collection Rate and PaR 30 Volume



**Figure 3: Collection rate and PaR 30 Volume for Zuwa between January 2020 and October 2022**

**Leadership & Strategy:** Finally, the coaching and mentorship that Jones received from VentureBuilder positioned him to better articulate Zuwa's company vision and ambition, build a strong company culture centered on customer success, and generate buy-in from the team. He has worked on improving job roles

<sup>2</sup> Lighting Global/ESMAP, International Finance Corporation, Efficiency for Access Coalition, GOGLA, and Open Capital Advisors, Off-Grid Solar Market Trends Report 2022: State of the Sector

<sup>3</sup> Lighting Global/ESMAP, International Finance Corporation, Efficiency for Access Coalition, GOGLA, and Open Capital Advisors, Off-Grid Solar Market Trends Report 2022: State of the Sector

and responsibilities and delegating these functions to the team. Through these measures, Jones can now focus on the bigger picture, seeing the company as a whole, and leading its strategic direction:

“I have learned to manage the soft things hard and the hard things soft. More often, business leaders like me focus on targets and numbers – the hard things. By refocusing my management team to pay attention to the soft things like culture alignment and protecting our customers, within a short time our portfolio quality and performance tripled. Everyone in our team knows that selling 30 products is good performance but ensuring that those 30 customers are good paying customers, satisfied and happy is best performance.”

## 1.4 Closing thoughts

Zuwa’s ambition is to be Malawi’s most reliable provider and financier of standalone solar solutions and appliances. To achieve this, Zuwa plans on leveraging the strengths it has developed over the past three years to offer a broader set of products that the company can provide on a PAYGo basis to its customers, such as appliance financing for productive use activities. They also intend to add larger solar home systems and PAYGo phones to their product range, so that they can grow their offerings alongside the needs of their customers. To do so, Zuwa intends to continue its commercial partnership with VentureBuilder, building systems and processes that will enable them to sustainably scale their business. In parallel, Zuwa will need to secure new financing partnerships on the debt and equity side to fuel this growth.

Zuwa's 30 full-time employees and 80 commissioned agents are proud to be a part of a company that successfully navigated the pandemic and that is positioned to scale its impact on their customers. By December 2023, Zuwa’s team will grow to 90 full time staff and over 150 commissioned agents. Jones is equally bullish about the future: "Thanks to our partnership with VentureBuilder, we are positioned to be the market leader for asset financing of solar home systems and complementary appliances in Malawi."

Based on the experience from supporting Zuwa and three other companies in sub-Saharan Africa, VentureBuilder has learned the following lessons about what components are crucial for its own operations and for the industry as a whole:

### 1. Simplify and demystify corporate finance.

Complex, sophisticated, and overly theoretical financial models are often a distraction for PAYGo companies. Rather, mentoring companies to build tools and capabilities to understand historical and future financing needs is critical. Accurate profit and loss statements, alongside sales and cashflow projections, provide a solid foundation to understand financial performance and needs of these businesses.

### 2. Credit management is core to PAYGo success.

The greatest risk facing the local companies VentureBuilder supports is credit management. The PAYGo solar industry is suffering from an



Figure 4: Jones Ntaukira, founder of Zuwa

overemphasis on pushing sales, which has translated into many customers being unable to pay for their products. VentureBuilder is building a new generation of PAYGo companies that have credit management at the core of their DNA. This focus on customer success benefits end users (who are able to fully pay for their products) and for companies' financing partners, whose expectations around social and financial impact can be met.

- 3. Mentor and coach, rather than creating dependency on external advisors.** VentureBuilder quickly understood how critical it is for the companies' leaders to have a sounding board for their day-to-day decisions and more importantly key strategic decisions they need to undertake. In addition, VentureBuilder's approach to mentoring mid-level technical staff, and supporting them to grow into their roles is a critical success factor. All too often, advisory services are packaged as "consulting"; such a deliverables-oriented approach often fails to build trust and capacity related to key business functions that require support.
- 4. Local entrepreneurs can deliver impact at scale.** Many development partners have embraced the idea of supporting local entrepreneurs to tackle the SDG7 challenge. However, financing for these businesses, and for vehicles that are designed to support them, is exceedingly scarce. There is an urgent need for those with deployable capital to go beyond the rhetoric of empowering local entrepreneurs, to actually doing it. VentureBuilder welcomes the opportunity to share its learnings as others look to catalyze this new generation of entrepreneurs.