
Introducing VentureBuilder

October 2018



VentureBuilder In Brief

VentureBuilder (VB) is a Development Company that is pioneering a new model to provide deep technical expertise and early stage equity capital to scale African-owned and -managed distributors. Local distributors often have years of experience serving thousands of local customers with a variety

of products, but lack sufficient expertise and capital to launch and scale pay-as-you-go (PAYG) solar businesses. VB is partnering with these local distributors to provide enterprise development services and investment capital. This will enable them to sustainably scale the PAYG business model and reach

millions of customers with affordable, reliable, modern energy. We believe this approach will build a new generation of local solar companies, capable of reaching populations that cannot be accessed by the current model of large, vertically-integrated businesses.



New opportunities to scale energy access in Africa

Over 120 million households in Africa lack access to adequate electricity. These households typically spend considerable sums of money on expensive, dangerous and unhealthy stopgap lighting sources such as kerosene, candles, and dry-cell batteries, and rely on costly and inconvenient charging services to operate basic appliances such as cell phones and radios. However, over the past decade, the spread of GSM technologies, including mobile money, and the plummeting cost of off-grid solar hardware have combined to create a business model (known as “pay-as-you-go”, or PAYG) where off-grid solar companies can now provide African households access to reliable and efficient electricity sources at lower price points than stopgap measures.

Even though the off-grid solar industry is flourishing, it currently serves less than two percent of the total addressable market, with only a small number of companies operating at scale. Most of these are heavily capitalized at, or beyond, the Series B stage, and yet, collectively these companies are active at scale in only six out of the 49 countries of Sub-Saharan Africa, with the vast majority of their customers concentrated in the East African markets of Tanzania, Kenya, Rwanda, and Uganda. And even within this Great Lakes sub-region, transnational growth has proved extremely challenging. When the biggest players have attempted to expand out of their core markets, the results have been sluggish, highlighting the complex and unique character of each market, particularly when it comes to human capital, retail sales, and distribution strategies.

Despite over US\$500M in global investment in off-grid solar in 2016-17 alone, there is a striking lack of greenfield activity across much of the rest of Africa, where most markets are virtually untouched by scalable ventures. This does not mean that such scalable ventures do not exist; quite the contrary. However, at the enterprise level across much of Africa, access to capital, talent, and technical off-grid business know-how remains a problem. Even in the burgeoning African market, many smaller companies struggle to achieve proof of scale and raise meaningful equity financing due to equity investors’ requirement for substantial traction prior to a priced round. This typically means a customer base in the hundreds or low thousands, which itself requires significant investment in management, logistics, sales, and customer support teams, necessitating seed-stage financing in the range of US\$1M-2M. The pursuit of this seed-stage funding is often a painfully slow and challenging process, particularly for locally-owned and -operated businesses which may be unfamiliar with the jargon and processes of venture capital funds (VCs), institutional investors, and international development partners.

And yet, in local communities across Africa, there are thousands of locally-owned distributors who have been providing a range of solar and related products to their customers for years, some with tens of thousands of customers and an in-depth

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Local distributors' **market knowledge & customer base** are the foundation upon which to build a PAYG business

knowledge of their local market and consumer needs. While many aspects of the PAYG business model can be taken off the shelf, the local market knowledge held by these distributors is unique to them and almost impossible to easily replicate by international players new to these markets. However, at VentureBuilder, we have observed few partnerships between local distributors and international product companies, due to several variables: 1) local distributors often operate using unstructured and informal business practices, making partnerships hard to form, 2) local distributors often don't have expertise to develop and manage a full PAYG offering, especially from a customer credit perspective, 3) international product companies don't have sufficient resources to invest equity in—and provide intensive enterprise development services to—local distributors, all of which would be needed to develop and hire talent, operationalize, and scale up PAYG; and 4) more broadly, the complexity of the PAYG business model necessitates intensive enterprise development services to help flatten its steep learning curve.

We believe that the local market knowledge and customer bases held by established distributors, if combined with the right mix of PAYG expertise, talent development, capital investment, and product partnerships, is the key to scale the delivery of PAYG off-grid solar products in under-served markets in Sub-Saharan Africa. To demonstrate this theory, Open Capital Advisors and Catalyst Off-Grid Advisors partnered to establish VentureBuilder.



A new approach to scaling off-grid access: VentureBuilder

VentureBuilder is a development company that provides a combination of deep PAYG expertise and systems development coupled with early-stage investment to African-owned and locally-managed distributors. VentureBuilder identifies and partners with select locally-owned enterprises focused on last-mile Tier 1 & 2 (as defined by the World Bank's Multi-Tier framework) energy service delivery, providing them with both capital and bespoke enterprise development advisory services to help them harness their local market knowledge and rapidly scale a PAYG off-grid-solar business model. VentureBuilder believes this approach will build a new generation of local solar companies that are rooted in their communities and are capable of reaching populations that cannot be sustainably accessed by the current model of large, vertically-integrated businesses.

Neither an incubator nor an accelerator, VentureBuilder is a blended finance development company that brings some of the best practices of the venture capital world to the off-grid solar sector, through a combination of tailored technical and business expertise, along with a phased approach to financing with defined targets and milestones. As part of this approach, VentureBuilder takes pains ensuring that local market knowledge, along with industry best practice, informs business planning and decision-making, including growth targets. Rather than pursuing greenfield

VentureBuilder's Fundamentals

VentureBuilder seeks to demonstrate a new approach to scaling energy access across Africa.



Our Mission

VentureBuilder (VB) will unlock the off-grid solar market across Africa using a bottom-up approach to building a portfolio of new solar pay-as-you-go (PAYG) businesses targeting off-grid households.



Our Approach

VB is a development company (DevCo) that provides enterprise development services (EDS) and early-stage investment to locally-owned and managed distributors, or operating companies (OpCos), targeting the distribution challenge, resulting primarily from the gap in human capital and systems to work at the local level.



Our Impact

By 2022, VB aims to build a portfolio of OpCos that:

- ➔ Operate at scale in **ten countries** across Sub-Saharan Africa
- ➔ Deliver **> 1 million connections**
- ➔ Directly impact the lives of **> 5 million Africans**

start-ups, VentureBuilder identifies “best in class” established local distributors that have strong existing customer bases and can rapidly scale sales with the right investment of capital and expertise.

VentureBuilder’s team is formed through a partnership between Catalyst Off-Grid Advisors and Open Capital Advisors, who together possess many decades of experience building, advising, and financing off-grid solar companies and PAYG business models across Africa. Our team believes that there is no market in Africa that does not contain talented entrepreneurs with the capacity and local market knowledge to build scalable PAYG off-grid solar enterprises. Nevertheless, there are many common mistakes that are made when PAYG platforms are implemented for the first time. Our collective experience at a technical, financial and strategic level can help ensure that local distributors focus on scaling their businesses through capital investment and avoid the pitfalls that are common, but still often difficult to sidestep, in the sector. As part of the support provided to our partner distributors, VentureBuilder’s Enterprise Development Service (EDS) shares that experience directly with them, bringing international best practice into their businesses and flattening the learning curve as they adapt to new strategies and scales of operation.

A key element of the VentureBuilder approach is to act not simply as an investor, but as a Development Company, taking long-term positions in local distributors then working closely with them for years to enable scale. We carry out in-depth due diligence on prospective partners, ensuring that only businesses which meet a carefully designed, exhaustive set of criteria are eligible for consideration as distribution partners. As part of our EDS, we help local distributors create systems, processes and plans that equip them for growth, but also plan, prepare, and connect to investors to raise future rounds of capital. By so doing, VentureBuilder allows distributors to focus on what they do best—deliver quality energy services to their customer base.

Our Differentiation

VentureBuilder has focused criteria for selecting its OpCos, and delivers a robust, hands-on package to each:

Enterprise Development Services	Intensive, fully-capitalized advisory support from seasoned industry practitioners
Distributor Focus	Targeting locally-owned and -managed enterprises
Industry	Targeting only Tier 1 and Tier 2 energy service delivery in underserved communities
VB Package	2-year, fully funded, initial package of investment and EDS
Tech Agnostic	Assist partners to identify and work with the appropriate hardware and software providers
Market Traction	Most VB partner operating companies will already have thousands of customers through their existing distribution business.



How VentureBuilder works

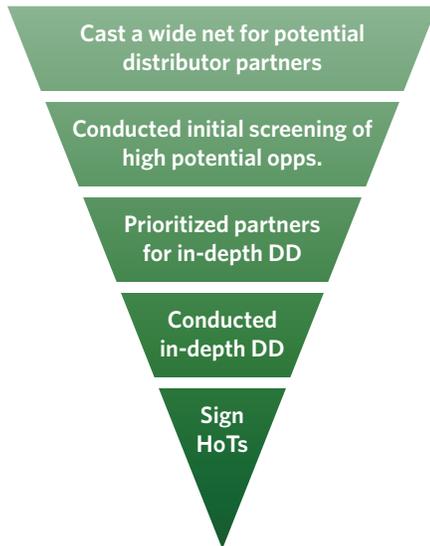
Market Selection

The core of the VentureBuilder approach is the belief that its principles and practices are replicable in markets across Sub-Saharan Africa. Consequently, as part of our initial focus on West Africa, we have chosen to work in three very different countries, but apply the same methodology within each, in order to demonstrate the validity and replicability of the VentureBuilder approach. As such, we decided to choose two relatively small Francophone countries, Benin and Burkina Faso (populations 10 million and 16 million respectively), and one large Anglophone one, Nigeria (population 180 million). While Benin and Burkina Faso are both members of the West African Economic and Monetary Union (UEMOA), Nigeria is the most populous country in Africa with a population greater than UEMOA combined. None of the three markets has a high level of commercial off-grid electricity, and the ease of doing business varies significantly between them. Additionally, each country's mobile money ecosystem is at a very different stage of development, ranging from Burkina Faso, where 1 in 3 adults has a mobile money account, to Nigeria, where mobile money is yet to find widespread adoption.

We have been working in **Nigeria, Burkina Faso, and Benin** for a year

Building Our OpCo Pipeline

VentureBuilder has a rigorous, proactive approach to finding high-potential local enterprises:



Initial Search

The first stage in finding suitable distribution partners within these three markets was to cast the net widely to identify as many potential distribution partners as possible. During these months of market diligence, the experience, extensive networks and market contacts of Open Capital Advisors and Catalyst Off-Grid Advisors proved invaluable in identifying dozens of potential partners across the three markets. At this stage, however, the only requirement to be included in the search was to be an African-owned and -managed distributor who appeared to be well-positioned for rapid growth. VentureBuilder is technology agnostic, meaning no potential partner was unsuitable based solely on their supply chains or suppliers.

Key Finding: Importance of Networks

This stage of the search was dependent in no small part upon access to networks of development partners and professional contacts on the ground who have in-depth knowledge of local market players. Many promising businesses in each of the three countries surveyed had little or no online presence and could easily have slipped under the radar. While perhaps not surprising, this aspect served to emphasize the fact that personal networks and local market knowledge are crucial not just to the scaling of PAYG solar businesses, but also to identifying promising potential distribution partners. In particular, some development partner programs are uniquely placed, and perhaps under-utilized, to act as conduits between external finance and local distributors.

This desk search produced 62 potential partners in total across the three markets.

Initial Screening

Following on from the initial trawl, and further desk analysis, VentureBuilder team members reached out to approximately 30 distributors to set up interviews to further assess suitability. This involved gathering information relative to 36 different criteria in order to get insights into each company's management, finances, operations, products, customer base and ethos. Site visits and face-to-face interviews were carried out to get to know the distributors and their businesses.

Information was gathered under the following broad headings:

- **Background**
- **Products**
- **Customers**
- **Financing**
- **Distribution**
- **Operating Environment**
- **Support Needs**

These factors were all considered alongside four overarching headings that VentureBuilder, in discussion with external stakeholders, assessed as being critical to the development of a successful partnership, and which were informed by the initial screening questionnaire:

1. **Ownership & Management Structure:** Locally-owned and -managed enterprise, with strong roots in the community;
2. **Target Market:** Must have rural off-grid customers at the heart of its strategy, mainly low and middle income residential and SME commercial customers;
3. **Business Model:** Strategy to transition to and scale PAYG and consumer financing capacity;
4. **Traction:** No requirement for prior solar experience so long as existing customer footprint is broad or existing customer relationships are strong and at the core of current business model.

Shortlisting and Due Diligence

The result was, within each market, a shortlist of no more than two businesses that would then become the subject of a process of in-depth due diligence. This step served two purposes:

- a) To carry out a robust, yet efficient, due diligence process in order to validate the prospective partners' business fundamentals;
- b) To deepen the comparative assessment of the two potential partners to enable the selection of one of them, if both potential partners satisfied (a).

The due diligence checklist contained approximately 200 questions, under five main headings and numerous subheadings. Where appropriate, documentary evidence was required to support assertions made during the due diligence assessments:

Commercial	Operational	Financial	Legal & Governance	Strategic Fit
Products	Team	P & L	Legal	Compatibility
Competitors	Human Resources	Cash Flow Management & Financing	Governance	Competence
Existing Customers	Distribution: Channels, Logistics, Geographic Coverage	Financial Management	Integrity	Complementarity
Credit Portfolio		Pricing		Congruence
Risk Management	Marketing & Branding	Infrastructure/Company Assets		Chemistry
Corporate Strategy	Supply Chain Management & Risk			Circumstances
	Management Information Systems			
	Environmental & Social Considerations			

Heads of Terms set **partnership expectations** and lay out a bespoke Pre-Investment EDS package



In two of the three markets, both of the final two potential distribution partners passed the due diligence requirements, leaving VentureBuilder to rank the candidates on the basis of overall suitability. Part of this assessment included subheadings under the category of “Strategic Fit”. This aspect of due diligence was more subjective than the other five headings, but was nonetheless a crucial element in the process. The VentureBuilder EDS plan involves VentureBuilder taking a seat on the board of partner businesses in what is intended to be an ongoing and evolving close working relationship rather than simply “cutting a check”. This necessitates identifying, even before a formal relationship is established, common purposes, complementary outlooks and compatible work styles, to ensure that fundamental and potentially fatal differences in business cultures and interpersonal relationships are avoided. While not determinative of which enterprises were deemed viable partners or not, a failure to meet the criteria in this category would have necessitated considerable further due diligence efforts to satisfy the VentureBuilder team that the proposed partner was an appropriate match.

In carrying out this exercise, we attempted to strike the right balance between economy and thoroughness. As such, we adopted a streamlined “matrix” approach, rather than copious notes and pages of prose. This meant that it was possible to examine each distributor in a number of days rather than weeks. This is due to our team’s knowledge of the off-grid solar industry, as we have conducted due diligence on numerous previous occasions, and from working with dozens of off-grid solar distributors globally.

The Result

Having begun with more than 60 potential partners, VentureBuilder has settled on one distribution partner each in Benin, Burkina Faso and Nigeria. We agreed on Heads of Terms for our new relationship with each enterprise. This involved further site visits to each country where, in addition to our due diligence and discussions with the three selected potential partners, the VentureBuilder team gathered insights from other significant players and stakeholders in the local markets, including investors, banks, development partners, mobile network operators, and other value chain companies, in order to inform the financial and strategic decisions that go into the VB financing package and EDS plan that will be agreed with each partner.

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Where Next?

The Immediate Outlook

With agreed Heads of Terms, VentureBuilder and each prospective partner distributor are currently under an exclusivity period, working together on a robust package of Pre-Investment Enterprise Development Services, which includes the preparation of a business plan, a PAYG Roadmap, and the associated financial projections that will serve the basis for the final VentureBuilder blended finance package. As part of this exercise, the VentureBuilder team is developing a tailored package of Enterprise Development Services for each distributor that would form an integral part of the VB investment into each partner. This period also serves as a final period of due diligence during which the assertions made during prior screening and due diligence can be tested and the basis for a partnership and investment determined. This will serve to both mitigate the risk to investors and strengthen the partner relationships as VB is launched as a development company.

As we prepare to advance the next phase of our relationship with each distribution partner, we are confident that our experiences in each market thus far have demonstrated both the need for and the replicability of the VentureBuilder approach. In addition to the geographical and linguistic imbalances in the supply of capital to the off-grid solar sector in Africa, the barriers to accessing external funding faced by capable and well-positioned local distributors are often enormous. In addition to the factors that informed the need for this new approach, other issues emerged during this Phase One process. These included, among others:

- A perception that certain market conditions (e.g. low mobile money uptake, “small” off-grid market sizes) were disqualifying;
- An enterprise profile that does not match with international investor norms;
- A discounting of the importance of localized networks versus technological solutions in creating scalable PAYG solar businesses;
- A lack of connectivity that keeps business practices undigitized or offline;
- Inadequate utilization by external investors of development partners as sources of information on local market players;
- Local enterprises’ lack of understanding of international investor expectations, processes, norms, and procedures;
- Significant time required to explain legal and commercial considerations associated with the Heads of Terms document, including translating these concepts and terms into French.

Our experience to date has validated the **viability and replicability** of the VB approach



VentureBuilder will continue to share lessons and experiences, with the hope to **catalyze a new wave** of sustainable energy access enterprises



The Longer View

We have identified capable and promising local distributors in all three Phase 1 countries that we believe are well-placed to scale into significant off-grid solar distributors in their local markets. It was striking, even though it was anticipated and hypothesized, how difficult these distributors found it to access outside sources of capital and how much they stand to benefit from even a relatively modest injection of capital and expertise. While we were confident at the beginning of this process that our hypothesis would be confirmed, if anything our experience to date has suggested that even we might have underestimated the scale of both the challenges faced by these locally-owned businesses and the size of the opportunity presented.

For this reason, we are keen to scale the ambition of VentureBuilder and will look to move the Development Company into additional new markets over the coming months. We also see tremendous promise in extending the scope of VB's active investment period into each OpCo, including participating in growth stage capital financing rounds via follow-on financing.

Once VentureBuilder is established and the initial injection of capital and Post-Investment EDS has taken place, our aim is to demonstrate quickly the viability of this approach in many more markets across Africa. We aim to share further learnings during this period that will help us and others scale this approach into other markets where it is also desperately needed.

The challenges faced by enterprises in this sector span many different competences and areas, and are compounded by a lack of partnership and coordination by stakeholders across the VC, tech, solar and development fields. As well as being a proactive approach to identifying promising distribution partners and growth markets, VentureBuilder aims to forge new cross-sectoral partnerships (and deepen existing ones) that can help establish new best practices in the African off-grid solar market.

We believe VentureBuilder brings a new and effective approach to the sector, and can and should be replicated in other markets. We look forward to sharing our experiences and learnings from the next phase of its development and delivery, and hope our approach will unlock new ideas and learnings that rapidly scale the rate of new off-grid energy connections in some of Africa's most challenging geographies.

Working together to scale energy access across Africa

VentureBuilder has been developed through a partnership between:



Catalyst Off Grid Advisors

Catalyst Off-Grid Advisors is a boutique strategy consulting firm that focuses exclusively on fostering growth of off-grid electricity access in the developing world. Our team of experts hail predominantly from the off-grid industry and serve as trusted advisors to the breadth of actors engaged in the sector, including investors, enterprises, governments, and development partners. Our decades of combined energy access experience give us an unparalleled ability to help clients navigate the burgeoning off-grid energy arena.

www.catalystoffgrid.com



Open Capital Advisors

Open Capital Advisors is a management consulting and financial advisory firm that drives growth, enables investment, and builds markets across Africa. We help businesses, investors, development partners, and the public sector identify opportunities and deliver unique, impactful solutions. Since 2010, we have completed 400+ engagements across 20+ countries in Sub-Saharan Africa, including 75+ engagements in off-grid energy, a key priority sector. Our locally based team of 100+ professionals brings experience from top global organizations including BCG, Citigroup, Credit Suisse, IFC, McKinsey, and PwC.

opencapitaladvisors.com

To learn more about VentureBuilder, please contact us: info@catalystoffgrid.com