CLEAN ENERGY SOLUTIONS CENTER
ASSISTING COUNTRIES WITH CLEAN ENERGY POLICY

Support Required for Local Off-grid Small and Medium Enterprises

—Transcript of a webinar offered by the Clean Energy Solutions Center on 11 December 2018—
For more information, see the clean energy policy trainings offered by the Solutions Center.

Webinar Panelists

Ruchi Soni
Emma Colenbrander
Erin Davis

This Transcript

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Phillip (Moderator)

Today's webinar is focused on the support required for local off-grid small and medium enterprises. Before we begin I'll quickly go over some of the webinar features. For audio you have two options: you may either listen through our computer or over the telephone. If you choose to listen through your computer please select the mic and speakers' option in the audio pane. If you want to dial in by phone please select the telephone option and a box on the right side will display the telephone number and audio PIN you should us to dial in.

If you would like to ask a question we ask that you use the questions pane where you may type in your question. The audio recording and presentations will be posted to the Solutions Center training page within a few days of the broadcast and will be added to the Solutions Center YouTube channel where you will find other informative webinars as well as video interviews and the thought leaders on clean energy policy topics.

Finally, one important note of mention before we begin our presentation is that the Clean Energy Solutions Center does not endorse or recommend specific products or services. Information provided in this webinar is featured in the Solutions Center resource library as one of many best practice resources reviewed and selected by technical experts.

Today's webinar agenda is centered around the presentations from our guest panelists who have joined us to highlight the challenges of last-mile distribution and potential solutions for off-grid energy enterprises and companies to scale. Before we jump into the presentations I will provide a quick overview of the Clean Energy Solutions Center, and Ruchi Soni, from the United Nations Foundations, will provide a quick overview of Energy Access Practitioners Network. Then, following the panelists' presentations, we will have a question and answer session where the panelists will address questions submitted by the audience. At the end of the webinar you will be automatically prompted to fill out a brief survey as well. So thank you in advance for taking a moment to respond.

The Solutions Center was launched in 2011 under the Clean Energy Ministerial. The Clean Energy Ministerial is a high-level, global forum to promote policies and programs that advance clean energy technology, to share lessons learned and best practices, and to encourage the transition to a global clean energy economy. Twenty-four countries and the European Commission are members, contributing 90 percent of clean energy investments, and are responsible for 75 percent of global greenhouse gas emissions.

This webinar is provided by the Clean Energy Solutions Center, which is an initiative of the Clean Energy Ministerial. The Solutions Center focuses on helping government policy makers design and adopt policies and programs that support the deployment of clean energy technologies. This is accomplished through support in crafting and implementing policies related to energy access, no-cost expert policy assistance, and peer-to-peer learning and training tools such as this webinar. The Clean Energy Solutions

Center is cosponsored by the governments of Australia, Sweden and the United States.

The Solutions Center provides several clean energy policy programs and services, including a team of over 60 global experts that can provide remote and in-person technical assistance to governments and government-supported institutions, no-cost virtual webinar trainings on a variety of clean energy topics, partnership building with development agencies, and regional and global organizations to delivery support, an online library containing over 2,500 clean energy policy-related publications, tools, videos and other resources. Our primary audience is made up of energy policy makers and analysts from governments and technical organizations in all countries, but we also strive to engage with the private sector, NGOs and civil society.

The Solutions Center is an international initiative that works with more than 35 international partners across its suite of different programs. Several of the partners are listed above and include research organizations like IRENA and the IEA. Programs like SEforALL and regionally-focused entities such as ECOWAS Center for Renewable Energy and Energy Efficiency.

A marquis feature that the Solutions Center provides is the no-cost expert policy assistance known as Ask an Expert. The Ask an Expert service matches policy makers with one of the more than 60 global experts selected as authoritative leaders on specific clean energy finance and policy topics. For example, in the area of grid integration we are pleased to have Hugo

Lucas, head of Factor, serving as one of our experts. If you have a need for policy assistance in grid integration or any other clean energy sector we encourage you to use this valuable service. Again, the assistance is provided free of charge. If you have a question for our experts please submit it through our simple online forum at cleanenergysolutions.org/expert. We also invite you to spread the word about this service to those in your networks and organizations.

Today's webinar is co-moderated by Ruchi Soni, who is manager of Energy Access at the UN Foundation, where she oversees the Energy Access Practitioner Network and the Foundation's involvement in the Mini Grid Partnership, MGP.

Now I'd like to provide brief introduction for today's panelists. First up today is Emma Colenbrander, who is head of the Global Distributors Collective at Practical Action, where she also leads the Energy Markets Consulting Portfolio.

Following Emma you will hear from Erin Davis, who is a founding member and vice president of Social Investment Managers and Advisors, SIMA, and Impact Asset Manager with presence in New York, Nairobi, Karachi and Geneva.

And our final speaker today is Dan Murphy, who is the founder and director of Catalyst Off-Grid Advisors, with over 20 years' experience working in over 20 sub-Saharan African countries.

And with those introductions I'd like to welcome Ruchi to the webinar.

Ruchi Great. Thank you, Phillip. Can you see my PowerPoint?

Phillip Yes I can.

Ruchi Pleasure to be here. Good morning, good afternoon and good evening everyone, depending on where you are. My name is Ruchi Soni and I'm the manager of Energy Access at the UN Foundation. We are pleased to be cohosting this very interesting discussion on what it takes for local off-grid small and medium energy enterprises to thrive and scale. My role for this webinar will be that as a co-moderator for this discussion.

If the registration numbers are any indication of the interest in this webinar, especially in this beginning of the holiday season we have had a good response of close to over 220 people who registered. So many thanks to all of those who tuned in. Next slide, please.

Let me start with a bit of a background on Energy Access Practitioner Network, or EAPN as we call it. It is a UN Foundation initiative to support the sustainable development goals number seven of universal access to affordable, reliable and modern energy services. This slide pretty much sums up what the practitioner network is about. It essentially is a field-building global platform that connects practitioners to each other and to resources.

It was established seven years ago in 2011 as a contribution to sustainable energy for all. The network's overarching aim is to support the development of market-led decentralized energy access solutions and businesses.

We carried out this mission in three main ways: one, by helping identify the sector, two by accelerating the learning, and three by elevating the distributed energy access agenda. We have a number of different ways of accomplishing this mission and what I like to call the three Cs of these doorstep services: number one, creating market intelligence through service [audio static]; number two, convening the sector through webinars like this one and events so that the stakeholders are able to share knowledge. And finally, through communicating news and sector highlights through bi-monthly newsletters, social media and our website.

To give you a sense of where we are now and what we started off with we started off with about 20 members in our network but we now have over 2,500 members representing almost over 1,400 organizations active in almost 170 countries. These include entrepreneurs, companies, social enterprises and NGOs as well as financing institution and funds, of which approximately one-third are SMEs.

A little bit about the webinar itself, where we'll be talking about the supports required for these local off-grid companies. The webinar will present the challenges of last-mile distribution and solutions required for off-grid energy enterprises and companies to scale. We're increasingly seeing the emergence and push towards this creation of enabling C ecosystem and the fragmented sector to eventually come together to support these last-mile distributors and SMEs. I'm pleased to have fellow panelists join me to discuss this gap barrier and support for the sector.

Lastly, before handing it over to Emma, who's the head of the Global Distributor's Collective at Practical Action we encourage you all to contribute to the conversation on social media. We're using the hashtag, #PNWebinar, where PN stands for the Practitioner Network and do follow our Twitter handle at EnergyAccess_____. Over to you, Emma, now.

Emma Great. Thank you very much, Ruchi. All right, hopefully you can all see my screen. So my name is Emma Colenbrander and I am the head of the Global Distributors Collective at Practical Action. And today I'm going to talk a little bit about some of the challenges that last-mile distribution companies face, and how the Global Distributors Collective came about in response to those challenges and the support services that we're working to provide to distribution companies through the Global Distributors Collective.

So fundamentally the problem is one of access, and that's not just in the off-grid energy space. So some of these numbers will be very familiar to you. But as I say, it's across sectors. So we're interested in the access gap, not just for people who like access to electricity and clean cooking, but more broadly who lack access to clean water, to sanitation and to proper nourishment.

Even though products that are good enough and affordable enough do exist they're not easily accessible to the underserved populations who need those products. And the reason for that is because reaching low income or vulnerable or marginalized communities who often live in very rural and sparsely-populated areas is hard and it's expensive.

So last-mile distribution companies do exist; there are quite a lot of them, and they sell life-changing products to underserved households. And they are often the only companies that are selling to the poorest customer segments in the most risky and remote areas. In the off-grid space this is in contrast to the pay-as-you-go solar sectors focus which is on selling higher-value products, solar home systems and above in more densely populated areas to customers who tend to live under the grid and above the poverty line. And that's a distinction that we've drawn between the last-mile distribution companies that we seek to support and the pay-go vertically-integrated companies who tend to be Western-founded, who are serving a better-served market. But even though these last-mile distribution companies exist they face a huge [audio static] range of challenges and they are dramatically under supported.

So this slide just touches on a couple of the challenges that distribution companies face. At the customer level distributors are working with very poor customers who are risk averse, who have very little knowledge and awareness about products that can potentially improve their lives. They are living often in remote areas and they lack access to finance to purchase products.

On the business level products are expensive, margins are very squeezed, distributors struggle to access finance, they have poor access to information about what services are there to support them and they really struggle with attracting and training and retaining a sales force.

Finally on the police and investment front distributors struggle to navigate difficult importation processes and high taxation; investors don't have a good understanding of last-mile distribution and we often hear from investors last-mile distribution companies simply aren't bankable and the unit economics just won't work. And there's a lack of market intelligence, where very few people actually understand the last mile distribution sector and who are all these companies, where are they operating, what are they selling, what does their customer profile look like and how can they best be supported.

So particularly in the off-grid space the main mechanisms that are used to support businesses that serve last-mile communities have been things like challenge funds, results-based financing and concessional financing instruments. And while these financing mechanisms are great in putting new capital into the space they're benefitting the bigger, more-established companies that are seen as low-risk. So those are more of the sort of vertically-integrated pay-go companies that I talked about before.

One sort of challenge we see on the financing side is that donors tend to prefer companies who are delivering higher levels of energy access. So often donors focus on tier two and above, which means that distributors who are selling more basic products like solar lanterns are excluded from those financing mechanisms, and that steers support away from companies who are reaching poorer consumers who actually can't afford higher-value products.

So the Global Distributors Collective came about when a number of distributors came together and realized that we were all reinventing the wheel to solve common challenges and we shared frustration with the lack of support that the last-mile distribution sector received. We saw that the sector was very fragmented with a large number of small companies and that there was this opportunity to unify the sector and to build one voice for the sector and to put the spotlight on distribution and show that distribution really is the essential segment.

And so this was about two years ago, and after some further consultation Practical Action decided to incubate this initiative because the distributors who came together lacked the capacity or the resources to do it themselves. So over the last two years we've been designing the Global Distributors Collective in consultation with hundreds of last-mile distributors and other stakeholders in the sector to make sure we can build something that really works for last-mile distribution companies.

So what is the Global Distributors Collective? We are a collective of last-mile distributors around the world that reach millions of underserved customers with life-changing products. And fundamentally our goal is to help distributors to do what they do, and to do it better and to do it at scale. And underpinning everything that we do is a philosophy that last-mile distributors have a critical role to play in achieving the sustainable development goals, but that mainstream approaches to support distributors are inadequate and inappropriate. And instead we need collaborative, bottom-up, innovative approaches that support the sector as a whole, rather than picking individual winners and putting all our eggs in one basket.

So we've got two main approaches to supporting distributors through the Global Distributors Collective. The first is that we are developing ways of helping distributors improve business performance and grow by providing services that help save time, bring down costs, build capacity and develop new partnerships. And secondly we're building a collective voice for the sector by generating and sharing learning, raising the profile of distributors and helping the broader ecosystem to work better with distributors.

I just wanted to talk a little bit about what that looks like in practice and what some of the activities are that we'll be kicking off early next year. First of all we will be piloting a centralized purchasing platform and that is likely going to be in West Africa, and that is designed to support distributors with procurement, so to set up an intermediary that can help aggregate demand from distributors and work directly with suppliers to improve the terms and conditions that distributors can get on their contracts with suppliers and to provide support with importation and with freight, and to try and save some of that time and risk that distributors face in procuring our products. And we'll likely start with solar lights as the key product category for that platform with the potential to expand into other product categories in the future.

Secondly we'll be facilitating a range of learning and collaboration events specifically for distribution companies. So we'll be bringing distributors together across East Africa in regional capitals over the next couple of years and we'll be doing things like site visits and peer-to-peer learning and match-making and so on. And we'll do a lot of consultation with our members in over to design those events to make sure that they are as appropriate and as useful as possible for distributors.

Thirdly we'll be running innovation pilots. So what this looks like is we will be doing an open call to our membership and we will be asking distributors to submit ideas for innovation that they want to test that can be replicated by other distributors across the sector, and we'll be particularly interested in innovations that are rooted in collaboration. And we'll look to disseminate the lessons learned from those pilots and work with distributors to replicate those pilots that have proven to be successful.

Fourthly we're developing centralized training services, both digital [audio static] training services and face-to-face training services, and those are particularly focused on working at sort of the sales manager level and supporting middle management to work with their sales agents and retailers. And that's targeting things like sales and marketing, customer service and particularly sort of gender and how we can better mainstream gender and last-mile distribution companies.

Number five: we will be publishing a groundbreaking state of the sector report next year. And the purpose of that report is really to make the sector more transparent. As I said before there's very, very little information about exactly what the last-mile distribution sector looks like. There's limited understanding of what are the market areas and the barriers that prevent distributors from reaching meaningful scale and how those barriers can be overcome, and how temporary public finance intervention can support last-mile distributors to reach their full potential. So that's what that report will be looking to do and we'll be working alongside donors and investors and governments to try and implement some of the recommendations that come out of that report.

Finally, we're looking to build a really engaged community of practice. We think that the best learning for distribution companies can come from distributors themselves. We're soon going to be releasing a podcast series on last-mile distribution where you'll get to hear directly from practitioners about some of the challenges that they've cracked in their last-mile distribution companies and we'll be doing webinar series and putting out a whole lot of content and case studies and stories and trying to connect distributors both to each other but also to other stakeholders in this space who might be able to provide support or services.

So as I mentioned, some of these activities have a regional focus and the reason is because we're trying to demonstrate that these type of collective approaches can have a direct impact on business performance of last-mile distribution companies but we are hoping that in the future we'll be able to replicate and expand some of these activities and pilot new activity that can be across other regions as well. We are global; we work with members not just in West and East Africa but in Southern Africa, Asia and Latin America.

So the Global Distributors Collective is for companies that are primarily focused on distributing life changing products at the household level. Companies might be exclusive distributors of one company's products; they could distribute products from a range of companies. They might even produce their own products. But their core business is distribution. They sell products that contribute towards the sustainable development goals and they target underserved households. That doesn't necessarily mean they're remote; they could be urban slums, but they are low income or vulnerable or in some way discriminated against or marginalized and not reached by the mainstream private sector.

We have about 100 last-mile distribution companies who are now members of the GDC, since we formally launched about three weeks ago and we are signing up new members all the time. And members vary from early stage companies to established social enterprises to national SMEs to international SMEs. We have quite a broad membership base. If you are interested to become a member of the GDC and you think you meet our criteria then you can visit our website to sign up and we'll set up a conversation with you to talk a little bit more about your company and how we might be able to support you.

To give you a bit of background on governance and funding partners we are currently hosted with then Practical Action and our key implementing partners are HYSTRA and the BoP Innovation Center. We're funded by the Department For International Development in the U.K., P4G and a couple of others. And what we're working to do now is to develop an appropriate governance structure to make sure that we can be truly representative of distributors and truly accountable to distributors. And so we're working through what that looks like now for our membership and to ensure we can have distributor representation in all of our decision making processes.

So very keen to hear your ideas for what else we can do to support sector-wide growth, and my contact details are on the following slide here. So if you do have any questions or any feedback or suggestions then I would love to hear from you; please get in touch. Thank you very much.

Phillip Thank you very much, Emma. Up next we have Erin Davis SIMA. Erin?

Erin Great. Thank you. Hello everybody. My name is Erin Davis from SIMA Fund Social Investment Managers and Advisors. We're a social asset management company that launched in early 2016. We currently have a senior get fund in the off-grid solar sector focused on some of these larger off-grid players, and also microfinance institutions that are playing a part on the distribution of energy access. They are either wanting to incorporate solar products or have already incorporated into their product mix. SIMA is a team of about 13 people; we have offices in Nairobi and Karachi, New York and Geneva, Switzerland.

And so our first fund largely focused on Africa and South Asia with a variety of debt products for the off-grid sector, and through that experience we saw sort of anecdotally that there was so many other players that we're playing a part in the sector and had real capability to be contributing to the energy access issues that Emma described earlier, but that our fund structure wasn't set up to support those types of players. So over the past year or so we've been looking at putting together a new structure that would focus on the new generation of solar distributors. So we developed the New Generation Solar Consortium for Growth Financing and Knowledge Capital for Young and Locally-Owned Off-Grid Solar Distributors.

So what this means is that we're calling in a consortium because it combines finance with technical assistance and knowledge sharing. So the key features of it is that it's intended to be a $30 million structure and support companies over five years. It's strictly debt with two types of debt products: a quasi-equity product that has a revenue share component and then a structured pay-as-you-go debt that helps companies buy inventory. And then the fund itself has a self-generating technical assistance pot of money that we're hoping to support companies in some of the ways that Emma described to become more investable companies. And then finally a platform potentially building on the UN Foundation's energy access practitioner network with a carve-out for these smaller, locally-owned distributors.

So I'll come back to this but just wanted to talk about a few things that we have seen in this sector. I think we'll start hearing this story more and more and we are all aware that off-grid funding has been asymmetric. Most of the funding, including from our current fund has gone to larger players that are U.S.- and European-owned, and in 2016 $223 million were raised but $60 million of it went to two companies alone. And so this is the Shell Foundation catalyst; you'll hear from Dan Murphy in a little while, so this slide should be recognizable to him. But I think it's just a really good visual of if we continue business as usual funding the same people over and over we are going to miss SDG7 by more than 100 million households.

So over the—you know, we have now the research and we've also seen over the year anecdotally and just seeing out in the field that there are hundreds of second and third generation distributors operating across the globe. And some of them are not quite investable yet but they're targets for us because they understand the needs and the particularities of the local markets.

So we, to-date, have actually been able to make investments in some of these companies already through a grant with the USAID SOGE program and to companies like ARESS and Eco Energy in Pakistan and are considering several other companies within our current fund.

So some of the challenges that we're seeing for distributors that are also challenges for us as an investor are similar to the slide that Emma presented that really on the end user level the company or the business level and then the macro level. And so I think we know that the end user level is extremely important; obviously they're the ones that are supporting these companies. So customers have experienced poor after-sales service; the markets have been flooded with less than quality products. Affordability is a huge issue, and then just generally exposure to the benefits of solar products to get a customer to adopt a solar product.

I think number two on the company level is sort of the areas where SIMA is focusing is at the company level that we would love to finance companies like these but we can't do so with our current structure. We have commercial investors who are seeking commercial returns and it's more difficult to finance without the right debt products because of the company's weak balance sheet, perhaps a limited track record and no outside financing, the lack of profitability and then you add in the very high liquidities, especially for a pay-go model where you're being paid back over 18-24 months.

And then just in general what we've seen is companies just need to know what investors are looking for, what types of information they should be capturing. So that's on the company level. And then finally Emma touched on a lot of the macro level issues. And so we all, as in FEMA and UN Foundation and Global Distributors Collective are thinking about ways that we can work together to address some of these issues.

So that's some of the challenges that led us to developing the New Generation Solar Consortium. So as I mentioned it's a five-year structure starting with $30 million and we're looking at developing a couple different types of debt products that focus on different needs of off-grid players.

So first the quasi-equity is a revenue share product over the five-year period, and it would start with a very low interest rate and serve as just general working capital for these companies. And this can be partnered with or paired with the structured pay-go debt. This pay-go debt is what we have already done a few times in our current fund and this relies on the cash flows of the pay-as-you-go payments and builds up a cash reserve. So we work in partnership—it's a three-party agreement with a manufacturer, a distributor and SIMA. So we will sign this agreement and then send a couple hundred thousand dollars to a manufacturer, the manufacturer will send inventory to the distributor and both parties put in a portion of their margin that serves as this cash reserve. So we don't have to rely as much on the company's balance sheets because we have this cushion. Typically SIMA takes some type of collateral, some type of security; in this case it can be inventories.

The technical assistance is not necessarily a defined program. Each company that we see has different needs. And we just in general contribute to their overall investibility over time. So any sort of weaknesses we see from an underwriting perspective we would then try to translate into technical assistance.

And then finally the platform, building out the energy access practitioner network taken on by the UN Foundation to promote some of this knowledge sharing, possibly matchmaking opportunities and exposure, just demonstrating to the broader audience that there's a lot of investment opportunities out there if the right structures exist.

So for the investor who are listening this would be the fund structure. So we'd have three different tranches that you could invest into: first loss equity like tranche, a senior tranche and a super senior tranche. The three products, the asset side are listed there, so I spoke about the structured debt and inventory financing and the structured revenue shared financing. And then we also have incorporated into the model some bullet loans for relatively more advanced companies.

SIMA also promotes a code of conduct. So all of our loan agreements incorporate a code of conduct, and GOGLA has been developing one, so we would adapt to that code of conduct. But essentially SIMA views one of the biggest risks in the off-grid sector is really geared around customer service and making sure that your end user is happy. And so this can be achieved through broad areas, making sure you have a quality product, making sure that the cost is transparent and what you're providing to the customer is of value. You don't necessarily believe you have to be the cheapest product on the market but you have to demonstrate that the product is of value. And then finally good after sales service. So if you installed the product and then it stops working your customer stops paying, and that becomes a big challenge.

So I mentioned earlier that we have done one of these inventory financing to a smaller distributor and this particular company, ARESS, is a company in Benin, Togo and Burkina Faso. Very interesting company, and we really like them because they had a few different diverse lines of revenue. They're one of the first to bring pay-go to Benin, and now with a loan from us of $500,000 they are further expanding into that market. They also have productive use products from Victron Energy and then a third line of revenue from engineering and commissioned installations.

So it has been largely funded through private capital from the founders, inventory financing from SIMA, grand funding, results-based funding. So they've really done a lot with a little but have truly demonstrated their ability to operate in this market.

And so with that I look forward to hearing from all of you out there. Please, if you are a potential company or potential investor we'd love to hear from you and you can contact me here. Thanks so much.

Phillip Thank you, Erin. We'll now be listening to Dan Murphy from Catalyst Off-Grid. Dan?

Dan Great. Good morning, good afternoon everyone. Really looking forward to the discussion with you all this morning, and I just want to kick things off by taking a few minutes to tell you about VentureBuilder, which is an exciting new platform that my firm, Catalyst Off-Grid Advisors, has been developing in partnership with Open Capital Advisors over the past couple of years. And just quick background on Catalyst. We are a boutique advisory firm that focuses exclusively on the Energy Access Challenge and we do a lot of work with investors, with entrepreneurs, with foundations, philanthropies and with governments in emerging markets. And also just on Open Capital Advisors they are a Nairobi-based management consulting firm; one of their core business lines is supporting investors in businesses related to energy access, particularly in Africa.

So some of the slides that you're going to see here are going to be somewhat familiar and so what I'm going to do is try to skip to some of the most salient features. So you just saw this slide a couple of minutes ago from Erin, and as she mentioned, this is one of the main takeaways that came out of a piece of work that our firm conducted last year in conjunction with the Shell Foundation, and basically demonstrates that even despite the tremendous progress that has been made with respect to energy access, and I think particularly around some of the technology and business model innovations that we've seen over the past few years. In a business as usual scenario the industry is not even going to make a dent in the access deficit. So the model that we build out projected that by 2030 there would still be a deficit of over 100 million households on the African continent that would still not have access to modern energy services.

Meanwhile, as many of you know, there have been pretty tremendous advances on the technology front over the past years, particularly with respect to solar panels, with respect to battery technology, particularly lithium ion battery chemistries and with LED lighting arrays. And then you combine those three ingredients you're able to deliver products that can really transform lives in a robust and reliable and affordable way. And when you combine that, that technology with further business model innovations around the pay as you go business model whereby customers are able to pay for products in installments over time. It's really a game changer that we're all very, very excited about.

Part of the consequence of that enthusiasm and the evolution of that business model has been a significant amount of capital moving in to support the sector. In its earlier years that was heavily oriented toward equity capital, as you see here, and particularly in the last couple of years the volume of debt as those businesses have matured has increased considerably as they need to leverage that equity and bring debt in to grow their businesses.

And again, very similar to what Erin pointed out a couple of minutes ago I think the general observation is that—and we've been associated with the industry from its earliest days, both on the catalyst and on the OCA sides. The industry has really struggled to scale. So struggled to scale in home markets, whether that's Kenya or Uganda or Rwanda, to really sustain that growth in those markets. And I think what's been even more challenging is for some of these larger, vertically-integrated businesses to actually export their model into new markets. And even moving right next door into a neighboring country, seemingly a fairly simple turnkey situation is decidedly not.

So there's a real clear impediment to the scalability of the model. And it's not to say that the first generation businesses will not be able to continue to grow and will not succeed. I think they absolutely will. But I think going back to the observation about achieving universal access by 2030 we really need a next generation, several generations of new energy access businesses rolling out across the continent over the coming years.

So for us this is what gave rise to the core thesis underpinning VentureBuilder. So this premise that you have certain parts of the business model that can be taken off the shelf, notably on the technology side with the hardware that is increasingly commoditized and relatively easy to procure. Also on the technology side you're seeing increasing commoditization on the software side of things, both in terms of the payment intermediation and the CRM platforms that are needed to fuel the management of customer portfolios.

And the second piece that we see that is increasingly readily available is on the financing side of things. As you saw there is lots of capital flowing into the sector; as Erin pointed out, the bulk of that capital has gone to a handful of businesses across the continent. And so the view is that investors are willing and excited to invest into these businesses. But what's really lacking is that homegrown, local knowledge. It's the distribution side of the business, and at the end of the day that's what these businesses are. They need to know how to serve customers and understand what those customers want, aspire to and can afford, and need to understand how to get it to them in a sustainable and scalable way. And sustainability and scale translates into unit economics that are profitable. And our view is that there are—again, as both Emma and Erin alluded to, there are hundreds if not thousands of local distributors already operating across the continent. Some of them are already operating at fairly substantial scale, and that is a latent resource that can be tapped to really make a meaningful dent in Africa's energy access deficit.

So what we do is we look for—and this is point one on this slide—we look for established, local enterprises so that our both locally owned and managed and that have been operating for typically in excess of three or four years, have demonstrated that they know how to operate, build and operate and scale a business in their respective country, and have also demonstrated that they can sell to the base of the pyramid, they can sell products into rural markets.

What we then do is work with those businesses and really take very much a sleeves rolled up approach and leverage the capabilities within our team. So again, on the catalyst side of things we draw a pool of experts, most of whom come from the industry themselves, either as early stage employees, founders of energy access businesses or on the finance side of things or on the B2B technology intermediation side of things. And we also marry that with the capabilities that open capital brings through its many years of deep experience working with energy access businesses across the continent, in particular in East Africa.

And so what we do is we actually, even from the point that we identify the businesses, we enter into what we call a pre-investment phase of our enterprise development services to help the businesses get investment ready, and it also gives us an opportunity to better understand the business and derisk our perspective downstream investment into them. And at the same time we're also able to identify some of the critical weaknesses that they have, and basically build out a package of bespoke advisory services that we fully fund and deliver as part of our package of support.

Again, that really varies, depending on the specific business; some of them really need help on the technology side; some of them need it on sales, separate line on the credit side of the business, some on core finance functions; it really varies and we develop a package that really helps either to mitigate risks as investors into the businesses, or it helps to add value into the business. So that's going to directly translate into an uptick in terms of revenue and hopefully eventual profitability.

So what we do is we look to partner long-term with businesses and enter into at least two years of a partnership with them. The intention is that we fully fund a portion of their needs over that two-year period. So most importantly is the enterprise development services package that I mentioned.

And then the second piece that we provide is what we think is the scarcest source of capital in the market these days, which is that earlier stage risk tolerant equity financing. And so we will fully fund the business's equity capital needs during that two-year period as well, and we'll work very closely with the businesses to help them to leverage that equity capital that they bring in directly through the VentureBuilder vehicle to crowd in outside debt finance from specialized third party debt providers such as SIMA and others.

So in that way our view is that we are catering to what is missing for these local distributors in terms of resources, both human and financial, that they need to scale their business into energy access, and in some cases into the pay-go business model. And we do that in a way that complements existing players that are in the market. And really that's what we're trying to do through VB is to leverage partnerships.

So we've been working very intensely on VentureBuilder over two years now; it's been 14 months that we've been in intense development of the model, and we initially had focused on three markets in West Africa, so Nigeria, Benin and Burkina Faso, and are right now finalizing the packages of support for our preferred candidates in each of those three markets and are really looking forward to moving into the post-investment with each of those businesses in 2019. Our vision is to scale this model across the continent and bring in additional resources o enable us to support local enterprises in central and eastern Africa as well over the coming years.

As I mentioned, in terms of impact our goal is to have somewhere between seven and ten businesses in our portfolio and combined those businesses would be able to deliver at least a million connections and having direct impact, both on carbon emission reductions and also on the access deficit.

Just a couple of quick links here. The first is to a white paper that we published a couple of months ago that basically tells our story about the journey to-date around VentureBuilder and some of the core theses underpinning the model, and also a blog that we published also a couple of months ago that appeared in Next Billion, again, to tell the VentureBuilder story. So look forward to the discussion and to questions from the audience.

Phillip Thank you so much, Dan, and thank you to each of our panelists for their outstanding presentations. As we shift to the moderated discussion led by Ruchi I would like to remind our attendees to please submit questions using the question pane at any time. We will also keep several links up on the screens throughout the discussion for quick reference. And those will point you to information about other upcoming and previously-held webinars.

Now I'd like to pass this to Ruchi.

Ruchi Thanks, Phillip. Thanks also to Dan, Emma and Erin for a series of rich presentations. We now have some time to field questions, and I'm going to use my moderator privileges and get us started with two questions and then open it up to audience questions afterwards.

So really my first question to all three of you is around the work on the need to disrupt off-grid electricity financing in Africa referred by you, Erin and Dan, who you obviously led the work, that talked about these new second and third generation off-grid solar companies that need to be seeded and sort of come to scale to get closer to achieving the STD7 goal. This is obviously linked to the whole challenging economics of last-mile distribution.

So these approaches proposed by all of you offer support for these enterprises and last-mile distributors. I'm sure this process—and I know for some of you it has involved these series of stakeholder consultations and involved reaching out to several practitioners as well as funders and investors. So I have a two-part question here. So number one, what are some of the things that stood out for you in these interactions? And part two, which I think Emma sort of alluded to in her presentation is do the need of these practitioners match what investors have to offer? And are these practitioners able to deliver on the social impact and scale that investors are looking for? And then the second question that I have is more specifically towards for Erin and Dan, which is around what are some of the criteria that you look for in candidates for financing? I'm curious to hear if there are any characteristics that you look for in distributors during the screening stage. So I'll stop now and over to any of you want to get started first.

Emma, do you want to start? Not to put you on a spot.

Emma That's fine. Happy to start. So I'll respond to your first question around the needs of practitioners and how that sits against what investors are offering. So I think broadly there is a mismatch, and that's clearly changing with players like SIMA and VentureBuilder coming to the table. There are some existing funders that are providing appropriate financing for distributors. So some examples would be D Prize, who provides seed funding for early stage distribution companies; Transform, which is a DFID-Unilever partnership which provides support for distributors to test innovations in their business model; and Shell Foundation, which invests in a couple of individual distribution companies. So it is happening to some extent but on a relatively small scale and with a small number of kind of well-known, established players.

And so I think broadly the problem is that funders and investors aren't interested in last-mile distribution and that's for a couple of reasons. First of all they tend to focus more on technology innovation than on supply chain innovation. Secondly, a lot of distributors work across product categories, not just within energy, and that does fit neatly into a funder's sectoral focus area. The funding world tends to be very segmented by sector.

Thirdly, while there is a lot of debt now coming into the off-grid space distributors tend to lack strong track record and collateral and require pretty small ticket-sized loans compared to what most funders are looking for. So there's a real mismatch there. And then finally there is this kind of perception that the unit economics of distribution just don't work. But there are models that exist that have proven viability at a unit level, and there is a lot of innovation in this space, which is helping to improve the unit economics of distributors like the emergence of pay-go technology specialists like Engaza.

So I think we are seeing a mismatch in distributors [audio static] broadly aren't having their financing needs catered for but as I said, I do think that is now starting to change with these kind of innovative, more targeted players like SIMA and VentureBuilder. So I'd better hand over to them to give you a little bit more insight.

Dan This is Dan. I'm happy to jump in.

I think Ruchi, the first part of your question in terms of the practitioners and their view and sort of looking at that as the demand side of the equation I think that the typology of those practitioners are different than the practitioners that particularly investors have focused on in the past five to ten years in the energy access space. And fundamentally the needs of those practitioners are different. The capabilities of those practitioners are different. And so it's a really different approach that needs to be taken to supporting them to deliver access.

Flipping over to the supply side with respect to the investors, as Emma alluded to, I do think that there are the short list of existing investors and impact investors who have been very focused on this space for several years, and I think they're going to be absolutely critical to supporting this next generation of businesses to thrive on the continent. And in order for that to happen the platform that Erin was speaking about and VentureBuilder need to achieve their proof points in scale, and I hope that many more platforms similar to this will pop up across the continent, and hopefully not just for energy access but for other verticals as well.

I think that the risk there is that the established investors quite often either perceive that sort of energy access is solved and that the winners have been chosen, and that if you just keep capitalizing the winners then those are the horses to bet on. I do think that the data empirically shows that that is not going to be the case, at least if you're trying to achieve universal access across the continent.

Or the other challenge for investors is that they've already placed their bets, and so they see you need to demonstrate the differentiation in terms of what Erin described and what I described through VentureBuilder and how that is different from a more classic sort of equity play into a vertically-integrated business or a tech focused business that typically is attracted to those types of investors.

Erin

To your second question about sort of criteria and what we're looking for I think it probably falls somewhere in the middle between Global Distributors Collective is really focused on like younger players, but to have a sustainable fund the ticket size per company needs to be a manageable number of companies within the fund. So I'm thinking if we will do some tranched fundings, so say we commit a package of $500,000 or $1 million to a company we're looking at that over time. But still, if you're taking on $250,000 of inventory financing, say that's 5,000 products, you need to—the company needs to be able to efficiently manage that over 18 months or whatever their kind of payment plan is. So that's sort of—it's still a constraint on our side about how small of a company we can go to.

Then other than that criteria-wise we're looking for companies operating across Asia, Africa, Central America, Latin America. We don't have a particular geography in mind because I think these types of companies are everywhere. And then I would say track record-wise we've been in business for a few years. And then I think one of the biggest things that I think I alluded to earlier is just information. So do you have a viable sort of business model that you can share, like what can SIMA as an investor sink our teeth into? So do you have an investor pitch BA? Do you have a financial model? Do you have projections? These are all sort of basic things. But when you're running a company sometimes it's not the most important thing. But for an investor the way that you present information is very important to enable us to make a decision.

So I think that's also where this platform idea and just sharing of information comes into play because all these items that I mentioned aren't rocket science in any way, they're basic items that could be largely distributed to these companies.

Ruchi

Fantastic. Thanks everyone. I'm now going to hand it back to Phillip to see if we have some questions from the audience.

Phillip

Thank you, Ruchi. Okay, we have some great questions from the audience here and I'd like to remind our audience to continue submitting questions using the question button. In the meantime I will trigger a question from Elise. It's for Emma. It asks: What kind of partnership do you think are key for distributors reaching underserved populations? And could you comment on the interaction between NGOs and governments and what could be done to improve it. Emma?

Emma

Great. Thanks for that question. So in terms of what partnerships are important I think the focus has really been on technology partnerships, so distributors trying to find the most appropriate product for their market, and then the best supplier who they can work with to deliver that product. That has been kind of the most important partnership for distributors. There is kind of a lack of service providers out there that are specifically serving distributors and meeting their particular needs.

So to-date there haven't been a huge range of partnership options available for distributors. In saying that, that is starting to change, so as you have some centralized support services emerging like Engaza, who provides a pay-as-you-go platform for distributors, specifically for distributors, we're starting to see some sort of centralized software solutions emerge. Again, that's something that Engaza is looking at and also other players such as Shell Foundation's Catalyst.

I think there's a huge opportunity there to develop additional centralized support services, and particularly in the area of training, I feel there's a real kind of market gap there.

One other sort of key partnership area is around investment readiness, and there are some organizations out there that provide that type of support. One example is the Miller Center for Social Entrepreneurship that provides and incubation and accelerator program and has run dedicated cohorts for distribution companies. And I think more of that is needed and it's starting to see that that is kind of a real critical piece of what VentureBuilder is looking to provide as well. So there are sort of limited partnership options for distributors right now.

In terms of NGOs and governments I think we're not seeing much collaboration between distributors and those actors right now. I think Darma Life in India is a good example of really effective collaboration between governments and—Darma Life is a distribution company but that's quite rare in this space. So definitely an opportunity to explore what those relationships could look like, but I think that's still a little bit of a question mark right now.

Phillip Thank you so much. I have another question here, and this is for Erin. It's asking about the product side of the equation as opposed to the distribution side. That is to say: What can be done to ensure that the products which distributors are providing can be of a consistently high quality?

Erin I think we go about this in different ways. Companies that we typically work with work with products from Green Light Planet, VBOX and others, Victron, you know, most of the products are lighting global certified. And so in our underwriting criteria we'll always try go check that box. But for times when you're building your own products—some of the productive us products are larger and built by the company themselves. We will engage a consultant who can look at the product quality because we don't have the expertise in-house, necessarily. But I think those are the two things that we would rely on. But I think it also comes back to a potential possibility for Global Distributors Collective, and something that I believe, Emma, you're working on is product quality and just having sort of a database saying, "These products have been vetted and are of high quality.

Phillip Emma, do you wish to comment on that?

Emma It's not actually something we're looking at very closely. GOGLA, the Global Off-Grid Lighting Association, is doing a lot of really great work around consumer protection and product quality. It's not something that we're looking at closely. In saying that, as Erin, you mentioned something that we are looking at doing is some sort of TripAdvisor, if you like, for these kinds of products, solar products and other products where distributors can access information about products that is relevant for them, so not just sort of the technical specs of various products, but also what products have a warranty, how long does it take to provide service on a product, are these products available in my region and what are the sort of taxes that I have to pay on these products? And that type of information is very, very difficult for distributors to access right now. But that is more about supporting distributors with access to information about those products as opposed to verifying quality through some sort of independent verification which is kind of outside of our scope at this point in time.

Phillip Thank you so much, Emma. I have a question here for Dan. It is: When you're screening what's the most important characteristic you look for in African distributors?

Dan Thanks, Phil, for that question. I think for us that's—Erin alluded to several core criteria in terms of track record and we also look for businesses to be targeting rural consumer bases, fundamental criteria such as those. Also with a product offering that does cater to the base of the pyramid, so we directly focus on enterprises if they are already selling solar products that are selling smaller-scale systems, including solar lanterns. We opted out several times on businesses that were selling larger kind of tier two, tier three solar home system solutions just by virtue of the fact that that wasn't really catering to the demographic that we're interested in in delivering access to through VentureBuilder.

I think the most important criterion for us is actually a qualitative one and it's about the willingness of the entrepreneurs to partner with us, and that they understand that there's certain parts of their business that they need help with and they're looking for partners who can support them, to troubleshoot and work out solutions for some of those challenges that they're facing. That's really our differentiation in that we're really looking to partner very closely with these businesses so there absolutely has to be that political will on the enterprise side. So for us that is a deal breaker if we're not able to get that clear sense of trust and a real strong relationship then we would opt out on that central collaboration.

Phillip Great. Thank you, Dan.

I have a question that's actually directed to Erin but I think I'd like to get a little bit of input from everybody on the panel for this one. It's speaking to the issues that pertain to different regions. It says: Could you talk a little bit about specific regions, including Africa and Latin America, specifically the challenges in those different regions?

Could we start with Erin?

Erin

Sure. I think we haven't worked as much in Latin America; we're getting to know that market a little bit better. I think one of the sort of biggest challenges—I guess I would say two things in Africa. One is just kind of the uncontrollable factor of the political and country environment. Every few years, when elections happen, kind of rears its ugly head and takes a toll on the market and people's—customers' ability to basically service their loan to the off-grid company in time. So I think that's a big challenge for Africa.

And then I think the second thing that we see sort of on a country-by-county basis ties into the discussion we were having before about product quality and also product appropriateness. So I think each country, region, sometimes village really homing in on what the appropriate product is for your customer market has a huge impact on the success of your business.

I think in Latin America with—especially in South America with the grid being more available I think Central America is probably more of a target for us in terms of these companies being able to operate at scale. But would love to hear the other panelists' opinions.

Phillip

Can I pass this question off to Ruchi now? Or Emma or Dan.

Emma

Yeah, Sean, happy to jump in. I think fundamentally there are a lot of similarities with challenges and with business models across regions and that's also across product categories as well. But there are sort of some differentiating factors. So for example, when you look at procurement and some of the challenges around procurement in East Africa that's much less of a challenge because a lot of suppliers have set up their own intermediaries in country which manage procurement directly from China and do their own kind of warehousing and support with logistics, which makes it much easier for distributors in East Africa, whereas in other parts of the world where those intermediaries don't exist, distributors are having to order those products directly from China and manage that entire sort of part of the supply chain themselves, which is complex and time-consuming and adds extra expense.

Something like the presence of mobile money can obviously make the provision of credit much easier, so in a place like India where mobile money hasn't really penetrated that means that distributors have to deal in a lot more cash, which is higher risk and creates challenges in managing a sales force.

When you look at customer awareness of products that can differ quite substantially, depending on the market. So again, in a market like East Africa, where solar lights are a quite familiar technology to a lot of people you do obviously have challenges that Erin touched on earlier around quality and the quality control having damaged sort of the reputation of solar in some areas. But at least customers have a familiarity with the product and its offering, whereas in other markets where the technology is kind of brand new there's a lot more work that has to go into simply explaining how that product works. And that, again, can add quite a significant expense if you're not able to make a sale the first sort of five times that you visit a village or a community because you're still trying to explain and demonstrate sort of the product itself.

And finally I guess salesforce churn tends to be quite market-specific as well, a really, really big problem with distributors operating in India, and maybe less of a challenge in somewhere like Latin America. And that can really hold distributors back from effectively scaling when they're constantly having to recruit and train new staff and develop effective retention strategies. So those are kind of some examples of where challenges can differ and where business models have to respond appropriately. But more broadly I think there are more commonalities than there are differences.

Phillip Ruchi, you were picking up there for a moment so I'm going to return to you.

Ruchi Thanks, Phillip. No, I think Emma pretty much covered what I had to say. I also wanted to sort of quickly jump into add the whole capacity issue, as well as around customer awareness. But Emma covered it also, so thank you.

Phillip Okay. Well I will still return to Ruchi for one more question, and that is: What can we expect in terms of the time aspect of setting up the structures we've discussed so far in this webinar?

Ruchi Thanks, Phillip, and that was a question I wanted to pose to all of you, panelists, to respond to what is the kind of timeline we're looking at setting up these structures and have them up and running? Emma, you already have certain aspects of GDG up and running, but what timeline are we looking at the delivery of some of the components that you mentioned. And so the same question to Erin and Dan: when are you looking for some of these services to be available to some of our audience members but also these practitioners?

Emma The Global Distributors Collective is live and our work is underway. So we've begun our sort of scoping study to look at the best business model for our centralized purchasing platform and we'll be kick starting that pilot probably in March next year. Our learning and collaboration events will be starting from mid-next-year as well. We will be doing a call for innovation pilots probably in February or March next year; we're designing exactly what those pilots will look like. And again, we'll be consulting heavily with their members to define the specific innovations challenges we'll be focusing on.

And then we'll be looking to do sort of knowledge exchange and matchmaking and facilitation broadly through our network as of now. So things are very much underway.

Erin For us at SIMA we've already launched this sort of inventory pay-go debt financing. So we're actively sourcing deals for that and making those types of investments and still continuing to get to know this segment of the market better.

In terms of launching the consortium we are raising outside money for that. And so we are targeting a launch of next year, but as everybody knows how fundraising goes it can take longer than you expect. But we're hoping for next year.

Dan

Great. And on the VentureBuilder side, as I mentioned, we've been building out our pipeline for over a year now. So we first started engaging in Nigeria with Benin and Burkina Faso in the fall of 2017, and we are right now finalizing the detailed terms of our partnerships with each of our preferred candidates in each of those markets, and we'll be looking to close the financing and the advisory packages with them in very early 2019.

In parallel we will begin scoping new opportunities in at least one or two markets in East Africa. So we'll be out looking for promising local distributors that we could partner with in the east, and we'll continue to also raise funds into VentureBuilder itself to enable us to deliver to our local distribution partners. And the fundraising is a continuous endeavor and will be continuing well into the future.

Phillip

Thank you again to everyone for that informative Q&A session. We only have a few minutes left now. For any questions we didn't have time to get to we will connect with those attendees offline after the webinar. For now I'd like to provide the panelists with an opportunity to provide any additional or closing remarks they'd like to before we close out the webinar. We'll start with Ruchi.

Ruchi

I'll just keep it very short. I want to extend thanks and gratitude on behalf of the UN Foundation to all our panelists for participating. I think all the presentations demonstrated the depth and the width of the extent of support and effort that you and your organizations are placing on this issue. We're very pleased to be a partner to you and look forward to continuing our collaboration in this space. And a final thank you to all of those who took out the time to join us for the webinar today. Thank you.

Phillip

And Emma?

Emma

Thanks. I have nothing substantive, just thank you very much to UN Foundation and my fellow panelists and it's just really exciting for me that something that really wasn't on anyone's agenda just five years ago is now sort of coming front and center and there's this recognition that distribution does have this vital role to play, and that more support is needed and the types of support that is now being provided is exactly what distributors need to thrive and to scale. So just really exciting to see the sector be at this point. And if you're interested in learning more about the Distributors Collective or joining the Distributors Collective or partnering with us then please do get in touch. Thank you.

Phillip

Thank you, Emma. And Erin?

Erin

Thank you guys so much for your time today. And I think the only thing I'd like to say is that I'd love to hear from everybody. Feel free to drop me an email at Erin@SIMAFUnds.com if you're interested in partnering or borrowing or investing it would be great to connect.

Phillip Thank you, Erin. And finally to Dan.

Dan Yes, just to reiterate previous comments that were made, and I think first of all to thank you all for organizing this and—yeah, we very much want to keep in touch. We're climbing a very steep learning curve on our side and we really want to share those learnings and experiences with the broader practitioner community. So please do reach out, and we ourselves are going to be deliberately trying to open source some of our learnings as we continue building VentureBuilder. So thanks.

Phillip Great. Thank you.

On behalf of Clean Energy Solutions Center I'd like to extend a thank you to all of our expert panelists and to our attendees for participating in today's webinar. We very much appreciate your time and hope in return that there were some valuable insights that you could take back to your ministries, department or organizations.

We also invite you to inform you colleagues and those in your networks about Solutions Center resources and services, including no-cost policy support through our Ask an Expert service. I invite you to check the Solutions Center website if you would like to view the slides and listen to a recording of today's presentations, as well as previously-held webinars. Additionally you will find information on upcoming webinars and other training events.

We are also now posting webinar recordings to the Clean Energy Solutions Center YouTube channel. Please allow for about one week for the audio recordings to be posted.

Finally, I would like to kindly ask you to take a moment to complete the short survey that will appear when we conclude our webinar. Please enjoy the rest of your day, and we hope to see you again at future Clean Energy Solutions Center events. This concludes our webinar.