Global Distributors Collective

The growth and fundraising journeys of last mile distributors (LMDs)

May 2021

Funded by:

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GET.invest Mobilising Renewable Energy Investments

GDC host:

Practical ACTION

GDC implementing partners:

HYSTRA hybrid strategies consulting

bop inc

Context and research methodology

Why do last mile distributors (LMDs) matter?

800 million people lack access to electricity

Credit: Vitalite

2.7 billion lack access to clean cooking facilities

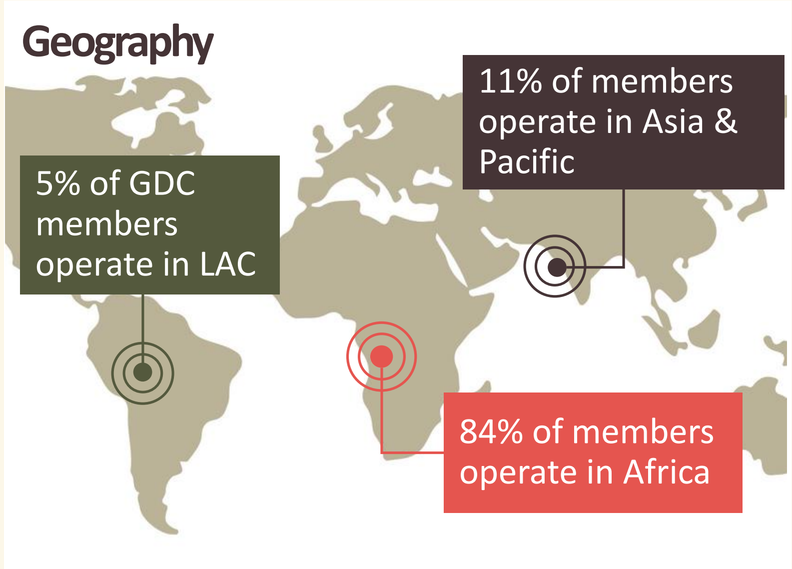
Credit: Joanna Pinneo | Solar Sister

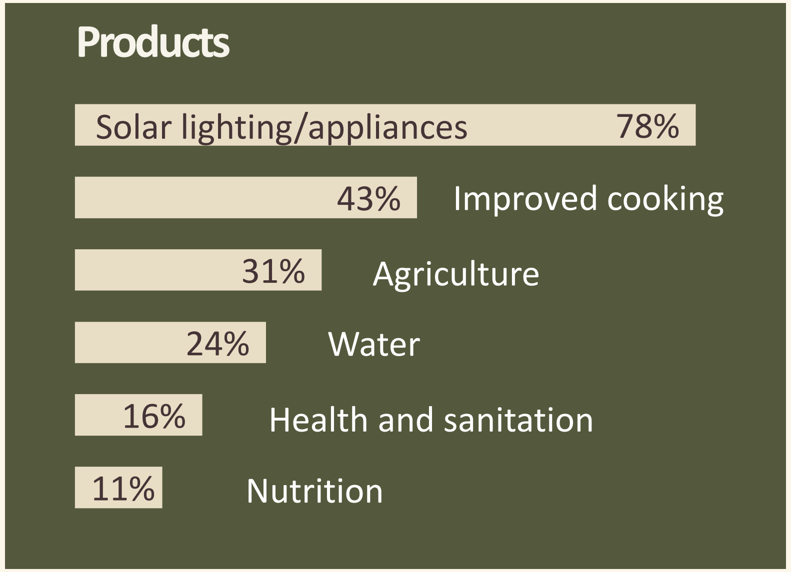
800 million lack access to basic drinking water

Credit: Ecofiltro

- To meet the SDGs, last mile populations need **access to beneficial products and financing** to afford them.
- LMDs have **a crucial role to play** in delivering these products to the hardest-to-reach consumers.
- To unlock the full potential of the LMD sector, **all types of funding – grant, debt and equity – are needed**.
- The importance of LMD is increasingly recognised **but capital is still not flowing into the space**.

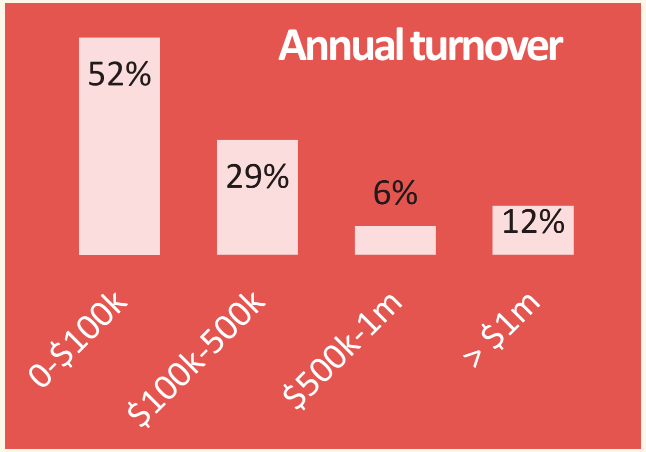
LMDs are a diverse group, with diverse impacts





Value chain activities

Procurement of inventory	Distribution & retail	Consumer financing	After-sales service
Manufacturing			



- The GDC's 200+ members have reached **>35m** people to date.
  - **75%** of their customers live in poverty.
- Some LMDs focus on **scale,** while others tend to prioritise **market development**.
- 71% of GDC members are **locally led**, with potential to bring additional impacts.
- Most LMDs are **for-profit**, but some operate as not-for-profit models to achieve impact not otherwise possible.

Data based on GDC membership database, as of November 2020 (sample size: 201 members), from the year that the LMD signed up to the GDC

Key questions this research seeks to answer

- The GDC's 2019 *State of the Sector* report shed some light on the access to finance challenges of LMDs, but this research piece is a much more extensive look at the challenges LMDs face at different stages of growth.

- **Key questions this research seeks to answer:** What does growth and impact look like in the LMD sector? What kind of capital is needed to support LMDs? What are the barriers for LMDs to accessing that capital?

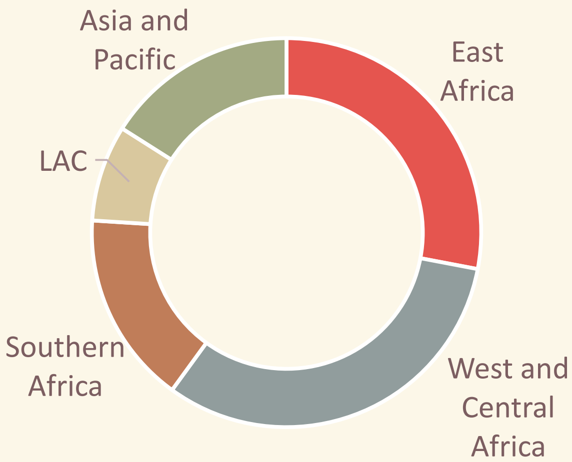
LMD perspective	Funder perspective
• Minimum investment amounts are too high	• Transaction costs are too high on small investments
• Collateral requirements are hard to meet	• Loans too risky without collateral
• Interest rates are too high	• Last mile distribution is high risk, requiring a high return/interest rate
• Application process and due diligence requirements are too complex and heavy	• High-risk transaction requires extensive application process and due diligence
• Funders are too focused on technology or SDG 'silos' rather than last mile distribution across multiple product categories	• LMDs have limited track records • LMD performance data is not always reliable and/or is hard to verify • LMDs sometimes have poor governance/financial management
• Foreign exchange risk	
• Lack of market intelligence	

Source: GDC, Last Mile Distribution: State of the Sector report, 2019

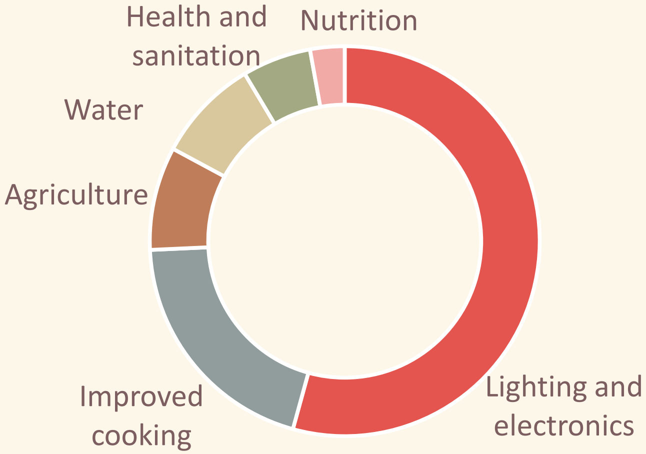
21 LMDs interviewed in the last 6 months

- **Focused on LMDs with high turnover** (annual sales revenues >$0.5 million), well placed to share experience with fundraising given longer trajectories.
- **Looked for diversity within the sample** in terms of geographic scope, products sold, business models, etc. Most LMDs in the sample are providing consumer financing, and that nearly half are locally-owned and led.
- **Not a representative sample.** Because of our focus on bigger LMDs, we should not see this as a representative sample of GDC membership or the sector, but rather as a useful sample to understand how LMDs grow.

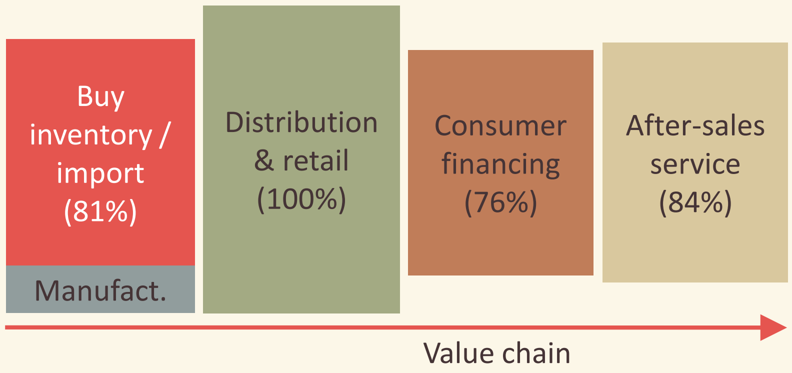
Countries of operation



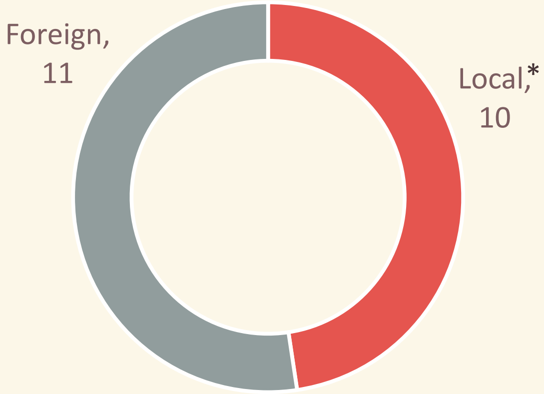
Product categories



Value chain activities



Local/international



*Local: majority local ownership and local leadership

LMDs interviewed

Rough locations given. List of companies and countries of operation in Annex.

What volume and type of capital are LMDs raising, and where from?

LMDs have raised a significant amount of capital and are achieving substantial impact

Each LMD…

- **is reaching 42,000 new customers per year** (2020 average) – *the 21 LMDs we interviewed have reached a total of 2.6m customers to date, 900,000 of those in 2020 alone.*
- **is turning over $3m in annual sales** (2020 average) – *the total sales for the sample were $62m in 2020.*
- **has raised over $5m of finance to date** – *the 21 LMDs have raised a total $108m in different forms of capital (equity, debt and grants).*

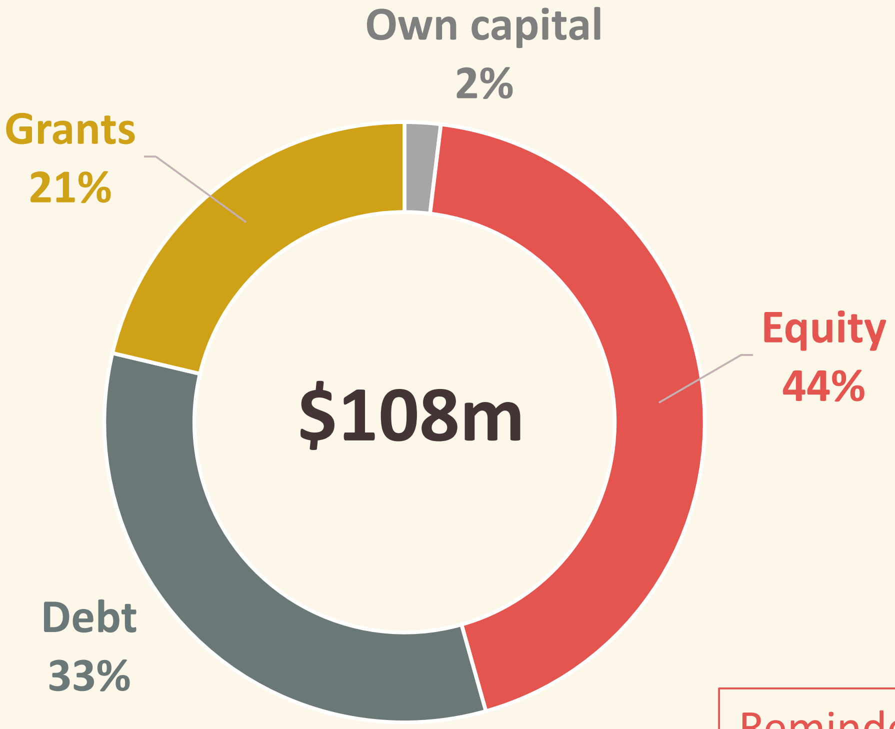
In this research, we use revenue as the main indicator of growth and impact. Other metrics (eg, # of customers or # of products sold) are equally important and will be considered in future research.

Credit: Essmart

LMDs have raised more equity than any other form of financing

- Start-up/project grants (82%), *eg AECF, EEP*
- Results-based financing (15%)
- Other (4%)

- Crowdfunded loans (47%), *eg Trine, Lendahand/Energise Africa*
- Specialised debt funds (44%), *Sunfunder, SIMA funds*
- Forgivable loans (8%)
- Local financial institutions (1%)



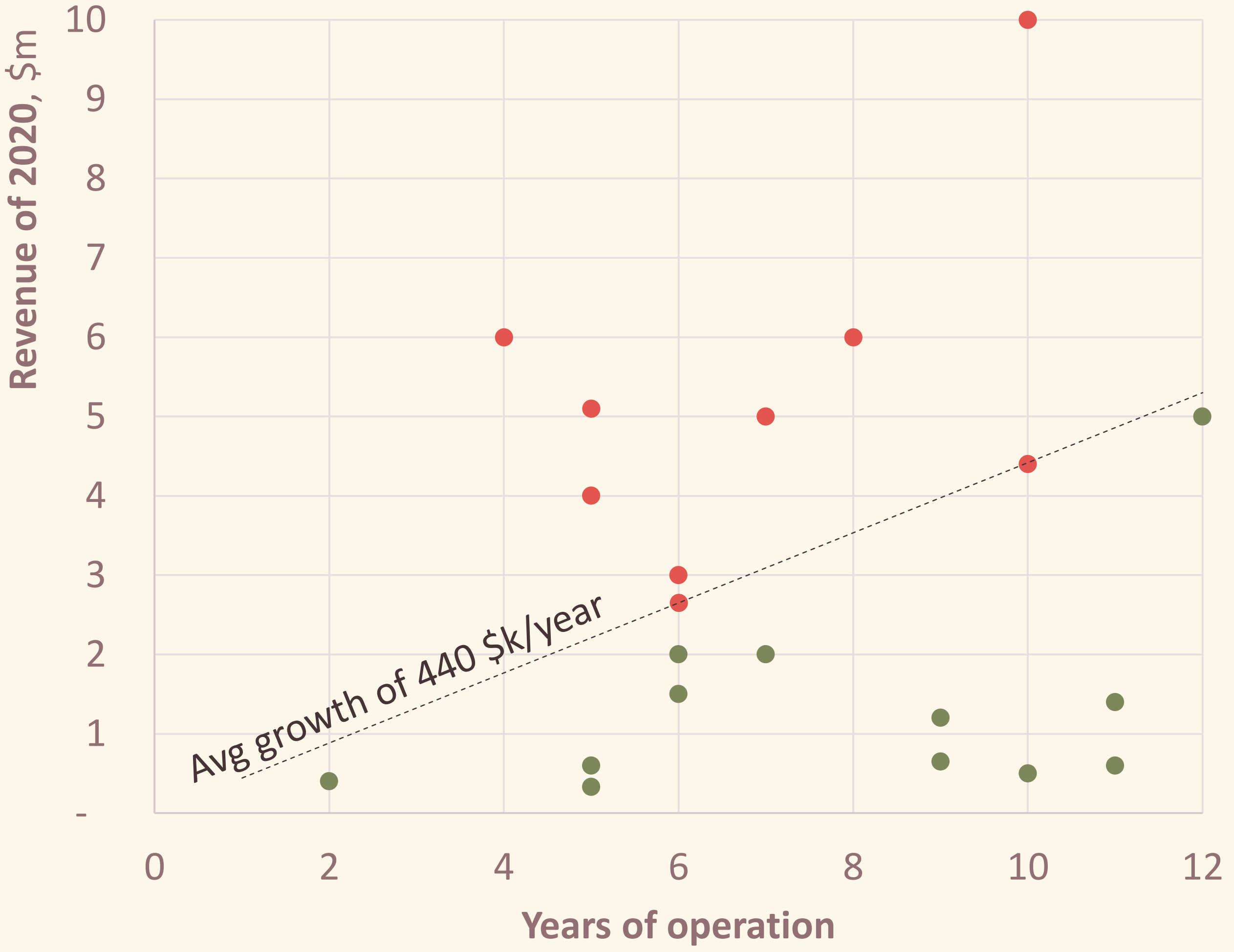
- Early-stage impact investors (74%), *eg, Acumen, Persistent, Gaia*
- Specialised funds and later-stage VCs (22%), *eg, All On, ElectriFI*
- Angels, foundations (4%)
- Local equity investors (<1%)

Reminder: this is not representative of the LMD sector. Many LMDs are young companies that have not yet raised commercial finance.

Own capital includes equity raised from family and friends
Equity includes quasi-equity (e.g. convertible loans)
Debt includes reimbursable grants / forgivable loans

What is a typical LMD growth and fundraising journey?

Faster-growth and slower-growth LMDs



Average growth of the sample is an increase in annual revenue of $440k per year, but individual data points representing each LMD are quite scattered.

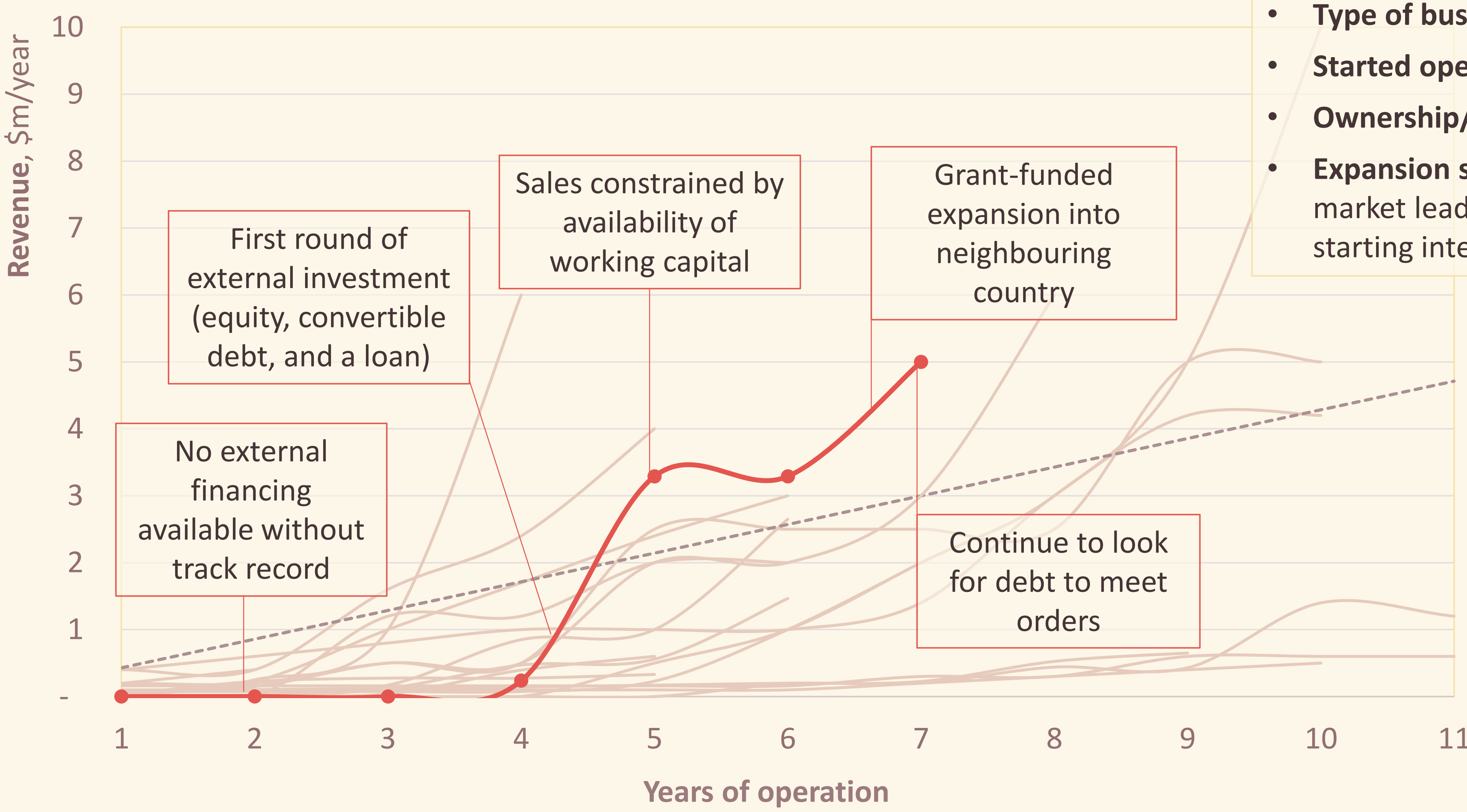
Faster-growth LMDs
(above the average)

67% of these companies have ambitions of market leadership, rapid scale and/or international expansion

Slower-growth LMDs
(below the average)

67% of these companies pursue consolidation in existing markets and profitability before expansion

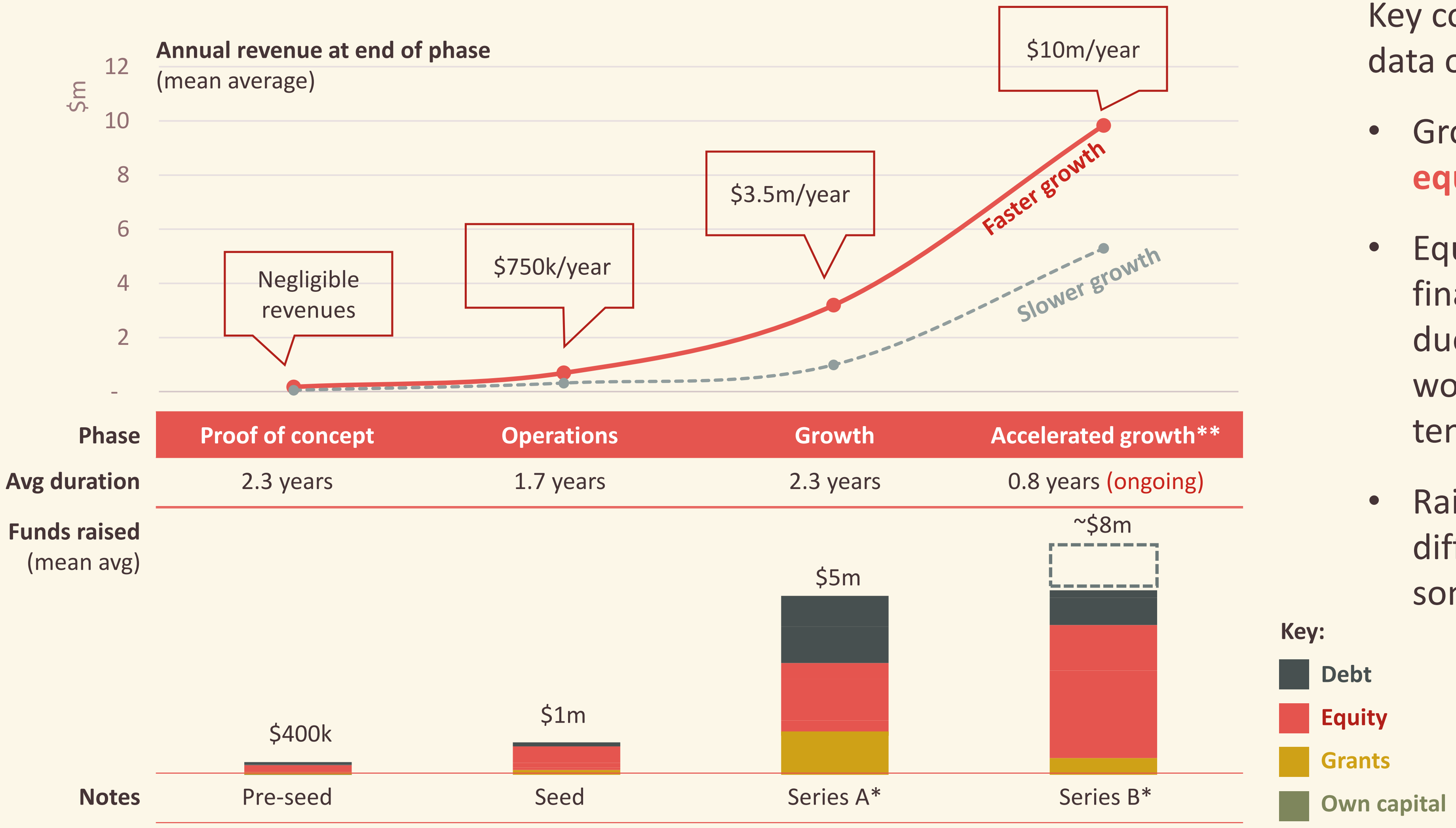
Faster-growth LMD example: Zonful Energy (Zimbabwe)



- **Type of business:** PAYG solar
- **Started operations:** 2014
- **Ownership/management:** local
- **Expansion strategy:** already the market leader in Zimbabwe and starting international expansion

Lighter curves in the background represent the growth trajectories of the other LMDs in the sample

Growth and fundraising for faster-growth LMDs



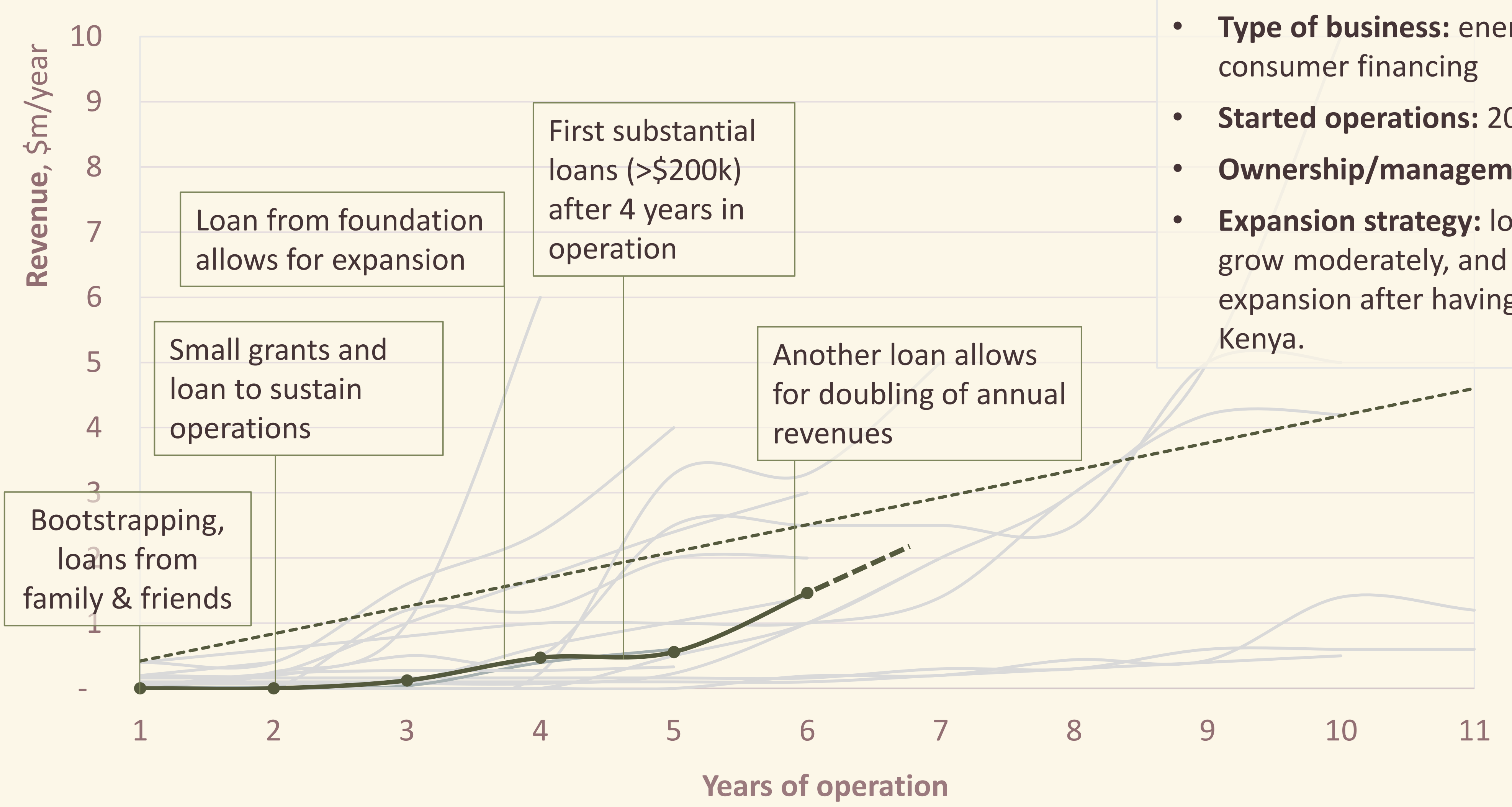
Key conclusions from aggregated data of faster-growth LMDs:

- Growth is funded primarily with **equity at all stages**
- Equity is sometimes used to finance inventory and operations due to challenges in raising working capital of appropriate tenor and terms
- Raising equity is increasingly difficult as VCs look for fast, sometimes unrealistic growth.

* Not strictly a series A or B round, but rather a significant capital raise allowing for growth step

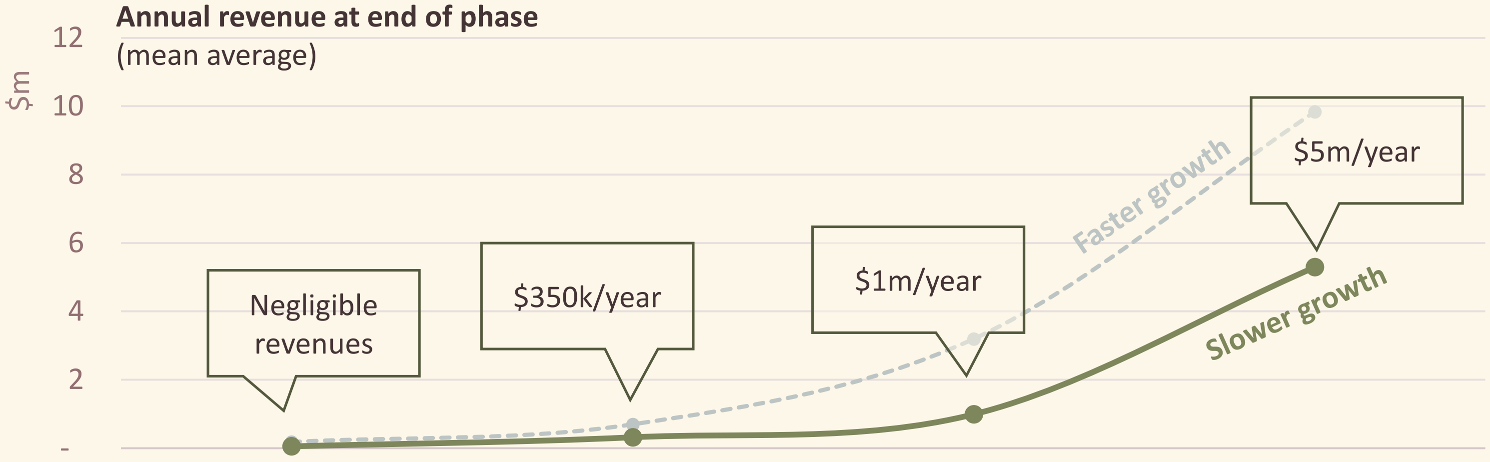
** Only 5 LMDs considered at this phase. Some LMDs only recently closed equity round and are currently looking for debt (the dotted line estimates the amount of debt to be raised as part of this last round)

Slower-growth LMD example: Bidhaa Sasa (Kenya)



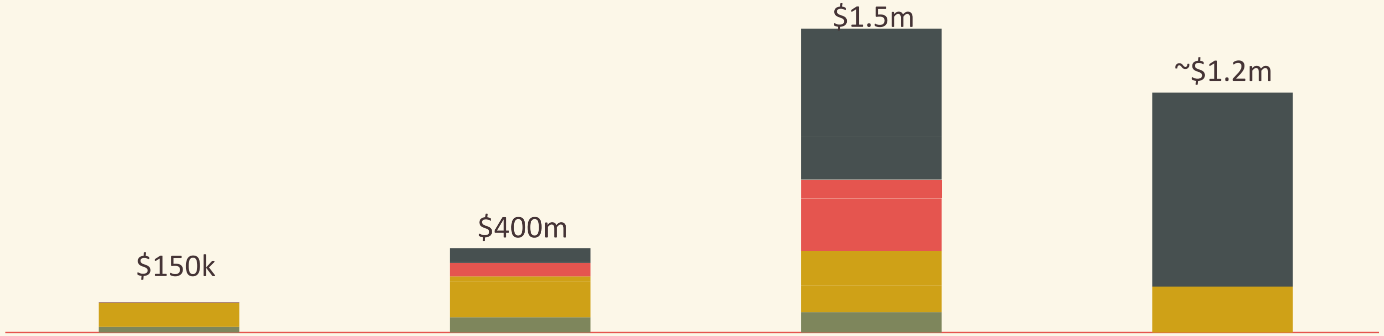
- **Type of business:** energy products and consumer financing
- **Started operations:** 2015
- **Ownership/management:** international
- **Expansion strategy:** look to continue to grow moderately, and to international expansion after having a solid position in Kenya.

Growth and fundraising for slower-growth LMDs



Phase	Proof of concept	Operations	Growth	Accelerated growth*
Avg duration	2.4 years	2.4 years	2.5 years	2.5 years (ongoing)

Funds raised (mean avg)



Notes	Mostly own capital and grants	Mostly own capital and grants	Mostly working capital	Mostly working capital

Key conclusions from aggregated data of slower-growth LMDs:

- Most slower-growth LMDs have funded **company development with grants** and **growth with debt**
- Little equity has been raised, and what was raised was primarily from individuals (family, friends, angels)
- Slower growth LMDs are still achieving accelerated growth.

Key:

- **Debt**
- **Equity**
- **Grants**
- **Own capital**

* Only 2 out of 12 LMDs from the sample considered at this phase

What is the relationship between capital raised and rate of growth?

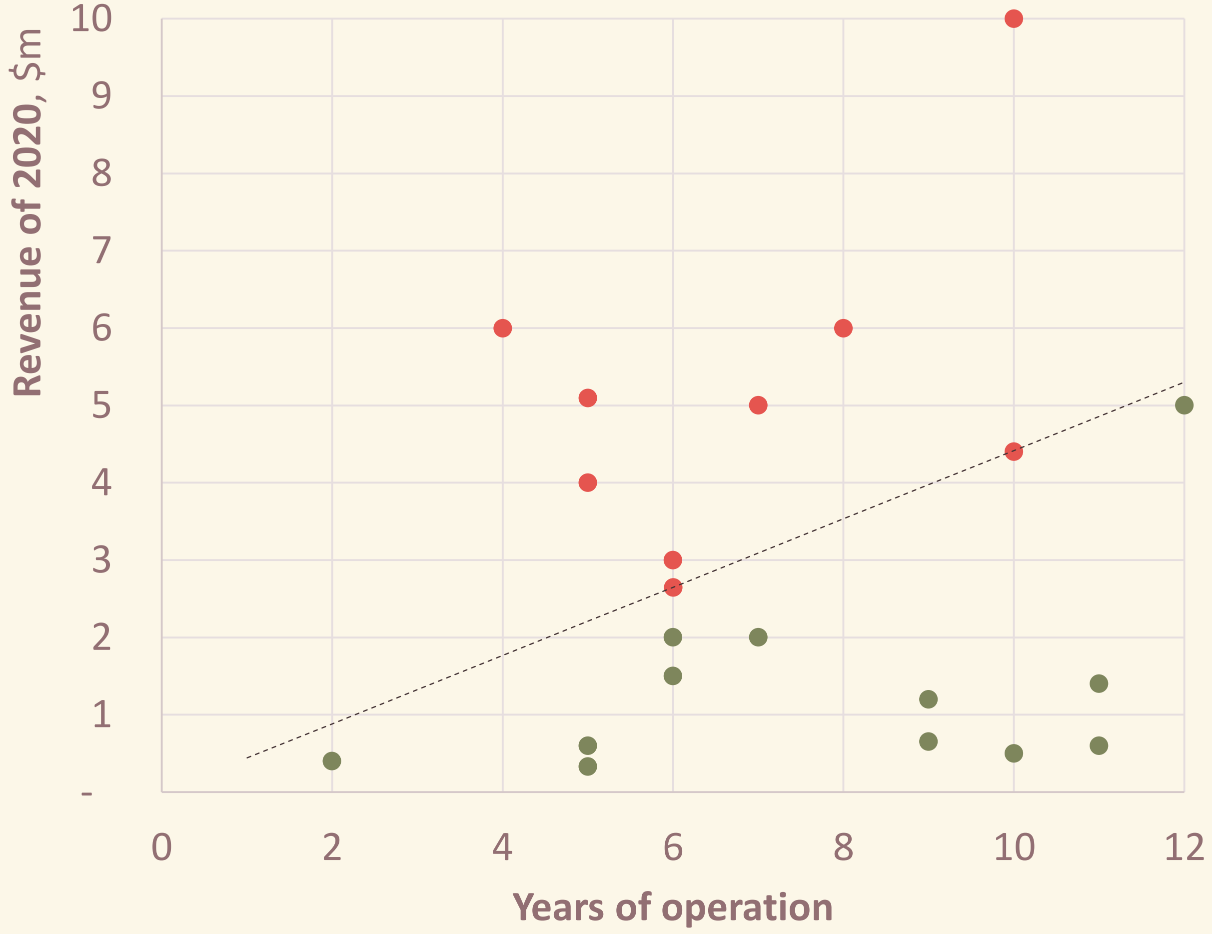
Relationship between growth and capital raised

We calculated the ratio between the total sales revenue of LMDs, and the total capital they have raised. We are using this as a rough metric of the efficiency of LMDs in translating investment into sales (and impact):

$$\frac{\textbf{Total sales revenue to date}}{\textbf{Total capital raised}\text{ including all types (grants, debt and equity)}}$$

We have excluded funds raised within last year, as we assume it's too soon for these funds to have translated into increased turnover

Faster-growth LMDs have collectively sold 2x more than slower-growth LMDs, but have raised almost 3x more capital to do so



Faster growth
(9 companies)

Total sales revenue
$102m

Total capital raised
$57m
($81m incl 2020/21)

1.8*
$ of revenue / $ of capital raised

Slower growth
(12 companies)

Total sales revenue
$51m

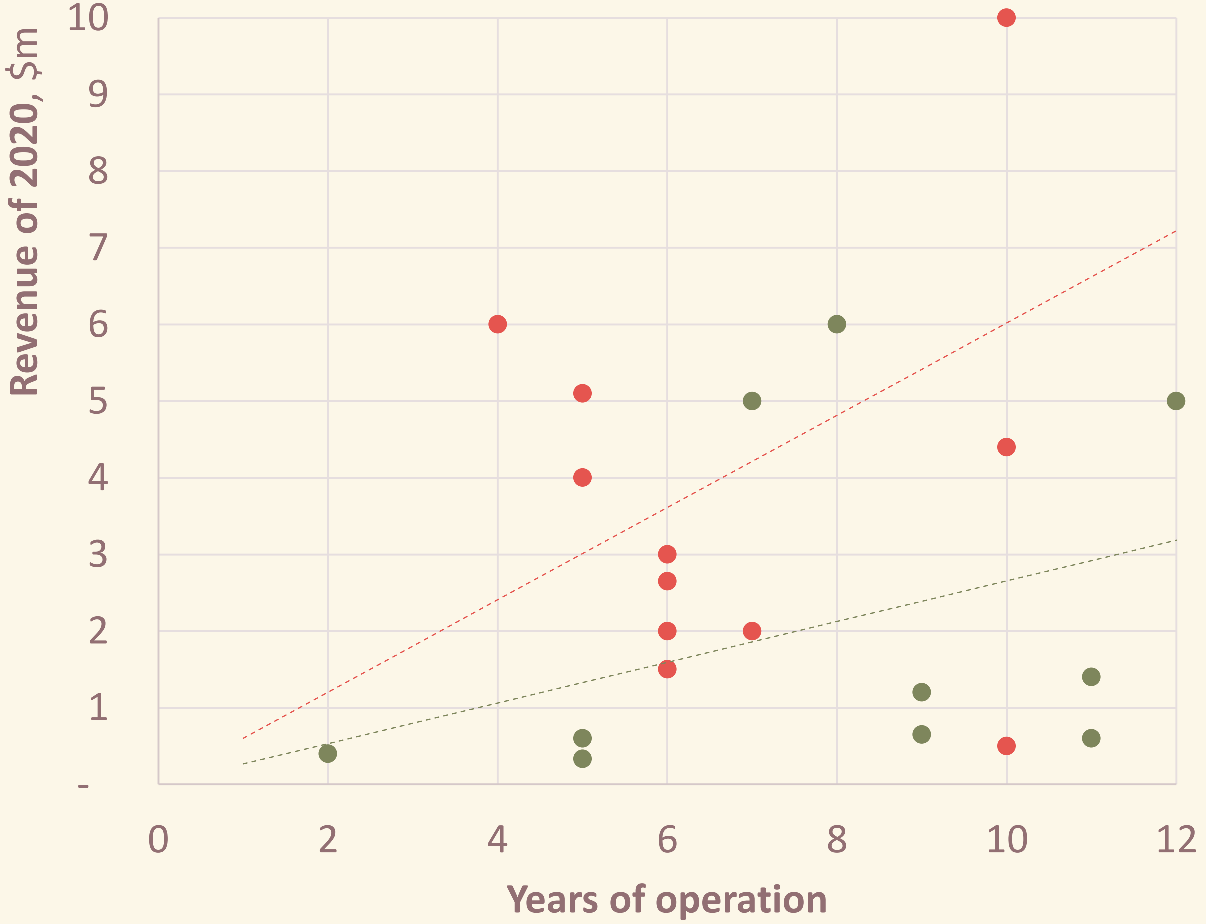
Total capital raised
$22m
($27m incl 2020/21)

2.4*
$ of revenue / $ of capital raised

Results of investments in faster-growth LMDs may take longer to be seen (yet to achieve economies of scale). But this data may suggest that slower-growth LMDs are leaner, perhaps due to their lack of an equity cushion forcing them to focus on achieving profitability quickly.

* *Total sales revenue* and *total capital raised (equity, debt, grant)* over the life of the company. Ratios calculated excluding funds raised in 2020-21.

International LMDs have collectively sold 1.4x more than local LMDs, but have raised 4x more capital to do so



Foreign *(11 companies)*	Total sales revenue **$91m**	Total capital raised **$63m** *($86m incl 2020/21)*	**1.5*** $ of revenue / $ of capital raised
Local *(10 companies)*	Total sales revenue **$63m**	Total capital raised **$16m** *($22m incl 2020/21)*	**3.9*** $ of revenue / $ of capital raised

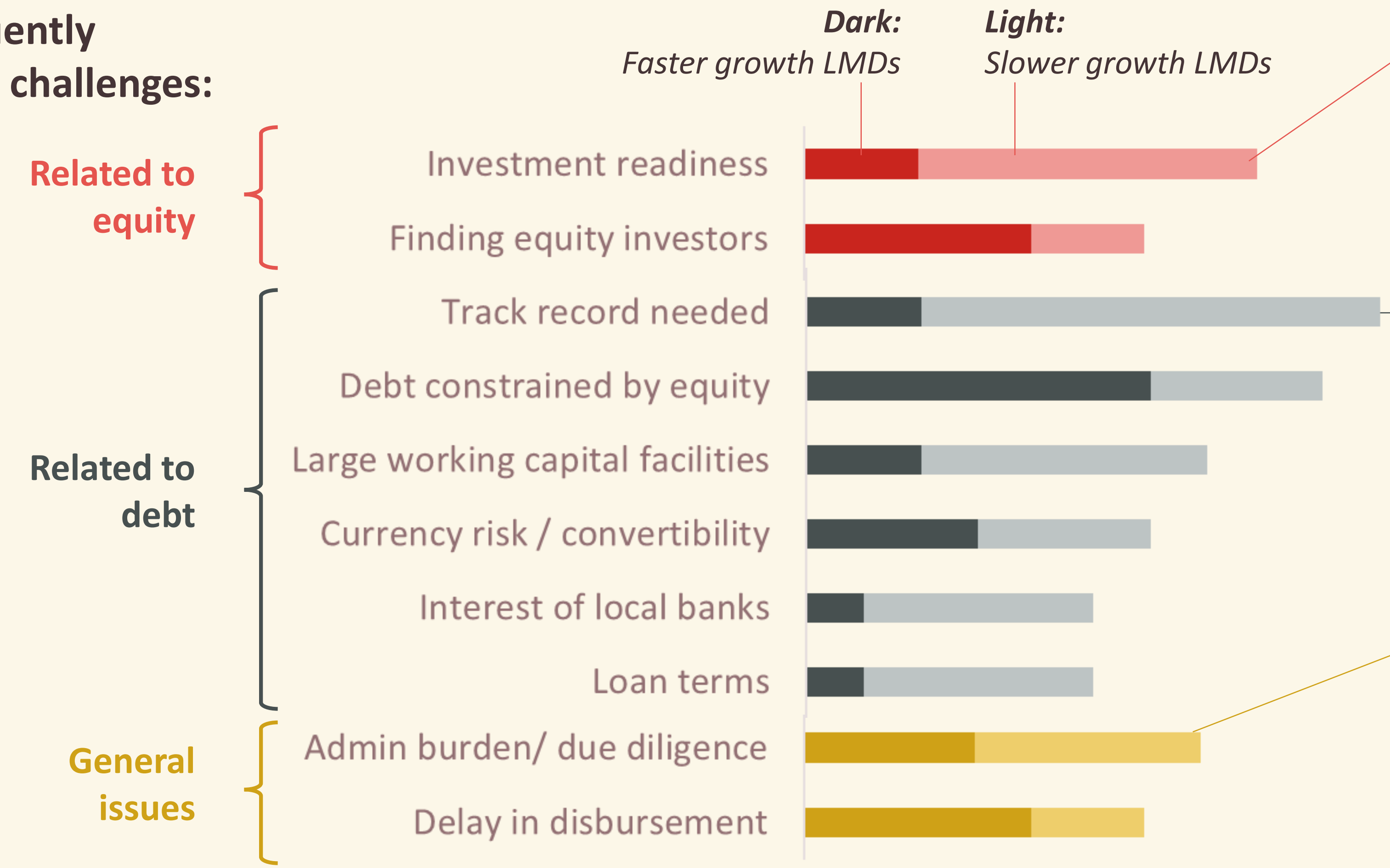
This data suggests local LMDs are leaner. This may be due to unbundling and specialisation, and lower overheads thanks to localised teams. Perhaps for a portion of the market (especially the harder-to-reach areas), **small, local LMDs represent a more efficient route to impact?**

Local LMD = majority local ownership and local leadership.
* The *total sales revenue* and *total capital raised (equity, debt, grant)* over the life of the company. Ratios calculated excluding funds raised in 2020-21.

What challenges do LMDs face when it comes to fundraising?

Even the most successful LMDs have difficulties in raising the capital they need to grow

Most frequently mentioned challenges:



Especially for small and local LMDs, it is too costly and time-intensive to be investor ready.

Substantial track record and turnover needed before being eligible for loans. Smaller working capital loans for early-stage LMDs not available.

Heavy DD processes and negotiations taking too long. This leads to delays in disbursements that cause a lot of stress to LMDs.

More detail in Annex

* Size of bars proportional to frequency of mentions of challenges by LMDs interviewed

Fundraising challenges are similar for all early-stage LMDs, and then vary depending on growth trajectory

Proof of concept → **Operations**

- Early-stage capital ($100k-1m) to invest in minimal viable infrastructure (warehouse, transport, HR, etc)
- Growing working capital needs ($50-250k)
- *Main barriers: start-up capital and smaller working capital loans*

Faster growth: Expansion first

Need for a balanced mix of equity ($1-5m, to invest in distribution infrastructure) and working capital ($1-5m, to finance inventory and receivables). *But:*

- *Increasingly difficult to find equity investors*
- *Growth constrained by availability of working capital financing*

Slower growth: Sustainability first

In theory need for working capital mostly ($500k-1.5m). *But:*

- *Access to loans capped by balance sheet*

Key forms of finance needed:

- **Start-up capital (grant/equity),** and support to raise it
- **Equity** for faster-growth LMDs to continue to scale (and/or to access more debt)
- **Working capital** across the board, with reduced collateral requirements, better rates and terms

Key conclusions

Five key take-aways from this research

1. LMDs are achieving substantial impact.
On average, each LMD has raised over $5m and is reaching 42,000 new customers/year.

2. Faster-growth and international LMDs have raised more capital, in particular equity.
They tend to focus on expansion including international replication.

3. Slower-growth and local LMDs have achieved more sales per $ of capital raised.
They tend to focus on achieving profitability first.

4. Successful LMDs have shown they need….

- Start up capital ($100-400k) in their first 2-3 years of operations
- Rapid, continuous and growing access to working capital debt (from $50k to a few millions)
- Equity ($1-5m) to expand rapidly, or as a way to access more debt

5. …But even successful LMDs face barriers to access capital, including:

- Need for a long track record
- Loan amounts contingent on equity / Access to large working capital facilities
- Being investor ready
- Finding growth equity

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Annexes

More information about LMDs interviewed

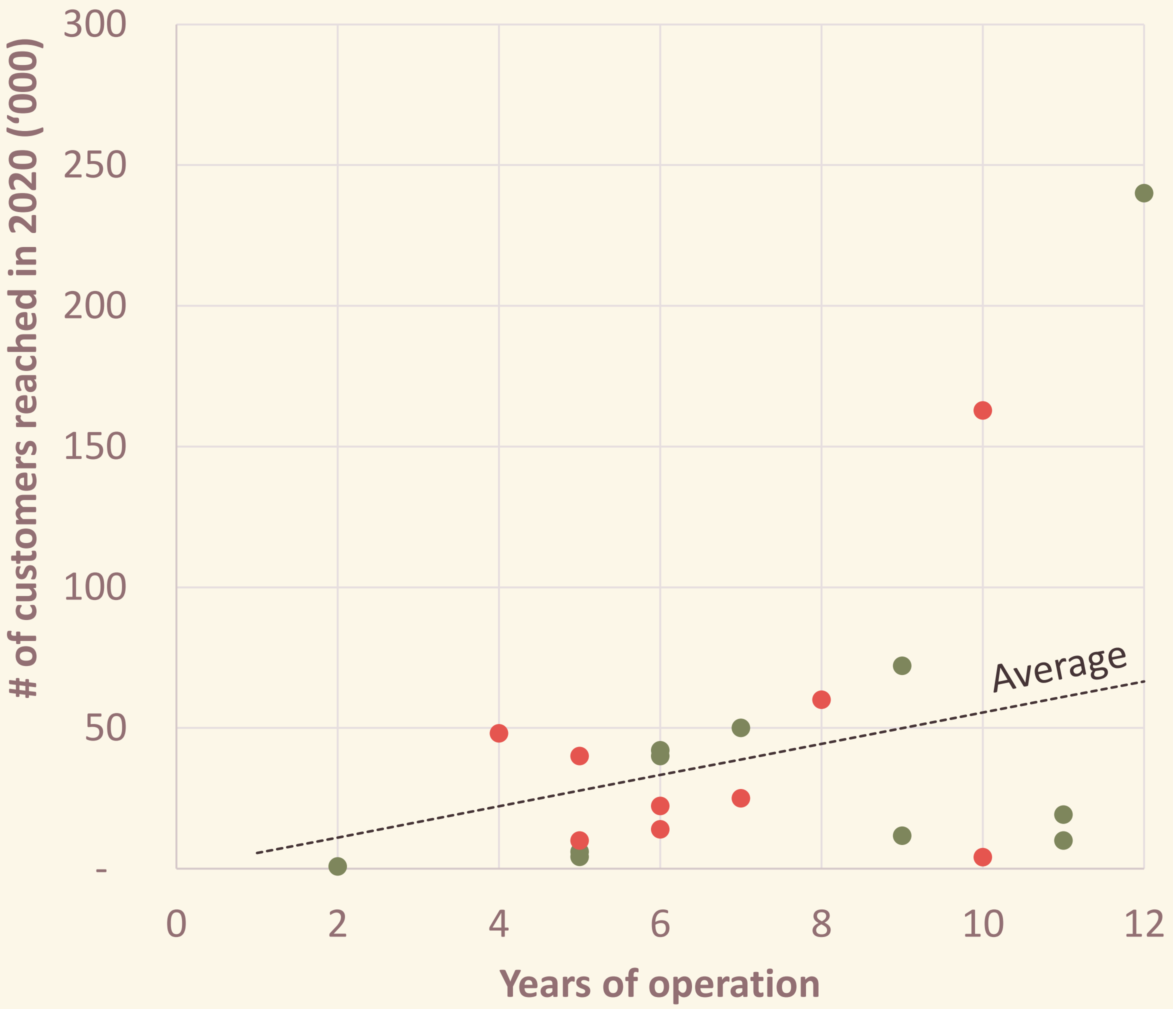
List of 21 companies interviewed

- Altech (D. R. Congo)
- ARESS (Benin, Togo, Burkina Faso, Senegal)
- Bidhaa Sasa (Kenya)
- Easy Solar (Sierra Leone, Liberia)
- Ecofiltro (Guatemala)
- Energy+ (Mali)
- Essmart (India)
- Frontier Markets (India)
- Healthy Entrepreneurs (Uganda, Kenya, Tanzania)
- Hybrid Social Solutions (Philippines)
- Mwezi (Kenya)
- Oolu solar (Senegal, Mali, Burkina Faso, Niger, Nigeria, Cameroon)
- Pawame (Kenya)
- Sistema.bio (Mexico, Nicaragua, Kenya, India, Colombia)
- Solibrium (Kenya)
- Sosai Renewables (Nigeria)
- UpOwa (Cameroon)
- Vitalite (Zambia, Malawi, Senegal)
- WidEnergy (Zambia)
- Yellow Solar (Malawi, Uganda)
- Zonful (Zimbabwe)

Highlighting the diversity of LMDs

	ecofiltro	altech energie du moment	SISTEMA.bio CREATING VALUE FROM WASTE	Healthy Entrepreneurs
Year started	2010	2013	2010	2011
Products sold	Water filters	Solar lanterns, SHS	Biodigesters and biogas appliances	Medicines
Geography	Guatemala	DRC	Latin America, East Africa, India	Uganda, Kenya, Tanzania
(No of) Distribution channels	Retail outlets (from mom & pop shops to Walmart). 200+ rural distributors.	800 door to door agents	12+ distribution & training HUBS in Mexico, Kenya, India, and Colombia	5,000 agents
Role in value chain	Manufacturing, distribution, after-sales	Distribution, after-sales, consumer financing	Manufacturing, distribution, after-sales, consumer financing	Distribution
2020 sales revenue	$5m+	$6m	$4m	$0.5m
Impact to date	700,000 products sold to date (urban and rural)	200k products sold to date	16,000 units installed (100,000 people)	7.5m people reached (1,500 per entrepreneur)
Impact goal	1m rural families by 2025	1m products in DRC by 2022 then continental expansion	350k people by 2022 in 15 countries	30m people reached (20-22k entrepreneurs)

Evaluating growth & impact based on customers reached



In this research piece, we have used revenue as the main indicator of growth and impact. Other metrics (eg, # of customers or # of products sold) are equally important.

This graph maps the same 21 LMDs (faster growth in red and slower growth in green) in terms of customers reached in 2020 vs years of operation.

Many LMDs switch positions in relation to the average growth depending on the relative price of the products they sell.

Further research will take into consideration this and other metrics of impact of LMDs.

More detail on access to finance challenges

Top access to finance challenges highlighted by LMDs

1. **Start-up capital** of all kinds, particularly equity and flexible grant funding, especially for local LMDs who have less developed networks.
2. **Capital-raising support** especially for small and local LMDs who have limited bandwidth, do not speak the language of funders, struggle to set up strong finance and governance structures, and have limited connections.
3. **Smaller working capital loans** for early-stage LMDs, who typically need to borrow under $100k but struggle to borrow anything without substantial track record and turnover.
4. **Growth equity** with realistic growth & return expectations, particularly for fast-growth LMDs.
5. **Larger working capital loans** of longer tenures, to ensure a continuous supply of financing and reduce the frequency of fundraising for larger LMDs.
6. **Local currency loans** to reduce currency risk exposure, especially for LMDs providing consumer financing who have long cash conversion cycles.
7. **Improved working capital terms** with longer tenures, lower interest rates, reduced collateral requirements, lending at higher debt:equity ratios and ways to show more attractive balance sheets.
8. **Improved funding processes** for all types of capital, to minimise bureaucracy and disbursement delays, which creates significant stress for LMDs and endangers their operations.

1 - Start-up capital

What we have heard from LMDs:

- Limited number of investors in the space, with narrow sector focus areas not suited to LMDs.
- Expectations of investors not aligned with LMDs: they want IP or look for rapid expansion. Low valuations given.
- LMDs do not understand valuation and implications on business ownership.
- LMDs do not have the resources to be "investor ready" and raise funds.
- Grant funding comes with increasingly restrictive conditions.

What we have heard from investors:

Challenges

- LMDs often don't have strong systems/ management capacity
- LMDs haven't demonstrated an ability to take in capital and grow
- Limited number of later-stage investors allowing early-stage investors to exit and redeploy funds
- Lack of understanding of impacts of LMDs

What's working / ideas

- Early-stage equity funds adapted to LMDs
- Innovative quasi-equity instruments, eg. revenue sharing, convertibles
- "Venture builder" models focused on LMDs
- Blended finance collaborations (TA + grant + investment + debt)
- Bringing in more local investors
- Unrestricted grant capital for LMDs (eg. D-Prize model)
- Capacity-building via mentoring, 1:1 TA, cohort TA for early-stage LMDs

2 - Capital-raising support

What we have heard from LMDs:

- LMDs (particularly small and local LMDs) have limited bandwidth, have little experience with formal and international finance, struggle to set up strong finance and governance structures, and have limited investor networks.
- Difficulty in getting qualified staff (CFO/finance team and in other areas).
- Heavy DD requirements of investors and lenders. The process to being investor-ready and the highly qualified personnel you need for that comes at prohibitive cost.

What we have heard from investors:

Challenges

- LMDs often have limited capacity and don't have strong systems/management
- This is especially true for local companies and first-time investees

What's working / ideas

- Support LMDs through DD and build their capabilities especially in financial management – a dedicated BDS/TA facility for LMDs?
- Capacity building beyond 1:1 TA, eg. mentoring, peer exchange, dedicated cohort accelerator programs
- "Venture builder" models for LMDs
- Tools for LMDs to improve investment readiness, eg. screening tools, templates for key policies
- Opportunity to standardize DD, negotiation processes around term sheets and documentation?

3 - Smaller working capital loans

What we have heard from LMDs:

- Minimum ticket sizes are too large for small LMDs (need can be <$100k).
- Impossible to borrow before hitting a certain scale (>$1m of annual revenue), which can take several years.
- Lack of affordable local-currency working capital financing. Local banks remain sceptical of LMD business models that require assessing receivables.
- Credit terms from suppliers generally not available.

What we have heard from investors:

Challenges

- High risk and risk perception of LMDs
- Transaction cost / management expense, particularly for high-touch model. Difficult to do many small deals
- Smaller LMDs often don’t have strong financial management systems

What’s working / ideas

- Co-invest/co-lend to reduce admin time and share risk
- Standardisation of DD/negotiation processes
- Reduce DD time and effort (‘automated’ credit-scoring, leveraging data?)
- Aggregation of smaller investments (intermediary fund or funding through manufacturers)
- Incentive payments to lenders (SIINC approach)
- De-risking / first-loss capital
- Innovative mezzanine debt instruments
- TA/BDS for borrowers

4 - Growth equity

What we have heard from LMDs:

- Limited number of investors in the sector who have already placed their bets.
- Low interest of investors or low valuation, given experience of previous investments not proving profitability with scale.
- Difficult to raise from outside industry. Investors need a lot of education.
- Equity investors focused on very fast growth. Return expectations of VC investors not easily fulfilled by LMDs.

What we have heard from investors:

Challenges	What's working / ideas
• LMDs are high risk • LMDs have not proven profitability with scale • Later-stage investors require demonstrated financial stability and profitability, which LMDs typically lack	• More dedicated funds with a focus on LMDs (eg, EAV, All On, …) factoring in positive impacts

5 - Larger working capital loans

What we have heard from LMDs:

- Continuous supply of financing difficult to obtain. Need longer-term funders to reduce frequency of fundraising.
- Amount of loans constrained by amount of equity raised (and equity increasingly harder to get).
- Constantly out of phase with ticket sizes available, still small for bigger funds and DFIs.
- Very high administrative burden and DD of bigger funds / lenders.
- Lack of affordable local-currency financing.

What we have heard from investors:

Challenges

- LMDs are high risk + no standard way of assessing LMDs' ability to take on debt
- Bigger loans especially risky, as they are a major part of portfolio of lenders
- Data standardisation issues
- In blended finance: insufficient junior/first loss capital to attract more commercial capital
- Cost/availability of currency hedging
- Lack of lending by local financial institutions

What's working / ideas

- Specialised debt funds adapted to LMDs
- Direct lending from DFIs adapted to LMDs
- Syndicating crowdfunded loans
- First-loss capital and currency hedging
- Off-balance sheet transactions and collateralising receivables
- "Default service provider" to provide comfort to lenders
- Partnerships between foreign and local lenders

6 - Local currency loans

What we have heard from LMDs:

- Currency risk exposure will hold back a lot of companies with long cash conversion cycles (eg. devaluation has already hit several PAYG solar companies).
- Lack of affordable local-currency working capital financing. Hedging currency prohibitively expensive.
- Convertibility/liquidity constraints not addressed by currency hedging instruments.

What we have heard from investors:

Challenges	What's working / ideas
• Hedging instruments are expensive and do not address liquidity • DFI local-currency lending only limited to large deals • Local banks reluctant to lend to LMDs because of limited track record, lack of collateral, high risk	• Local financial institutions being de-risked to lend to LMDs through guarantees provided by DFIs • More involvement of DFIs in direct local currency lending to LMDs • Adapted currency hedging mechanisms

7 - Improved working capital terms

What we have heard from LMDs:

- Amount of loans constrained by amount of equity raised
- High interest and high collateral requirements
- Loan tenors are too short. LMDs providing consumer financing need minimum 36 months, but hard to negotiate.
- Funders don’t fully understand business cash flow needs and receivables as collateral.
- Local banks remain sceptical of newer LMD business models like PAYGO that require assessing receivables

What we have heard from investors:

Challenges

- Loans are too risky without collateral
- LMDs are high risk, requiring a high return/interest rate
- Foreign exchange risks
- Companies struggling to get equity, so debt providers have to step in a role of quasi equity providers, increasing their tenor they offer and increasing their risk exposure

What’s working / ideas

- Using data for proper assessment of risk
- Aggregation of transactions to limit due diligence costs and diversify risks
- First-loss capital to improve risk-return profile for FIs
- “Collaterizing” accounts receivables (and possibly stocks through buy-back guarantees?)

8 - Improved funding processes

What we have heard from LMDs:

- This applies to all types of capital (grants, equity and debt).
- Application processes and due diligence requirements are complex/heavy, leading to long negotiations.
- Disbursements take too long, creating a lot of stress for LMDs and endangering their operations.
- LMDs (especially early-stage and local) do not have the resources and staffing to go through the process.
- LMDs would appreciate more transparency, responsiveness and flexibility from investors.

What we have heard from investors:

Challenges

- LMDs are high risk and require extensive application processes and DD
- LMDs often don't have strong governance, information systems or financial management, makes DD difficult

What's working / ideas

- Using LMD data to reduce DD time and effort
- Streamlining and standardising DD and negotiation
- Co-investment and collaboration among investors (to share risk and transaction costs)
- Aggregation of investments to reduce risk (and thus DD requirements)
- Mechanisms to support LMDs through DD and build their financial management capability
- Tools for LMDs to improve investment readiness, eg. screening tools, templates for key policies