

# Last mile distribution capital continuum: trends, gaps and opportunities

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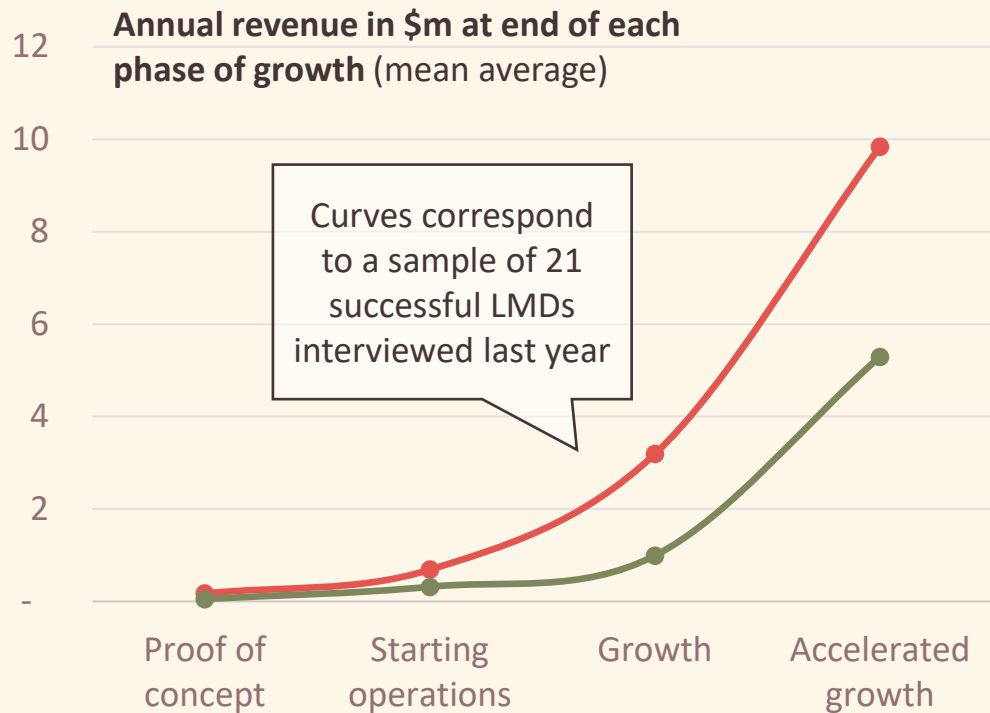
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# Contents



- ① Recap: faster- vs slower-growth LMDs
- ② Capital continuum overview
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# 1 7% of GDC members are faster-growth LMDs; 93% are slower-growth LMDs



The classification of faster-growth and slower-growth LMDs was introduced in [Growth and fundraising journeys of LMDs](#) (June 2021)

## Faster growth LMDs

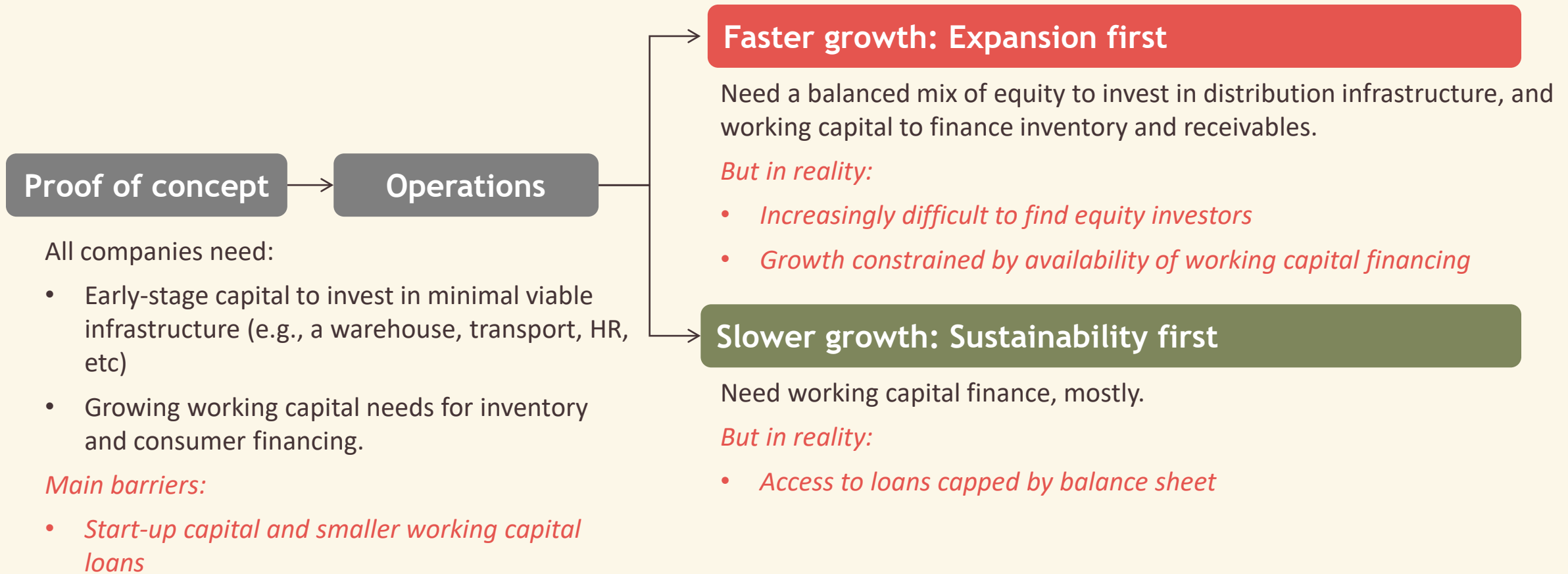
- Average revenue growth >\$440k per year of operation
- Typically focused on quick geographic expansion
- Growth funded primarily with equity at all stages

## Slower growth LMDs

- Average revenue growth <\$440k per year of operations
- Typically focused on profitability before expansion
- Little equity raised - most have funded company development with grants and growth with debt
- Tend to run leaner operations, having achieved 33% more revenue per \$ of capital raised\*

Both faster-growth and slower-growth LMDs are crucial to reach underserved customers

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



## ② Mapping of the capital continuum shows funders and investment flows across company growth trajectories

This research...

...maps 50 funders investing at different stages of company growth to:

- help LMDs navigate the funder landscape,
- encourage collaboration among funders, and
- detect gaps in funding

...builds on:

- in-depth interviews with 22 LMDs (see annex)
- interviews with 25 funders in the sector, investing directly in LMDs (see annex)
- 2022 GDC member survey, which assessed data from 125 for-profit LMDs (check out our [LMD: State of the sector 2022](#) for more insights)
- [LMD funding database](#) (50+ entries)

## 2 Faster-growth LMDs have collectively raised \$120m to date

- Only 9 of the 125 companies assessed are in this faster-growth category. Examples include [Altech](#) (DRC), [Sistema.bio](#) (global), [Yellow](#) (Malawi and Uganda).
- Their annual revenues are \$5-10m per company.
- The diagram shows what these companies raised, collectively, from proof of concept; from Altech winning a D-Prize grant in 2017 all the way to Sistema bio's series B raise in early 2022.

\$3m  
Proof of concept

\$8m  
Early operations

\$44m  
Early growth

\$65m  
Accelerated growth

## 2 Slower-growth LMDs have collectively raised \$100m to date

- 116 LMDs are either early-stage LMDs or slower-growth LMDs with more track record.
- The diagram shows what slower-growth LMDs have raised at each stage of growth. About 65 GDC members have already passed their proof of concept and early operations, and continue to grow their operations steadily
- This categorisation need not be permanent. These LMDs may switch to a faster-growth trajectory by adapting their strategy and raising capital accordingly.



Note: All figures correct as of July 2022

## 2 Faster-growth LMDs have raised 16x more capital per company than slower-growth LMDs

- Total capital raised by 125 LMDs: \$220m
- 55% raised by 9 faster-growth LMDs (*\$13.3m/company*)
- 45% raised by 116 early-stage and slower-growth LMDs (*\$0.86m/company*)
- ... but, collectively, early-stage and slower-growth LMDs are an important force, having raised almost half of the funding flowing into the sector

\$13m  
Proof of concept

\$35m  
Early operations

\$44m  
Early growth

\$64m  
Slower growth

\$65m  
Accelerated growth

## 2 16% of funders mapped support LMDs at pre-seed stage

- Within the sample of 50 funders, **8 foundations, challenge funds, and accelerators** fund initiatives at pilot/starting stage to achieve proof of concept (e.g., [D-Prize](#), [DOEN](#))



### Pre-seed funding

*Tickets typically \$50k-500k  
(eight funders)*

### Notes:

- 1) Funder classification is based on eligibility criteria and ticket sizes
- 2) Bubble sizes in this and subsequent pages are proportional to number of funders in the sample active at each stage of company growth

## 2 58% of funders mapped support LMDs at pre-seed and/or seed stage

- Within the sample of 50 funders, 8 **foundations, challenge funds, and accelerators** fund initiatives at pilot/starting stage to achieve proof of concept (e.g., [D-Prize](#), [DOEN](#))
- **27 foundations, impact investors and crowdlenders** provide seed funding to fund market research, business-model development, employ a core team, and invest in distribution infrastructure - typically in the form of grants, equity or convertible notes (e.g., [DRK Foundation](#), [VentureBuilder](#)). And some working capital, typically in the form of debt, to fund inventory and receivables (eg [Kiva](#), [Charm Impact](#))

In this first piece we are presenting a limited number of investment stages, but in reality there is not a single jump between an investment from D-Prize and one from Acumen. We will unpack these categories further going forward.

Many of these funders have resources to support companies that are still relatively unsophisticated



### Pre-seed funding

Tickets typically \$50k-500k  
(8 funders)



### Seed funding    Some working capital

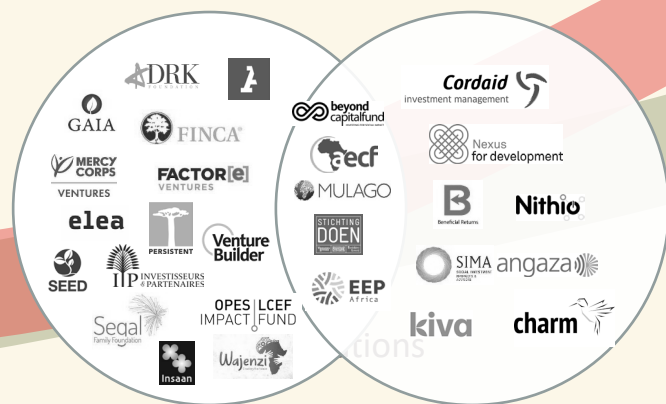
Tickets typically \$100k-1m  
(27 funders)

## 2 50% of funders mapped are helping faster-growth LMDs scale at series A

- 25 funders providing equity and debt to optimise operations and scale. Includes earlier-stage investors with follow-on capital (e.g., [elea](#), [Persistent](#)) and larger investors (e.g., [Alphamundi](#)), and more substantial working capital facilities (e.g., [Lendahand](#)) with more stringent requirements on borrowers' balance sheets, revenues and profitability



~Series A Working capital facilities  
 Tickets typically \$500k-5m  
 (25 funders)



Seed funding Some working capital  
 Tickets typically \$100k-1m  
 (27 funders)



Pre-seed funding  
 Tickets typically \$50k-500k  
 (8 funders)

## 2 50% of funders mapped are helping faster-growth LMDs scale at series A and/or beyond

- 25 funders providing equity and debt to optimise operations and scale. Includes earlier-stage investors with follow-on capital (e.g., [elea](#), [Persistent](#)) and larger investors (e.g., [Alphamundi](#)), and more substantial working capital facilities (e.g., [Lendahand](#)) with more stringent requirements on borrowers' balance sheets, revenues and profitability
- 17 funders supporting companies to become market leaders and/or operate across markets through investments post series A, in the form of equity and debt (e.g., [Kawisafi](#), [Sunfunder](#))

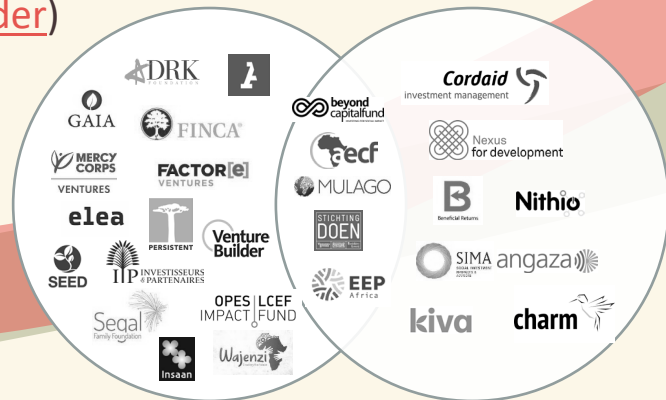


Post-series A toward commercial capital  
Typically \$1m-10m  
(17 funders)



~Series A Working capital facilities  
Tickets typically \$500k-5m  
(25 funders)

These lenders operate larger and specialised working capital facilities with attractive features such as securitised receivables and currency hedging



Seed funding Some working capital  
Tickets typically \$100k-1m  
(27 funders)



Pre-seed funding  
Tickets typically \$50k-500k  
(8 funders)

## 2 New facilities are financing slower-growth LMDs, but they are only 22% of investors mapped

- **11 funders** providing finance suited to slower-growth LMDs, meaning the smaller working capital facilities these companies need to run their operations and grow slowly but consistently (there is less emphasis on raising equity) (e.g., elea, [Beneficial Returns](#))
- **40% of them launched within the last 5 years** (e.g., Charm Impact, [SIMA-Angaza Distributor Finance Fund](#), [Nithio](#))
- **New facilities being piloted** (e.g., [Acumen](#) hardest-to-reach fund, [Paygops](#)-FGV debt facility)

These funders are coming up with clever ways to be able to reduce transaction costs and manage the risks of these smaller deals.



**Pre-seed funding**

Tickets typically \$50k-500k  
(8 funders)



**Seed funding    Some working capital**

Tickets typically \$100k-1m  
(27 funders)



**Equity    Small working capital facilities**

Tickets typically \$100k-1m  
(10 funders)

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# More capital is needed across the board, but the gap is more significant for slower-growth LMDs

- Positive trends in key sectors (e.g., off-grid solar record capital raise of \$450m in off-grid solar last year, clean cooking investment growing at 20% yoy to around \$100m last year)
- But far short of requirement for universal access (\$0.7-1.1b/year for OGS and \$4.5b/year for clean cooking)



Pre-seed funding



Seed funding    Some working capital



~Series A    Working capital facilities



Equity    Small working capital facilities

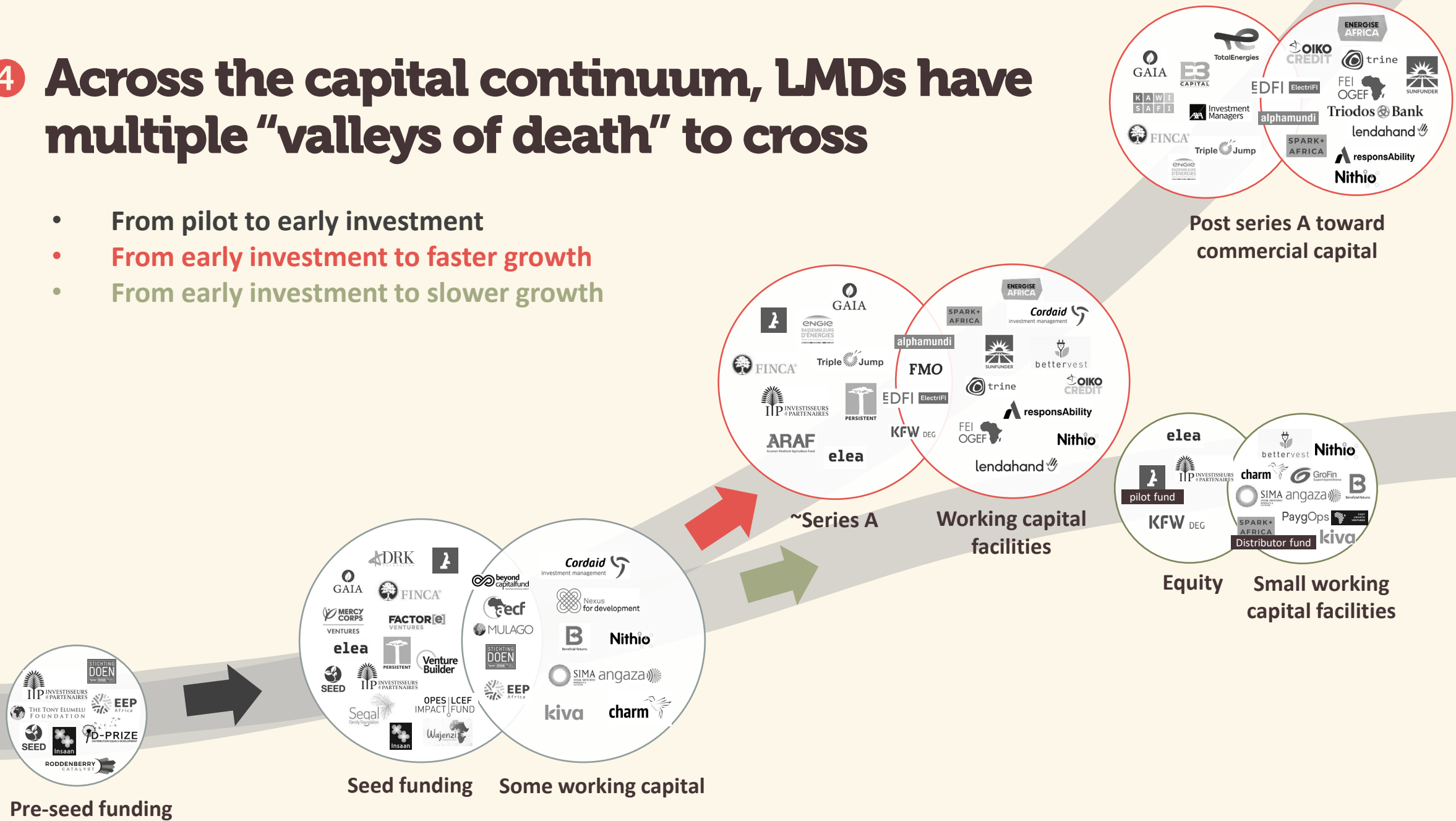
22% of funders to support 93% of our members



Post-series A toward commercial capital

# 4 Across the capital continuum, LMDs have multiple “valleys of death” to cross

- From pilot to early investment
- From early investment to faster growth
- From early investment to slower growth



## 4 Valley of death 1: Pilot to early investment

### What we have learnt from funders

- Capital raise for LMD innovators is more difficult than in other sectors, such as technology or manufacturing (*DOEN*)
- LMDs are unsophisticated, but early-stage funders are willing to be hands on (*i.e.*, *Nithio used resources from USADF to support LMDs get up to speed to be investable*)
- Early-stage LMDs struggle to identify suitable funders (*i.e.*, *90% of applications big-ticket lender Trine gets are from pre-seed companies*)
- LMDs are unable to communicate their market opportunity, product, business plan, team, etc, in the language of investors.
- Investors' key pain points: #1 LMDs missing a strong pitch, #2 financial literacy, and #3 data collection



### Examples of support funders have provided

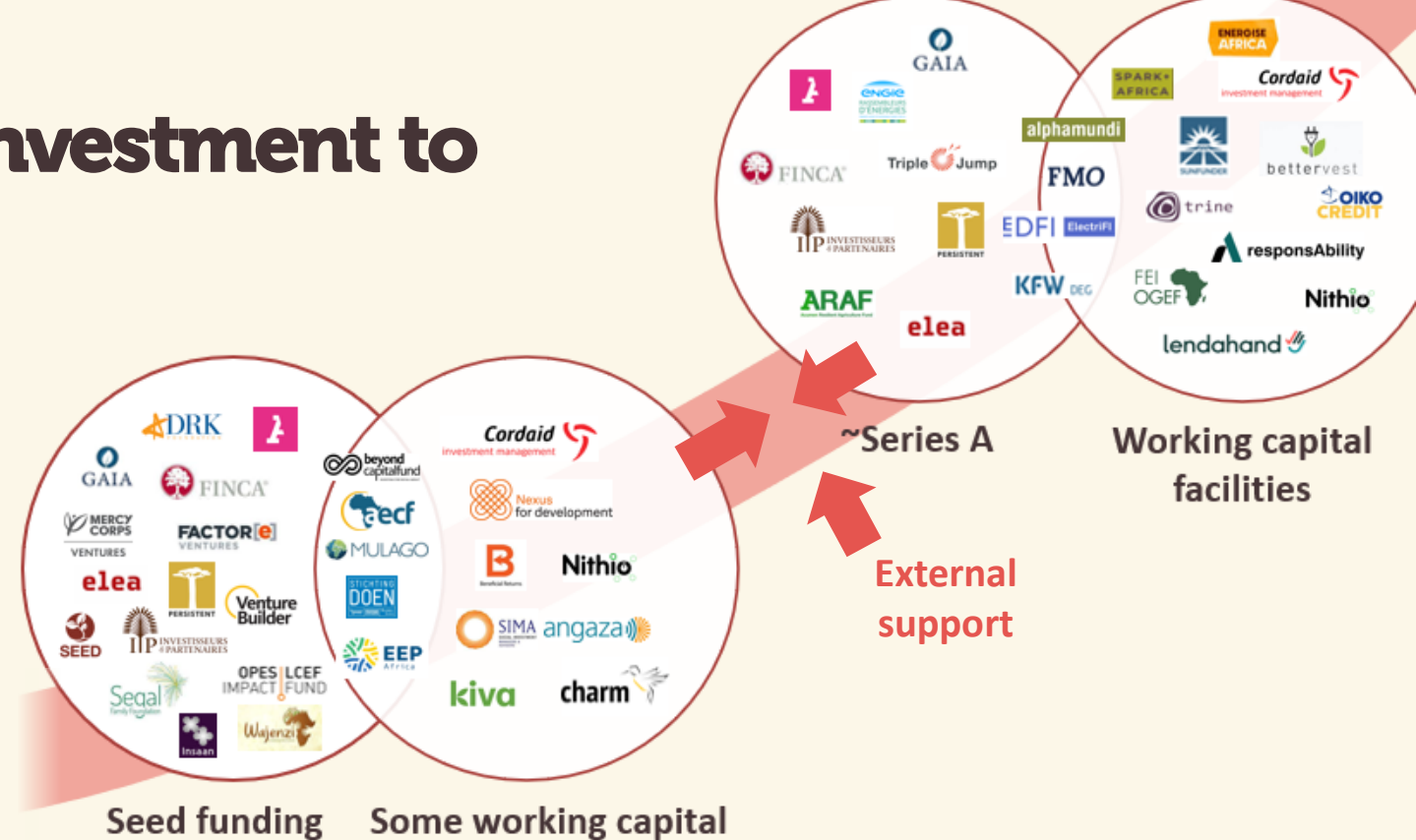
- Pre-seed funders like D-Prize and EEP Africa providing post-pilot finance to help LMDs go further and get closer to seed funders
- Seed funders like Charm Impact reaching down to provide more hands-on support to early-stage local companies
- Investment-readiness programmes like [ELEVATE](#) filling the gap in between

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# Valley of death 2: Early investment to faster growth

## What we have learnt from funders

- “Strong unit economics are critical and not necessarily linked to scale, but rather to ability to run a lean operation and adjust to local context” (*Persistent*)
- Faster-growth LMDs that pursued scale struggle to raise equity to keep growth because of delayed profitability and delayed exits.
- This makes raising working capital finance difficult, as lenders want a certain amount of equity (*i.e.*, *Lendahand requires equity / assets > 35%*)
- Lenders are starting to see a limited viable pipeline, which they compete for. Some switch to other more commercial market segments.
- Key pain points of funders are more complex and varied. E.g., financial literacy around valuation, capacity to produce financial projections.



## Examples of support funders have provided

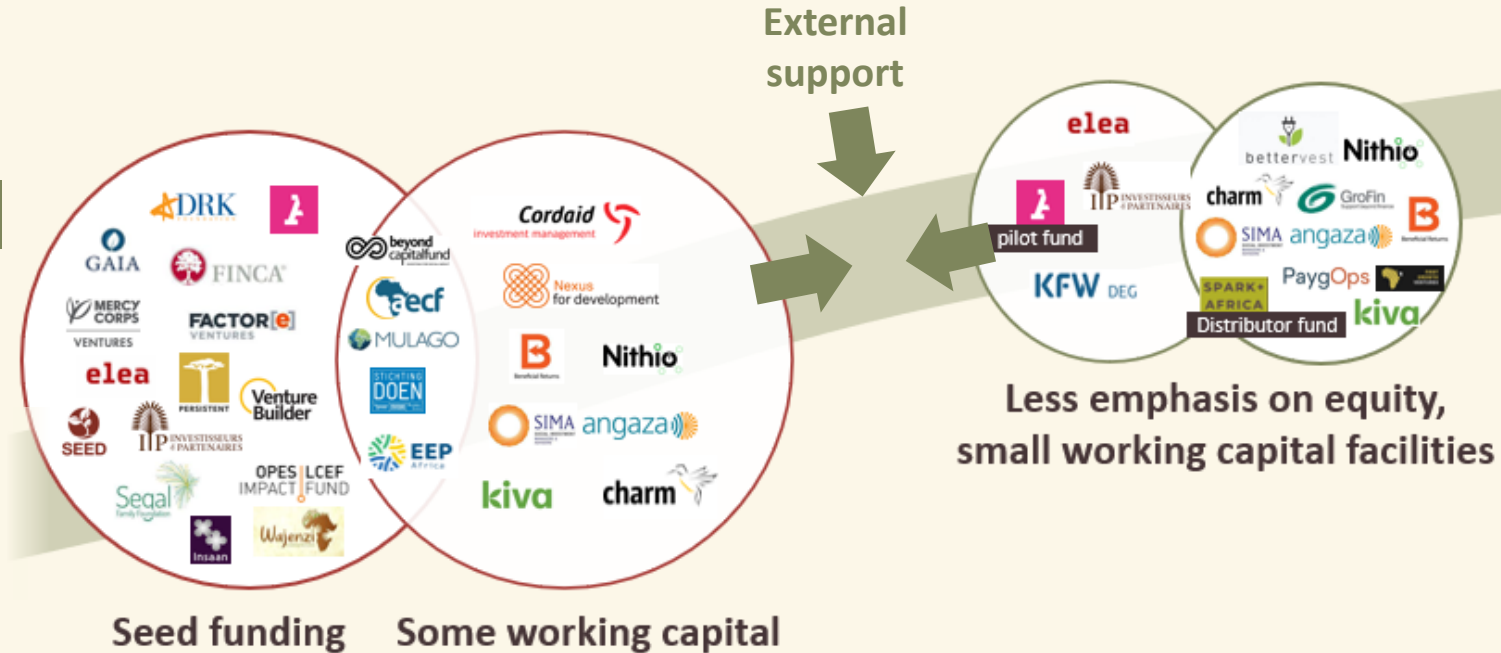
- Investors like elea reserving follow-on capital to support companies move further up and continue their growth to commercial viability
- Lenders like Sunfunder implementing debt structures that are more suited to LMDs (like off balance sheet debt)
- Funders groups like Household Solar Funders Group plugging gap in between to facilitate discussion and promote specific solutions

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# Valley of death 3: Early investment to slower growth

## What we have learnt from funders

- Slower-growth LMDs typically have good unit economics. They don't have an equity cushion, they need to operate profitably to exist (*Nithio*)
- Slower-growth LMDs need increasing amounts of working capital finance to grow operations and provide credit to customers, but...
- ...local commercial banks are not financing this segment; just 1% of debt finance to LMDs came from local banks, per [previous GDC research](#)
- There is a need for other instruments enabling smaller ticket sizes
- Key pain point of funders: LMDs' financial literacy and financial planning capabilities.



## Examples of support funders have provided

- The SIMA-Angaza distributor finance fund provides data-driven loans with lower transaction costs that allow them to look into smaller deals as companies grow
- [Spark+](#) is engaging product suppliers to de-risk lending for distributors
- Programmes (e.g., [Aceli Africa](#) or Green for Access First Loss Facility) are providing incentives to local banks to support these companies

## 5 Three key opportunities for intervention to help LMDs cross their "valleys of death"

There are quite a few access to finance solutions that already exist, but more are needed - including non-financial solutions. Based on conversations with funders, three key opportunities for intervention to help LMDs cross their "valleys of death" are:

### Improving collaboration and information exchange to ease investments at all stages

- Investment-readiness tools, targeted to small and local LMDs
- Increasing visibility of LMDs and data sharing, eg setting up investment portal
- Data tools to help LMDs improve and showcase performance, and investors make decisions
- Collaboration among funders / funder alliance

### Developing new or adapted debt mechanisms to free up more working capital for LMDs

- Unlocking debt finance from new sources, such as from local banks and product suppliers
- Aggregating and de-risking debt investments to enable smaller ticket sizes
- Receivables- and inventory-backed financing for LMDs

### Leveraging results-based financing to improve unit economics and increase LMDs' attractiveness to funders

- Carbon finance
- Other forms of results-based financing offering social and environmental impact incentives

## 6 Key conclusions

- The 7% of LMDs that are faster growth have raised 55% of total investment into the sector to date, i.e., 16x more investment per company than slower-growth LMDs
- In spite of them having raised less funding per company, slower-growth LMDs have collectively raised almost half the capital flowing into the sector, and sold 33% more (\$ of sales revenue) per \$ of capital raised than their faster-growth counterparts
- Positive trends include record investment in off-grid solar in 2021, investment in clean cooking companies growing at 20% yoy, and new investment vehicles emerging to support slower-growth LMDs
- Far more capital is needed across the board to reach universal access; e.g., 2x more per year in off-grid solar and 40x more per year in clean cooking. The gap in investments may be more critical for slower-growth LMDs, with only 22% of funders we mapped investing in these companies
- LMDs face multiple “valleys of death” across the continuum, with support most needed in three areas:

**Improved collaboration and information exchange**

**New or adapted debt mechanisms**

**Leveraging results-based financing**

# Visit our LMD funding database

Fund Name	Type	Size	Sectors	Geography	Application	Examples of GDC investees
<b>Beneficial Returns</b>	Debt	\$50K - \$500K	Agriculture, Health, Improved cooking, Off-grid solar, Other, Water, sanitation and hygiene (WASH)	Latin America and South East Asia	Open	Ecofiltro, Ilumexico, Sistema.bio, Nazava, ATEC*
<b>bettervest GmbH</b>	Crowdfunded loans	\$100K - \$2.5M	Improved cooking, Off-grid solar	Borrower registered in Kenya, Nigeria, Senegal, Germany, Austria, Bulgaria, Singapore.	Open	Vitalite Senegal, Bonergie, Bidhaa Sasa, WidEnergy Africa Ltd, Pawame
<b>Beyond Capital Fund</b>	Early stage capital (equity and debt)	\$25K - \$200K	Agriculture, Health, Improved cooking, Off-grid solar, Other, Water, sanitation and hygiene (WASH)	India and East Africa	Open	Tulaa, Frontier Markets

Our [LMD funding database](#) enables distributors to identify and search investors and donors that have an interest and proven track record in funding LMDs.

Search by sector, geography, type of finance, ticket size and stage of company growth: *pre-seed, seed, early growth, accelerated growth, and slower growth*

# Annexes



# LMDs interviewed

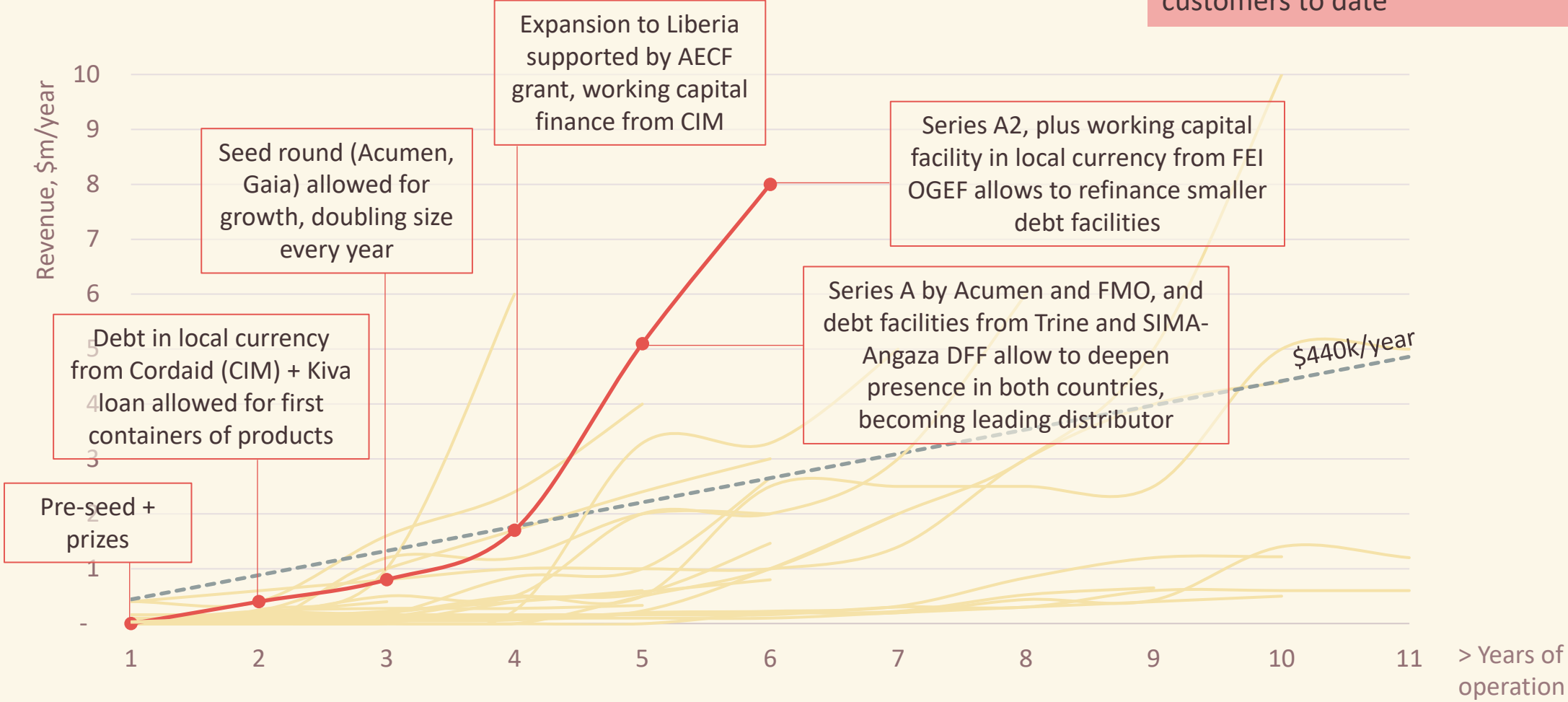
- Altech
- ARESS
- Bidhaa Sasa
- Deevabits Green Energy
- Easy Solar
- Ecofiltro
- Energy+
- Essmart
- Frontier Markets
- Healthy Entrepreneurs
- Hybrid Social Solutions
- Mwezi
- Oolu Solar
- Pawame
- Sistema.bio
- Solibrium
- Sosai Renewable  
Energies Company
- UpOwa
- Vitalite
- WidEnergy
- Yellow Solar
- Zonful

# Funders interviewed

- Acumen
- Beneficial Returns
- Bettervest
- Charm Impact
- Cordaid Investment  
Management (CIM)
- D-Prize
- DOEN Foundation
- DRK Foundation
- elea Foundation
- Energise Africa
- Gaia Impact Fund
- GroFin
- Lendahand
- Nexus for Development
- Nithio
- OPES-LCEF
- Paygops-FGV pilot
- Persistent
- SIMA-Angaza Distributor  
Finance Fund
- Spark+ Africa Fund
- Trine
- Wajenzi

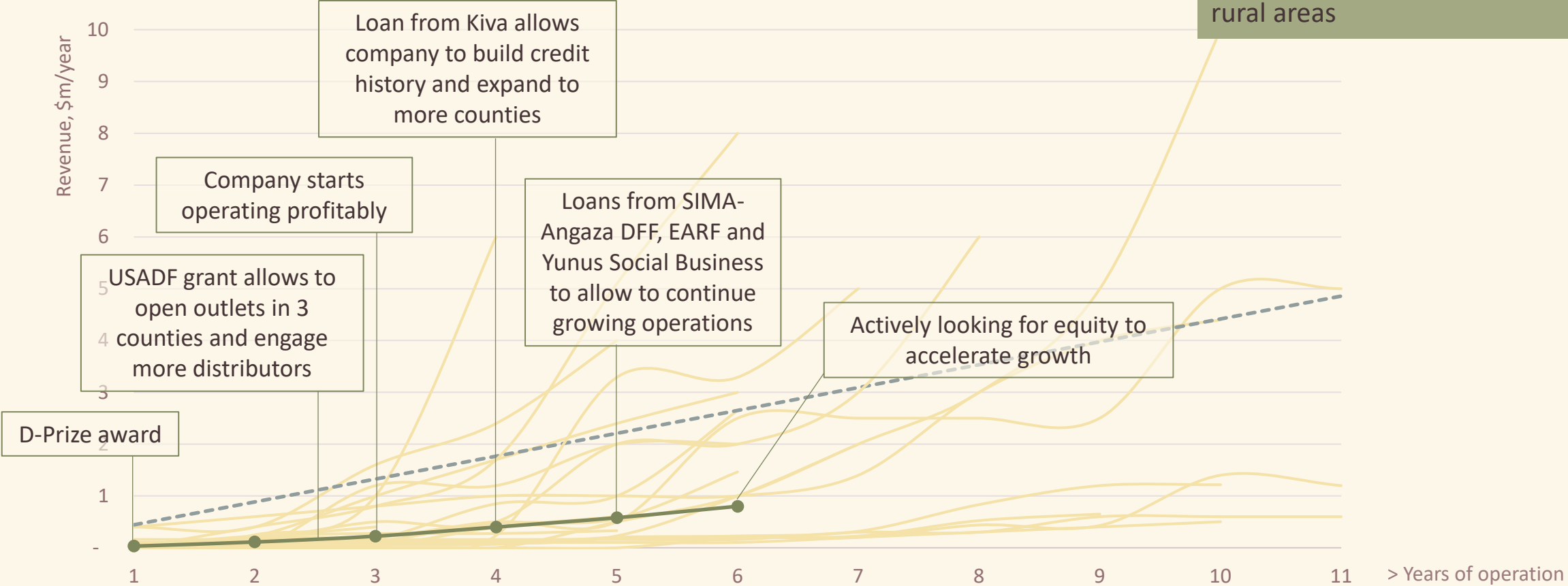
# Faster-growth LMD example: Easy Solar

Leading distributor of PAYG off-grid solar products in Sierra Leone and Liberia, having reached 120,000 customers to date



# Slower-growth LMD example: Deevabits Green Energy

Distributor of PAYG off-grid solar and appliances, with presence in 8 counties in Kenya, reaching 27,000 customers in underserved rural areas



# Proposed solution areas

Four solution areas were prioritised by funders and LMDs that attended our LMD Investor Forum on 22nd June 2022 (highlighted in red). These were the focus of breakout discussions. [Watch the recording of the event here.](#)

## Improving collaboration and information exchange to ease investments at all stages

- **Investment readiness tools**
- Increasing visibility of LMDs and data sharing (eg, investment portal)
- Developing new data tools to support path to profitability
- **Collaboration among funders / funder alliance**

## Developing new or adapted debt mechanisms to free up more working capital for LMDs

- **Aggregating and de-risking debt investments to enable smaller ticket sizes**
- Receivables- and inventory-backed financing for LMDs

## Leveraging results-based financing to improve unit economics and increase LMDs' attractiveness to funders

- **Carbon finance and other forms of results-based financing**

# Proposed solution areas (continuation)

We are committed to take forward the ideas from the LMD Investor Forum 2022, and/or supporting other key stakeholders to do so.

## Investment readiness of LMDs via tools and training, especially targeted at small and/or local LMDs

- As a pre-requisite to investment readiness, funders need to be more transparent about their eligibility criteria and more open to investing outside of their close network (most investments today are relationship based).
- To support LMDs to get the attention of these funders, **some of the most useful tools to equip them with are an effective investor pitch and financial models.**

## Aggregating and de-risking debt investments to enable smaller ticket sizes

- There are lots of different potential financial intermediaries (e.g., local banks, MFIs, early-stage equity and TA providers, early-stage debt providers, crowdfunding platforms).
- These intermediaries are constrained by a mix of liquidity and risk. For non-specialist intermediaries, there are additional constraints around systems, processes, the need for “champions”, and strong incentives to build pipeline and close deals.
- **More philanthropic or semi-commercial capital is needed to play a first-loss role**, to enable specialist intermediaries to raise funds, to further demonstrate their investment models, and to continue to attract funding to invest in smaller companies over time.

# Proposed solution areas (continuation)

We are committed to take forward the ideas from the LMD Investor Forum 2022, and/or supporting other key stakeholders to do so.

## Collaboration among investors/funder alliance

- Funders do not collaborate more because collaboration is anchored in personal relationships, and funders are not comfortable sharing information more widely.
- This slows down the process and limits opportunities. What systems can we put in place to streamline this?
- The concept of a **“centralised repository of information”** emerged from the group. As a starting point, investors that do due diligence on a company but end up not investing in it could refer this company to such a centralised repository, instead of sharing it only within their close network.
- A grant-funded organisation can collect information from these investors and help match companies to the types of capital that are most suited to them.

## Carbon finance and other forms of RBF

- Carbon finance is increasingly attractive yet underutilised by LMDs. Can we improve access to it (and to other forms of social and environmental impact incentives)?
- Solstroem is a digital platform working to **bundle LMDs to reduce costs of verification**.
- But there is a challenge on the sale side: How can we find ways to **increase potential buyers for the offsets**?
- Other questions the sector will need to grapple with: how to aggregate and monetise carbon credits across sectors (e.g., companies selling water filters and off-grid solar)? And how to define results, when it comes to RBF?
- We will also be **exploring opportunities to both adapt existing RBF and create new RBF schemes** to target low-income consumers.