



The growth and fundraising journeys of last mile distributors

How can we bridge the LMD access to finance gap?

GDC host:

**Practical
ACTION**

GDC implementing partners:

HYSTRA
hybrid | strategies consulting

**bop
inc**

Agenda and objectives

- Charlotte Taylor, GDC: **Intro and scene setting**
- Presentation from Federico Hinrichs, GDC: **Analysis of the growth and fundraising journeys of LMDs**
- **Fundraising insights** from Rocio Ochoa Perez, Bidhaa Sasa and William Ponela, Zonful Energy
- Presentation from Lucie Klarsfeld McGrath: **Key takeaways and next steps from our recent LMD Investor Forum**

Objective 1:
Share insights from the latest
GDC research on access to
finance in the LMD sector

Objective 2:
Share key outcomes and next
steps from the LMD Investor
Forum

Objective 3:
Hear your thoughts and
feedback

Bridging the gap

800 million people lack access to electricity



Credit: Vitalite

2.7 billion lack access to clean cooking facilities



Credit: Joanna Pinneo | Solar Sister

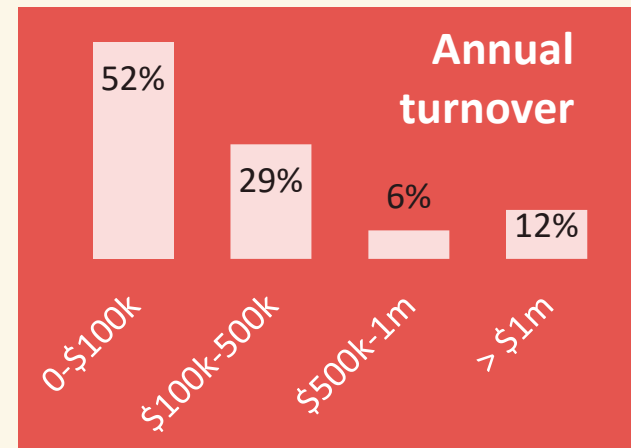
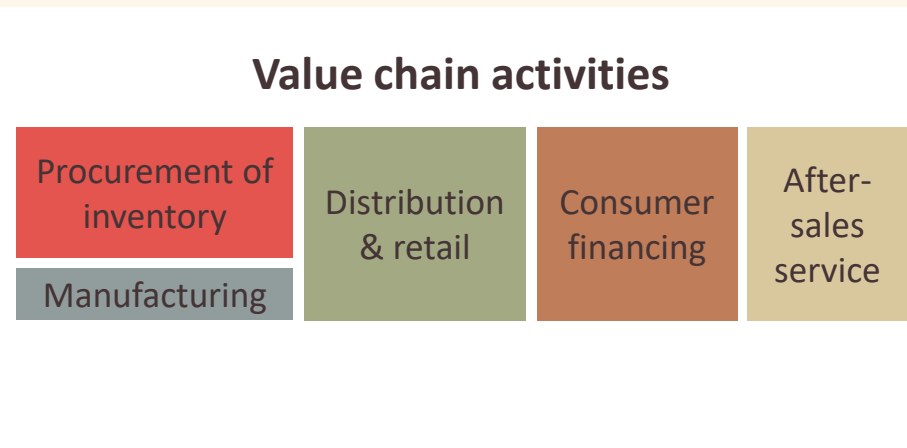
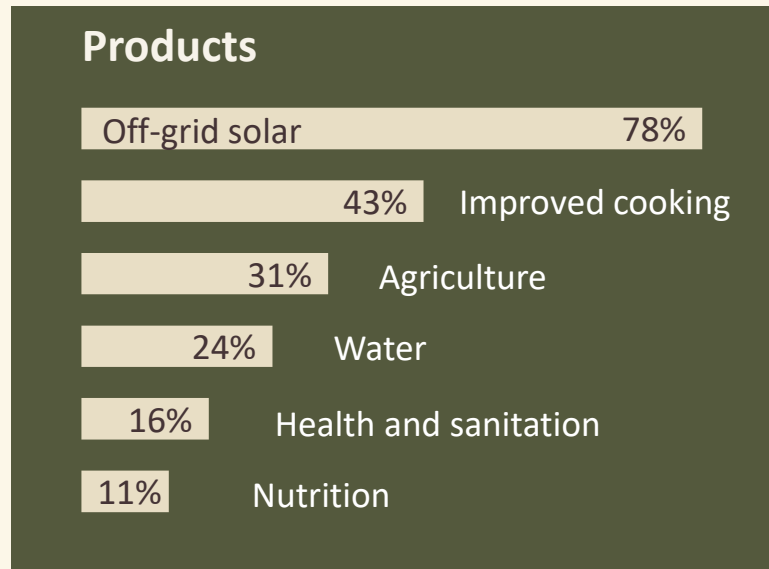
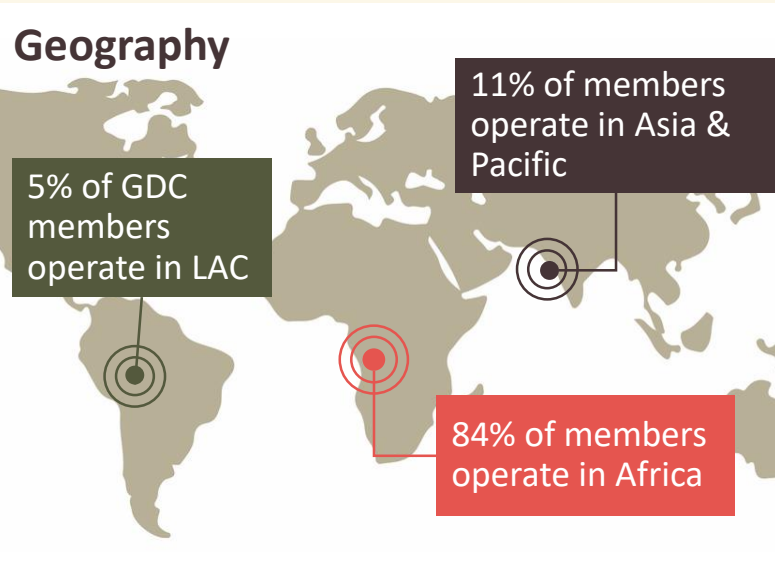
800 million lack access to basic drinking water



Credit: Ecofiltro

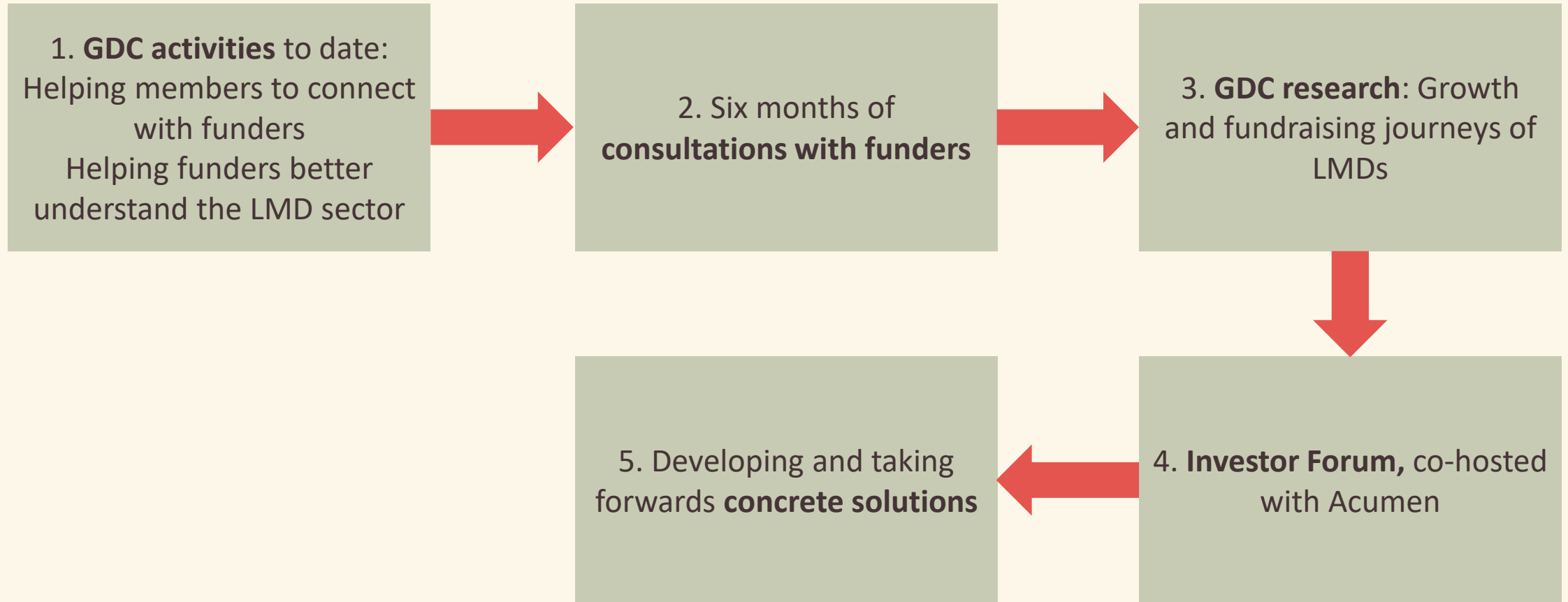
- To meet the SDGs, last mile populations need **access to beneficial products and financing** to afford them.
- LMDs have **a crucial role to play** in delivering these products to the hardest-to-reach consumers.
- To unlock the full potential of the LMD sector, **all types of funding – grant, debt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

LMDs are a diverse group, with diverse impacts



- 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 not-for-profit models also have a role to play.

Why are we here today?



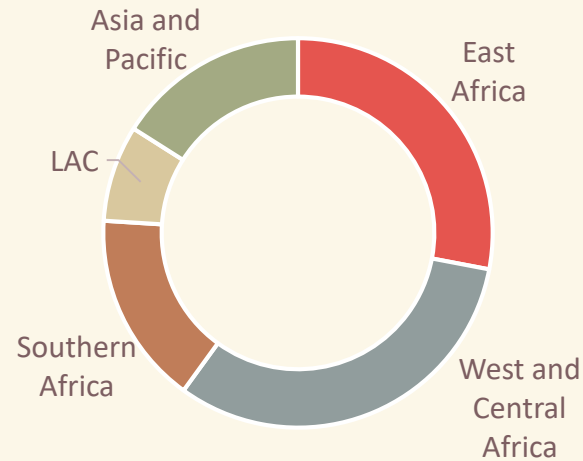
Research piece: Growth and fundraising journeys of LMDs

The detailed version of the research can
be downloaded from [here](#)

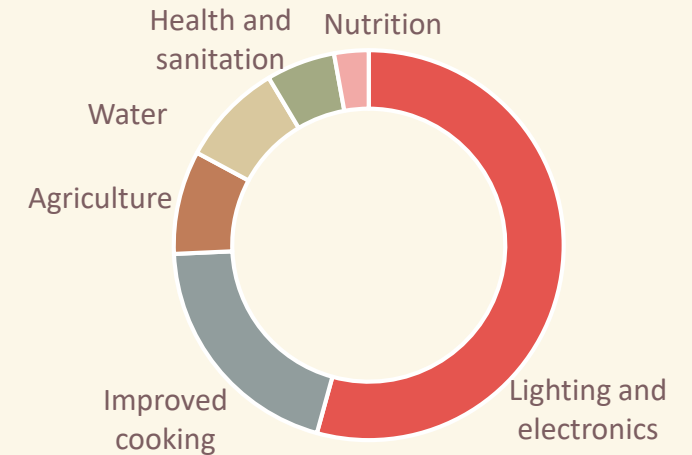
21 LMDs interviewed in the last 6 months

- Focus on LMDs with high turnover
- Looked for diversity within the sample
- Not a representative sample

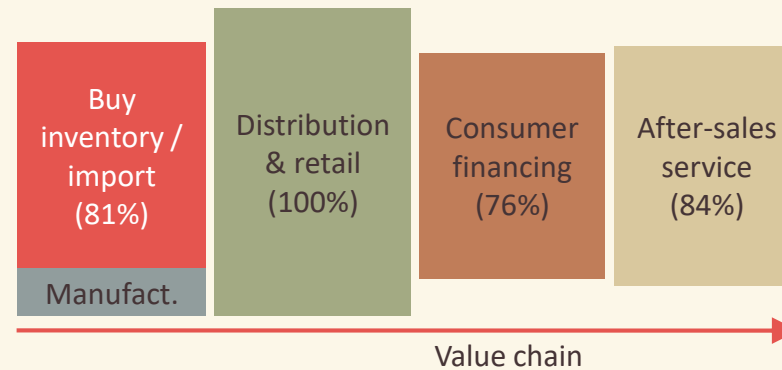
Countries of operation



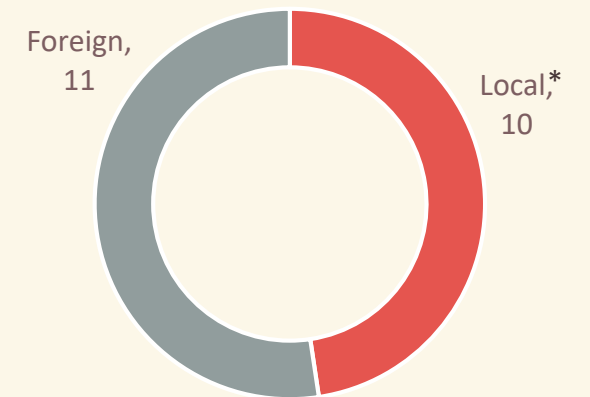
Product categories



Value chain activities



Local/international



21 companies interviewed

Sistema.bio

Ecofiltro

Oolu Solar

Easy Solar

Energy+

Sosai

Renewables

ARESS

UpOwa

Healthy

Entrepreneurs

Solibrium

Pawame

Mwezi

Bidhaa Sasa

Altech

Vitalite

WidEnergy

Yellow

Zonful

Frontier Markets

Essmart

Hybrid Social
Solutions

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)
- is turning over \$3m in annual sales (2020 average)
- has raised over \$5m of finance to date



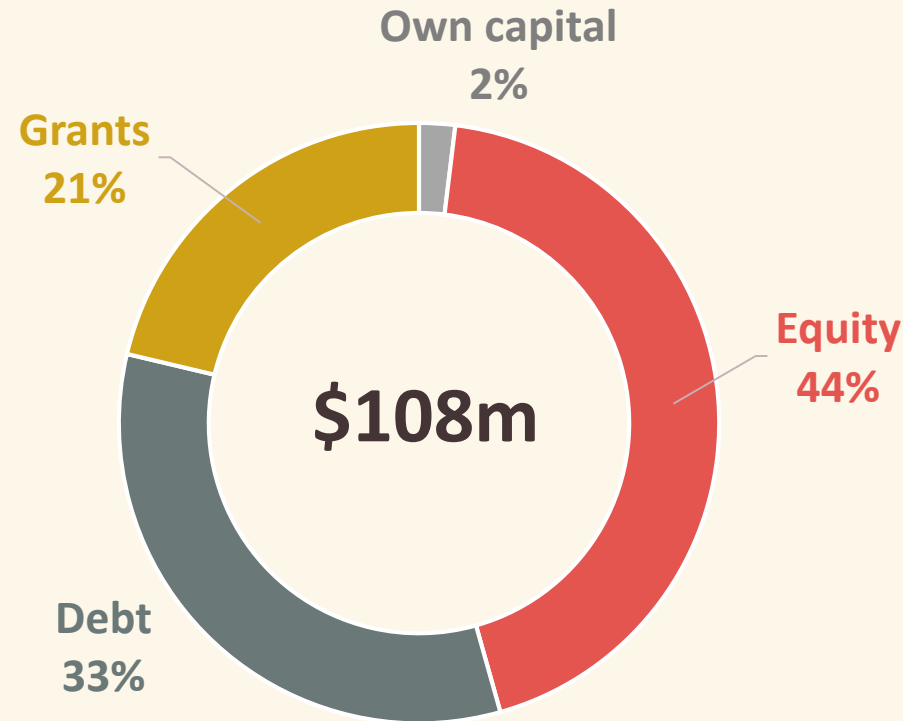
Credit: Essmart

**Where is this capital
coming from?**

LMDs have raised more equity than any other form of financing

- Start-up/project grants (82%)
- Results-based financing (15%)
- Other (4%)

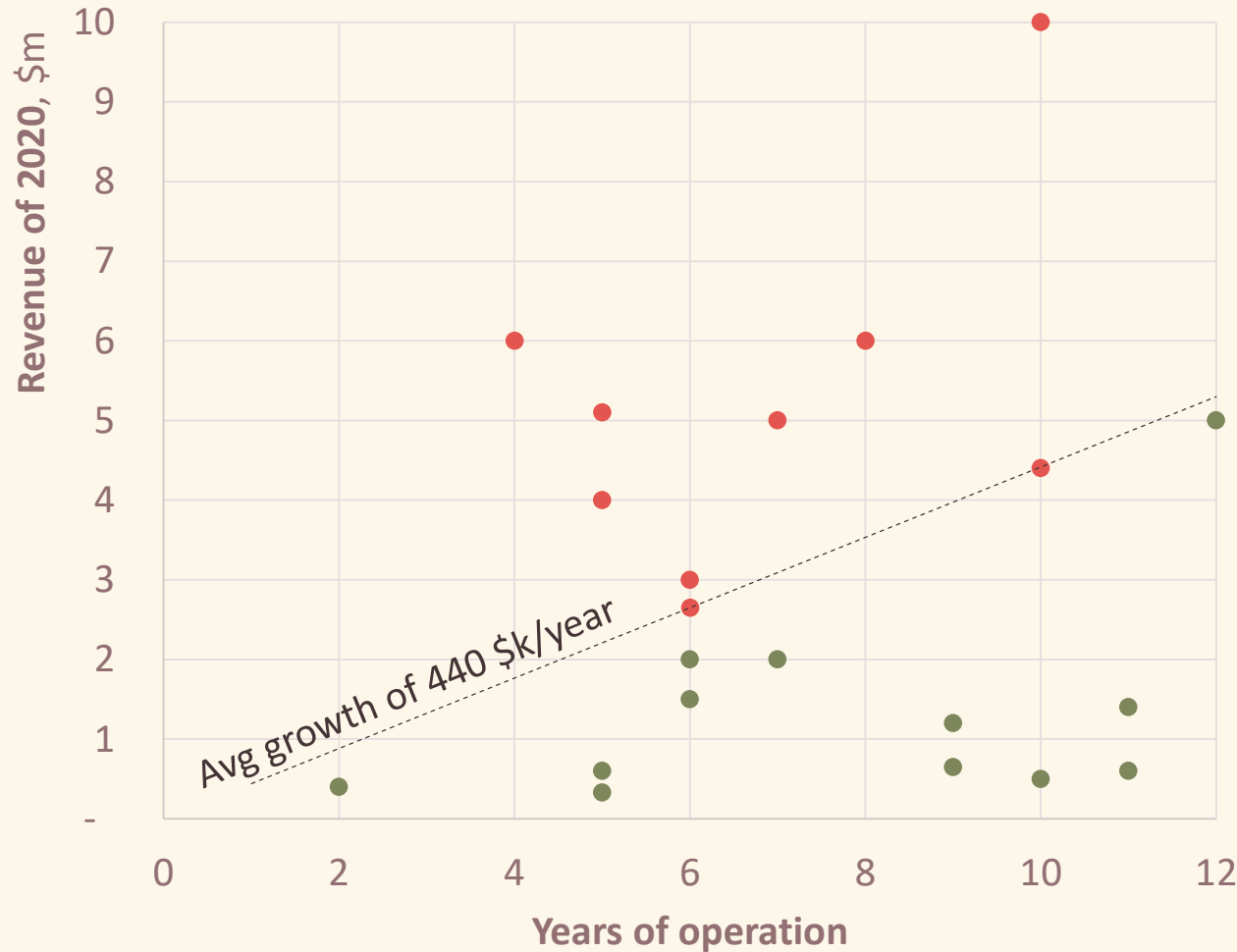
- Crowdfunded loans (47%)
- Specialised debt funds (44%)
- Forgivable loans (8%)
- Local financial institutions (1%)



- Early-stage impact investors (74%)
- Specialised funds and later-stage VCs (22%)
- Angels, foundations (4%)
- Local equity investors (<1%)

What is a typical
growth and
fundraising journey
for an LMD?

Faster-growth and slower-growth LMDs



Faster-growth LMDs

(above the average)

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

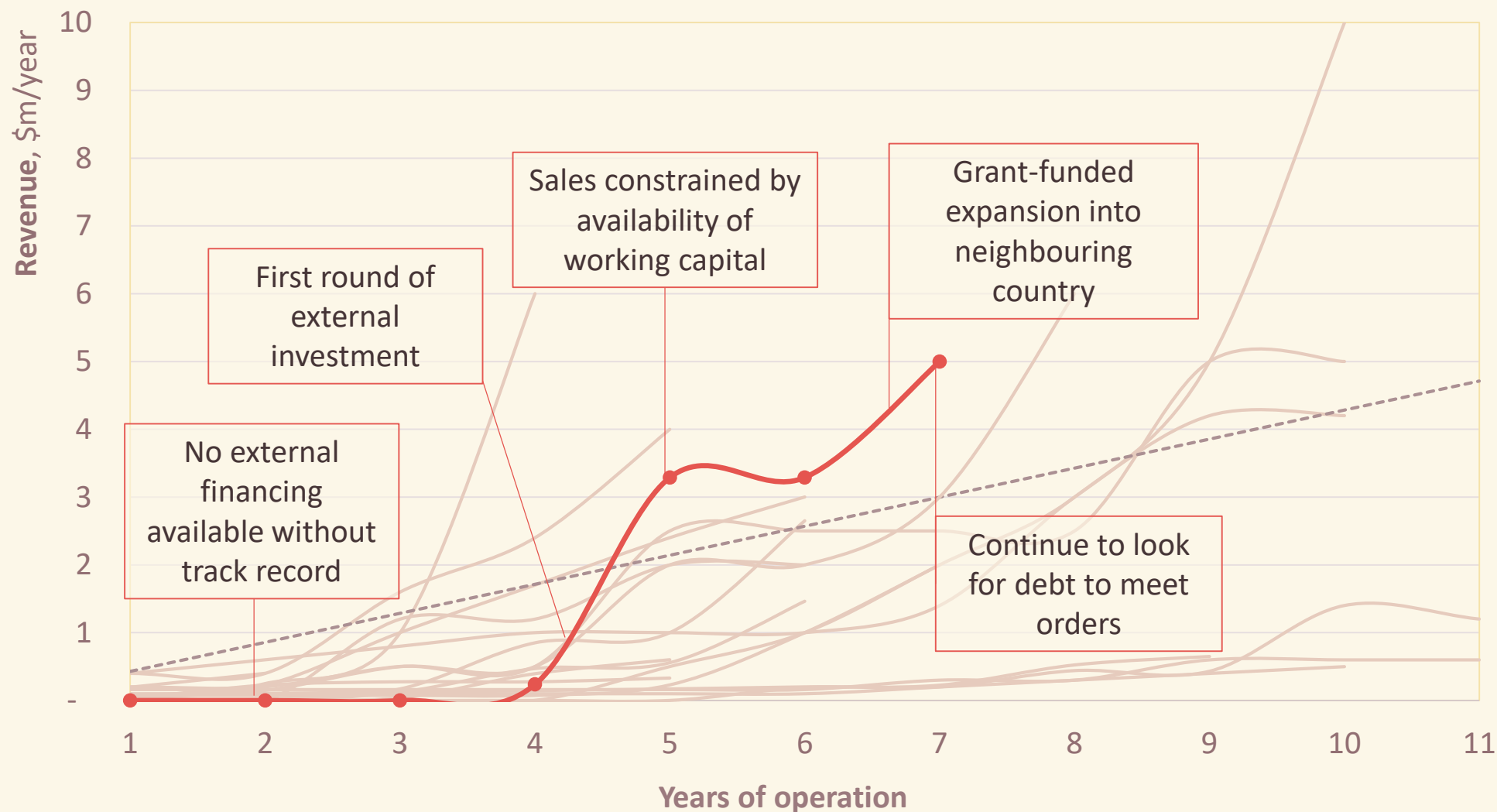


Slower-growth LMDs

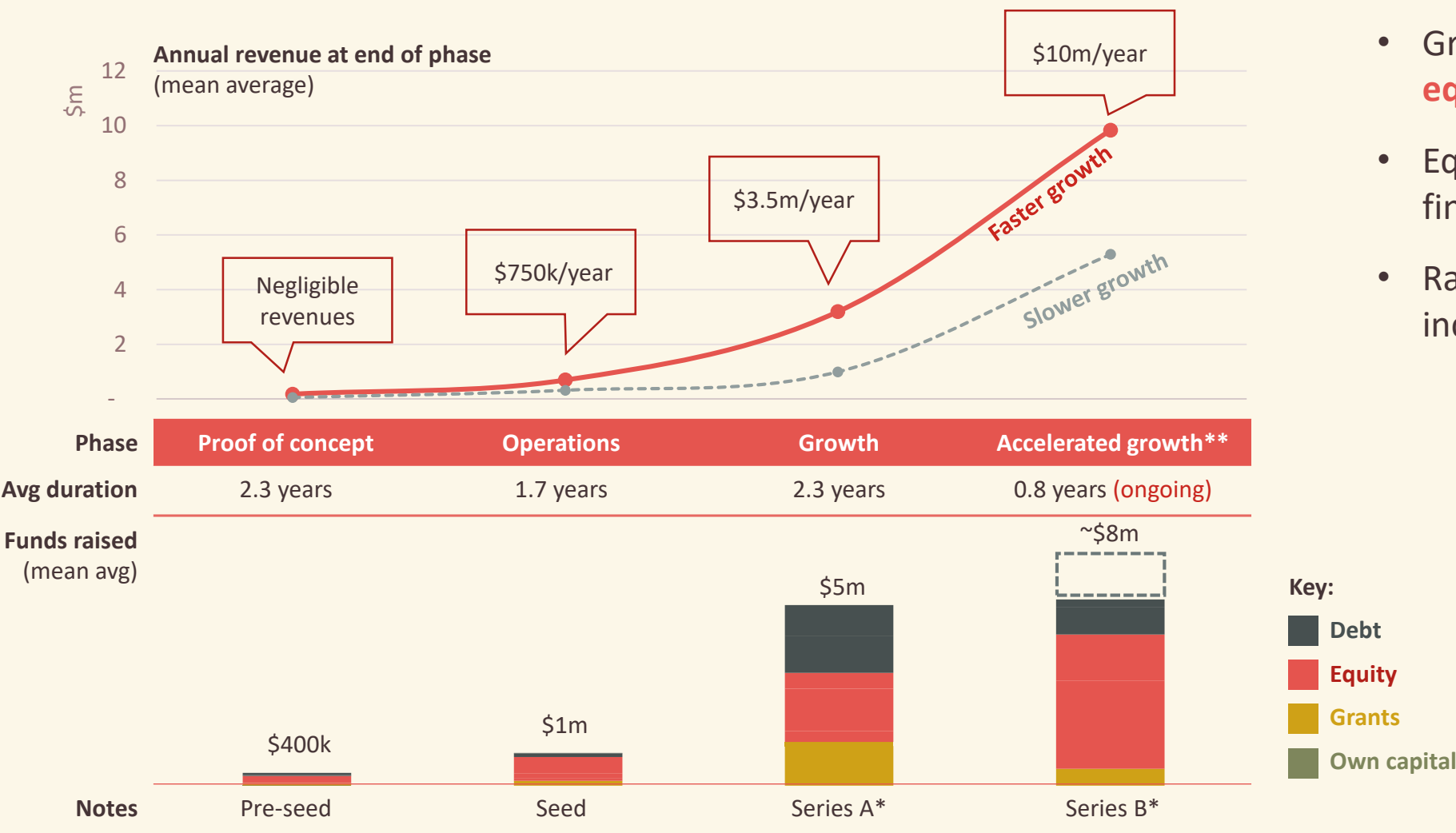
(below the average)

67% pursue consolidation in existing markets and profitability before expansion

Faster-growth LMD example: Zonful (Zimbabwe)



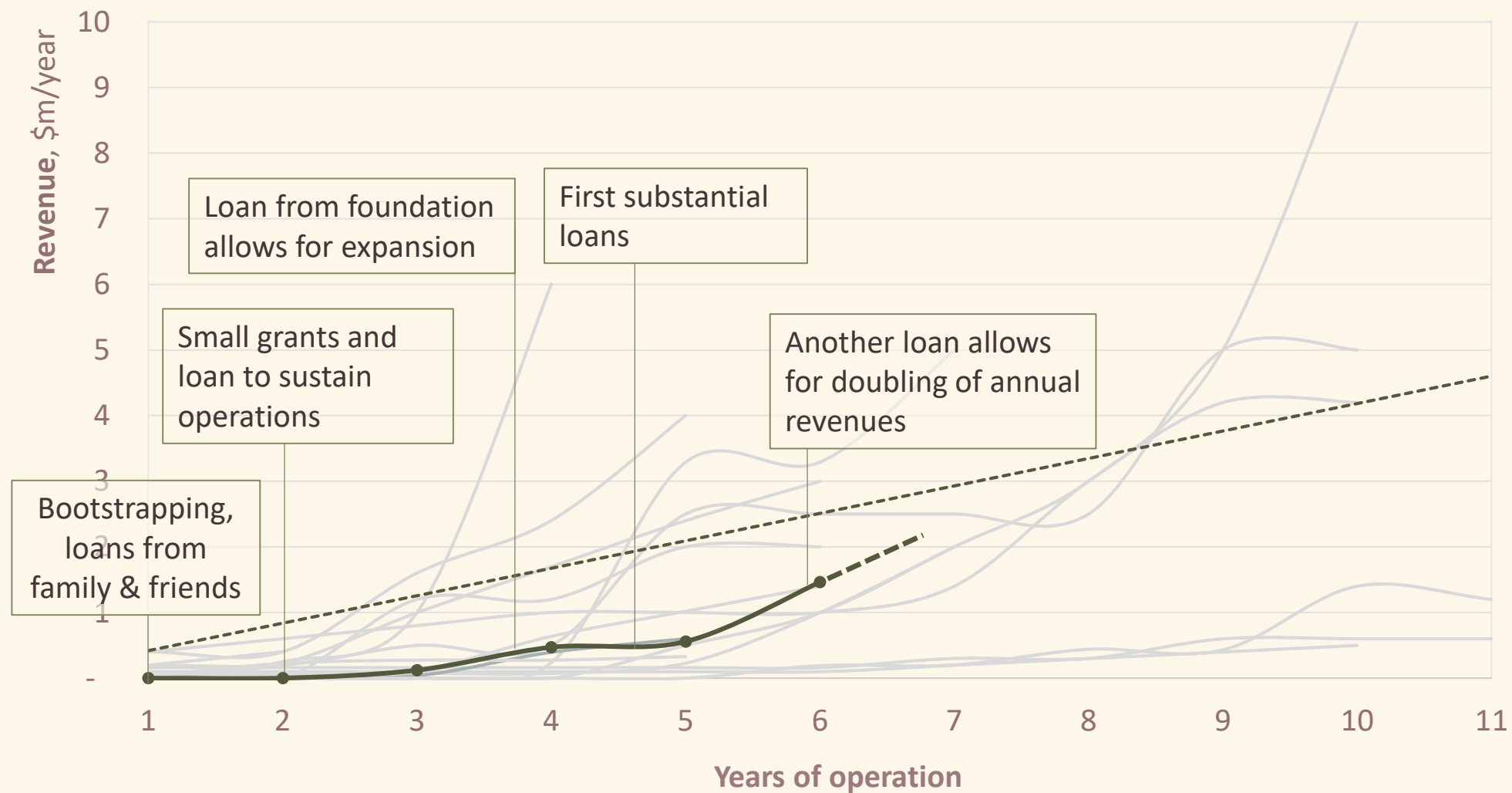
Growth and fundraising for faster-growth LMDs



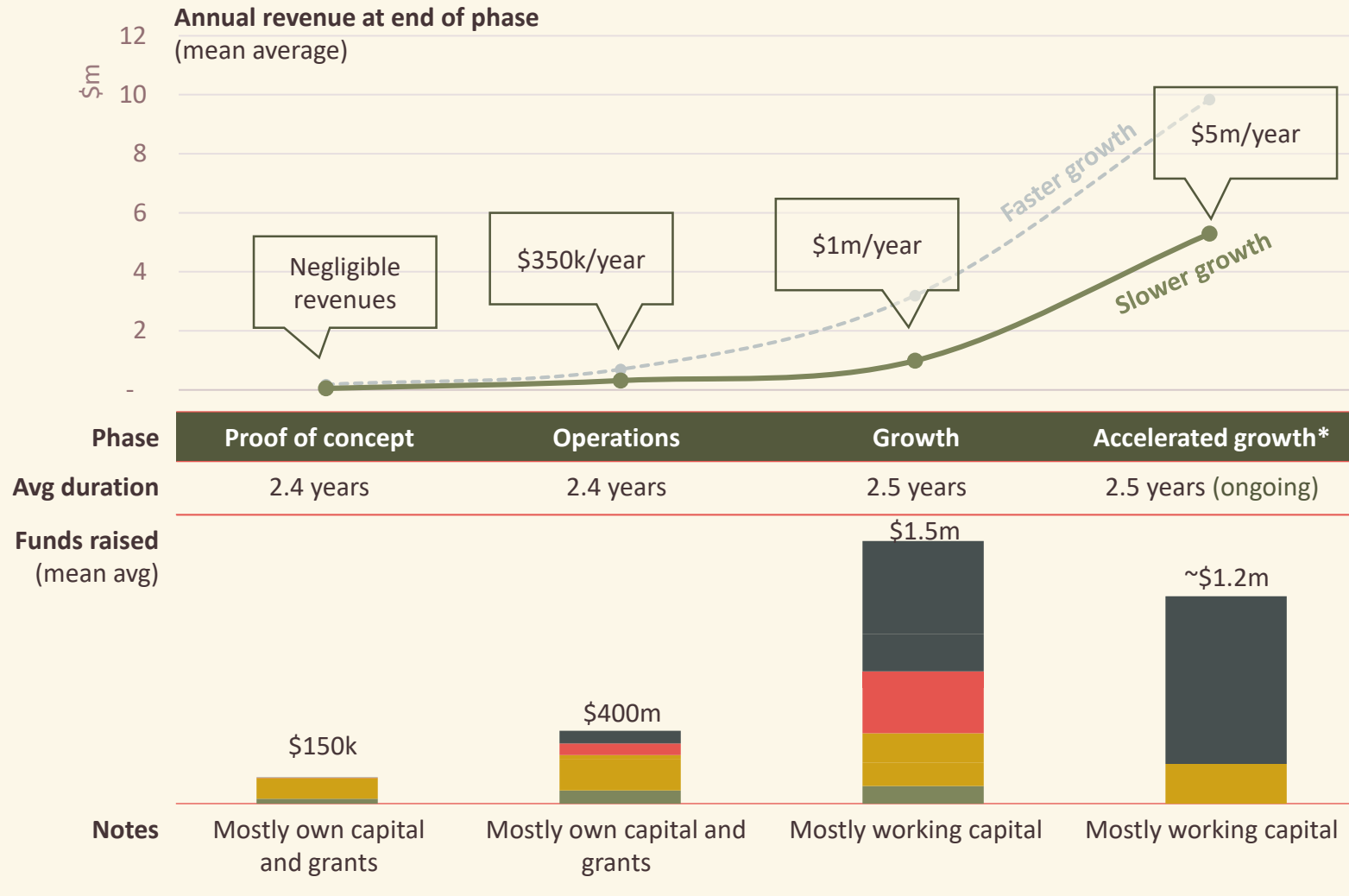
- Growth funded primarily with **equity** at all stages
- Equity is sometimes used to finance inventory and operations
- Raising equity is becoming increasingly difficult for LMDs

* 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)



Growth and fundraising for slower-growth LMDs



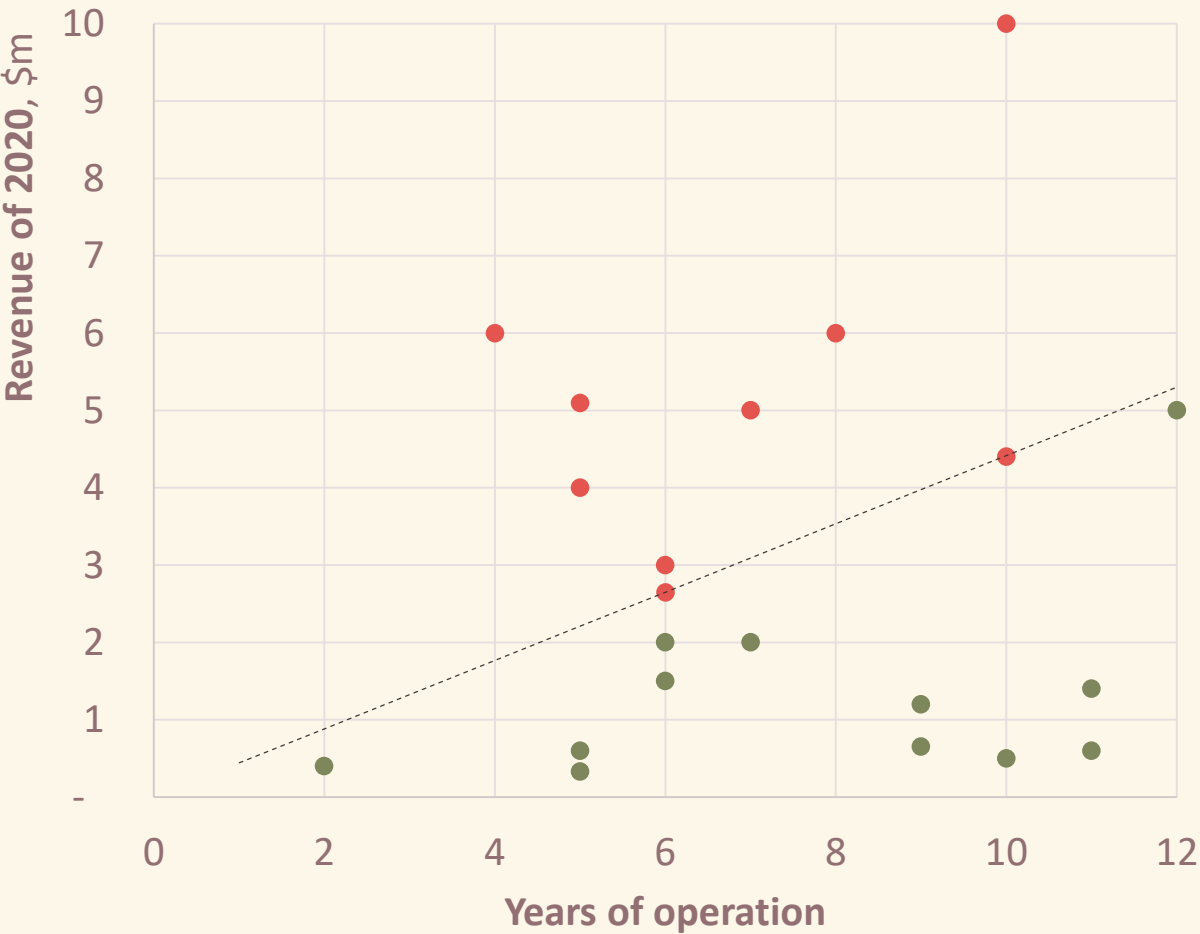
- Most slower-growth LMDs have funded **company development with grants** and **growth with debt**
- Little equity has been raised
- Achieving accelerated growth despite the lack of equity

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

Relationship between growth and capital raised

$$\frac{\text{Total sales revenue to date}}{\text{Total capital raised}} = \begin{matrix} 1.8 & \text{For faster growth LMDs} \\ 2.4 & \text{For slower growth LMDs} \end{matrix}$$

Slower-growth LMDs have realised higher revenues per \$ of capital raised than faster-growth LMDs



Faster growth
(9 companies)



Total sales revenue
\$102m

Total capital raised
\$57m

1.8*

\$ of revenue /
\$ of capital raised

Slower growth
(12 companies)



Total sales revenue
\$51m

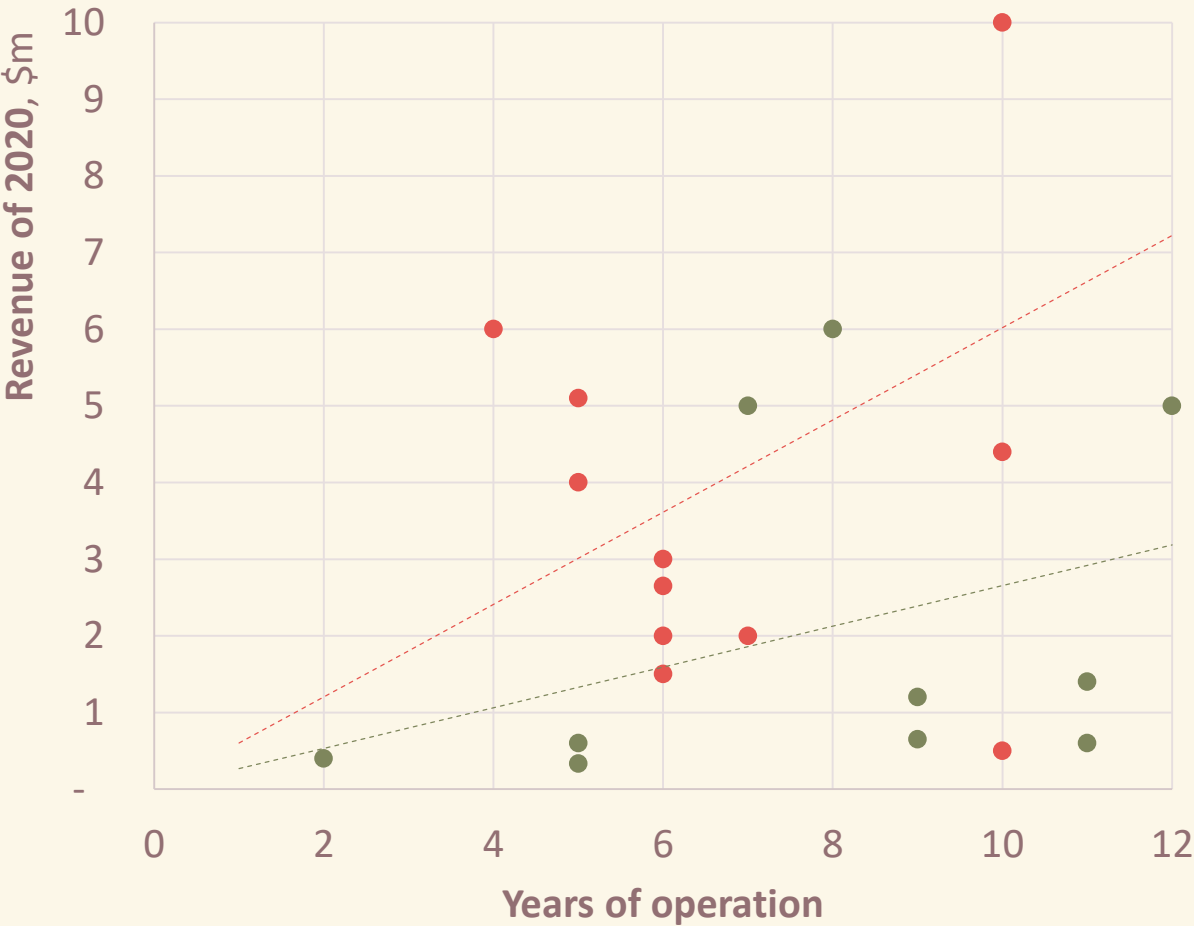
Total capital raised
\$22m

2.4*

\$ of revenue /
\$ of capital raised

So what does this suggest?

Local LMDs have realised much higher revenues per \$ of capital raised than foreign LMDs



Foreign
(11 companies)



Total sales
revenue
\$91m

Total capital
raised
\$63m

1.5*

\$ of revenue /
\$ of capital raised

Local
(10 companies)



Total sales
revenue
\$63m

Total capital
raised
\$16m

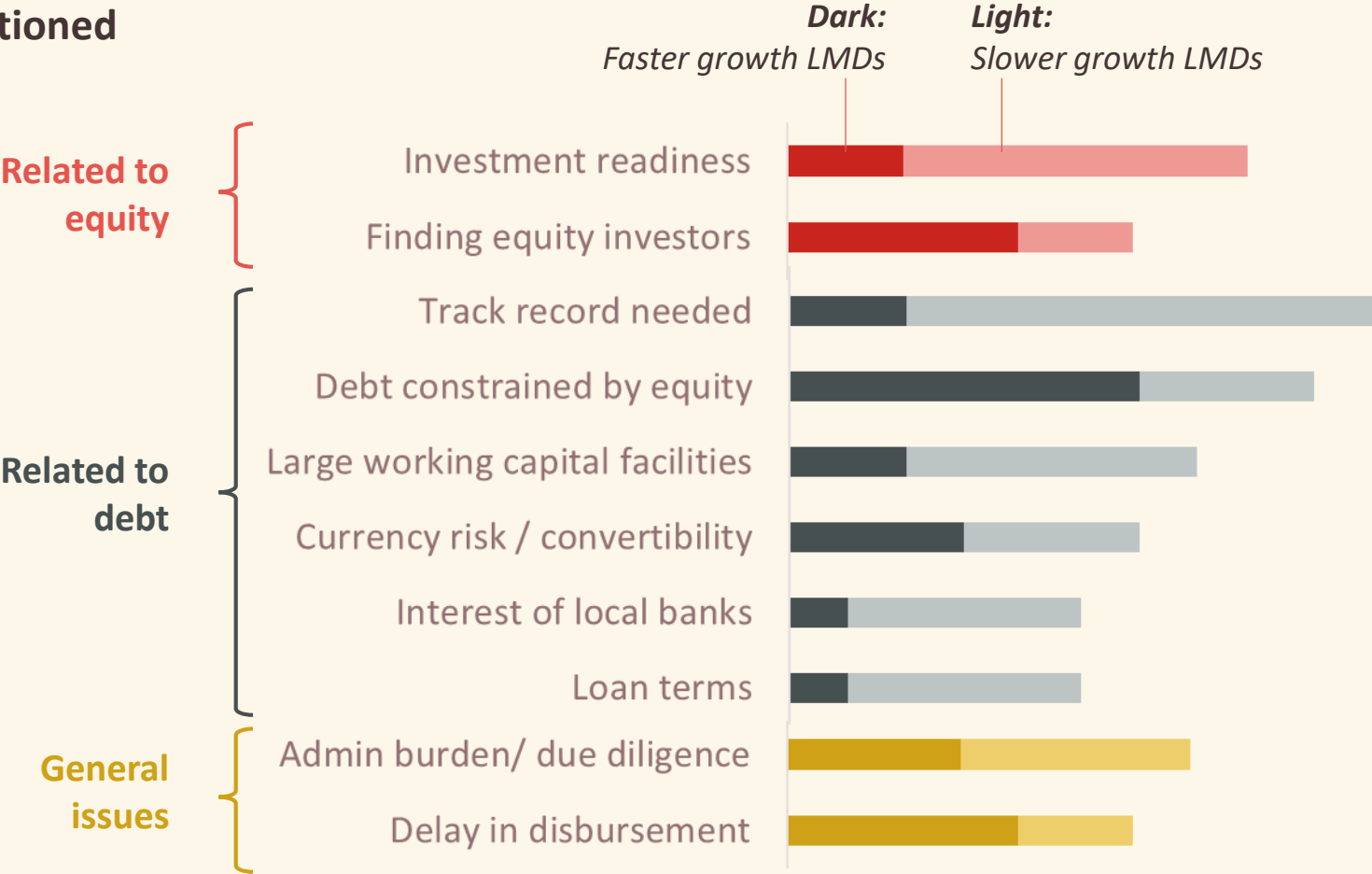
3.9*

\$ of revenue /
\$ of capital raised

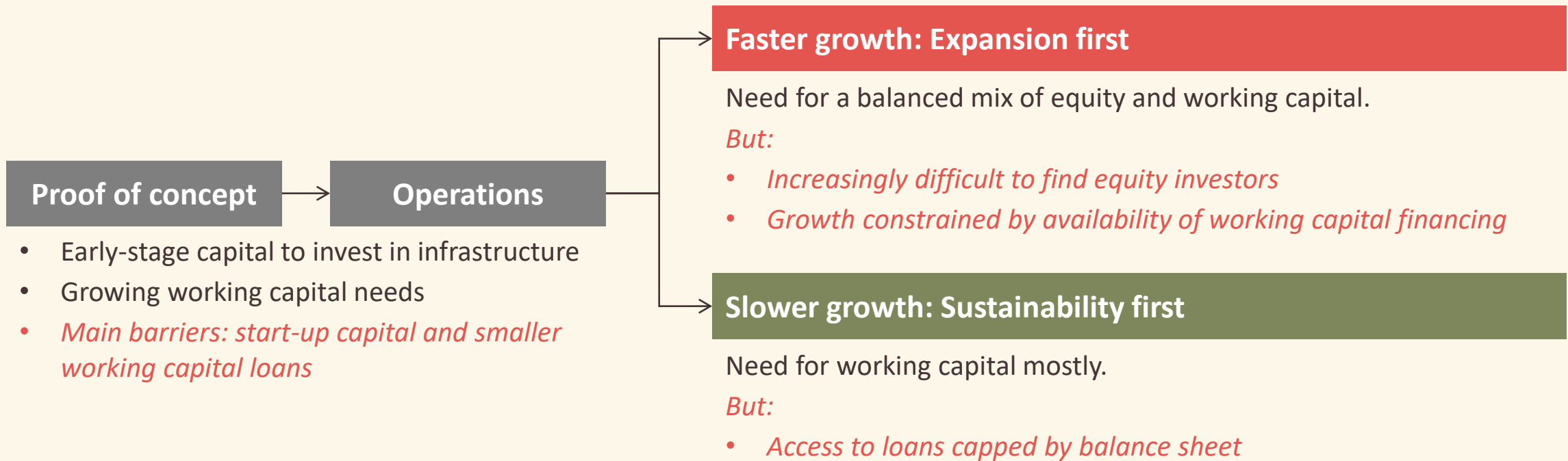
What challenges do LMDs have, when it comes to raising capital?

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

Most frequently mentioned challenges:



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



Key forms of finance needed:

- **Start-up capital**, and the support to raise it
- **Equity** for the faster-growth LMDs to continue to scale
- **Working capital** across the board, with reduced collateral requirements, better rates and terms

Conclusions

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

2. Faster-growth and international LMDs have raised more capital, in particular equity

3. Slower-growth and local LMDs achieve more sales per \$ of capital raised

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 \$100k to a few millions)
- Equity 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

Next steps:
Solutions to help
bridge the gap

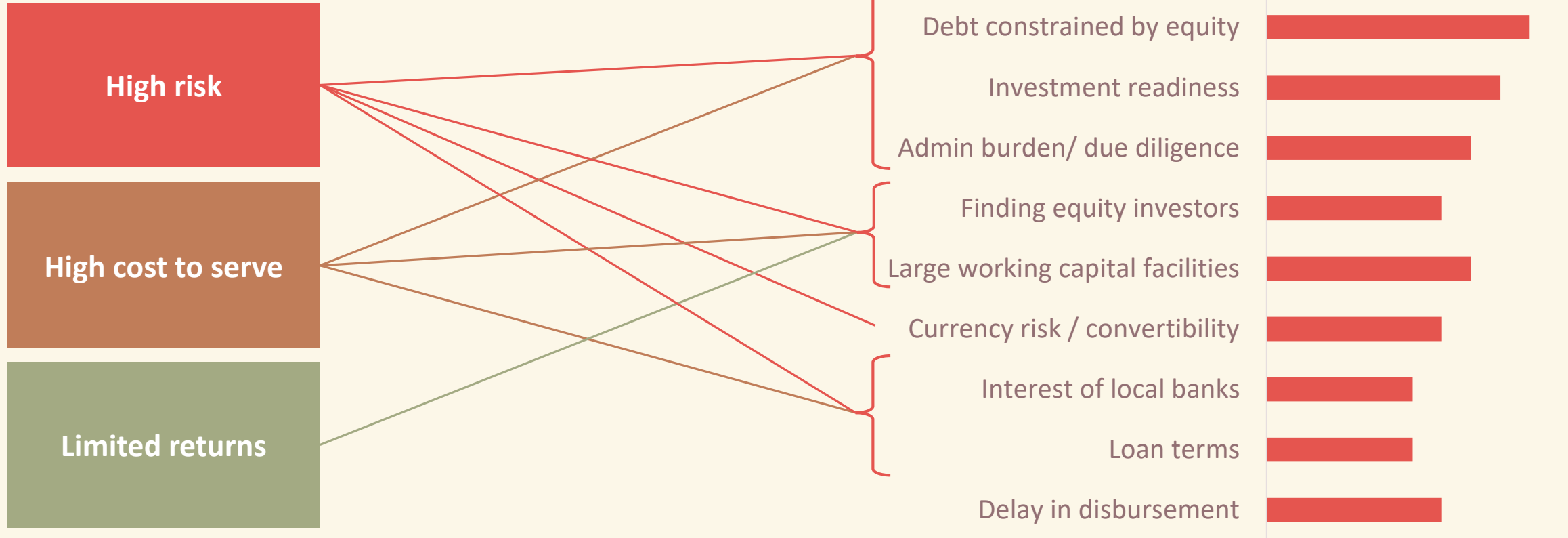
Investors' and LMDs' challenges mirror each other: risk-return ratio is not attractive at first glance

	LMD	Investor
High risk	Limited information on vulnerable clients with fluctuating capacity to (re)pay Complex low-income country environment Currency risks	Limited sector information/ benchmark available, mostly young companies
High cost to serve	Small and fragmented markets, each hard to reach	Small and fragmented LMDs, with limited financial capabilities, each costly to assess
Limited returns	Limited sales opportunities per client	Limited (sales) capabilities Limited market opportunities per LMD

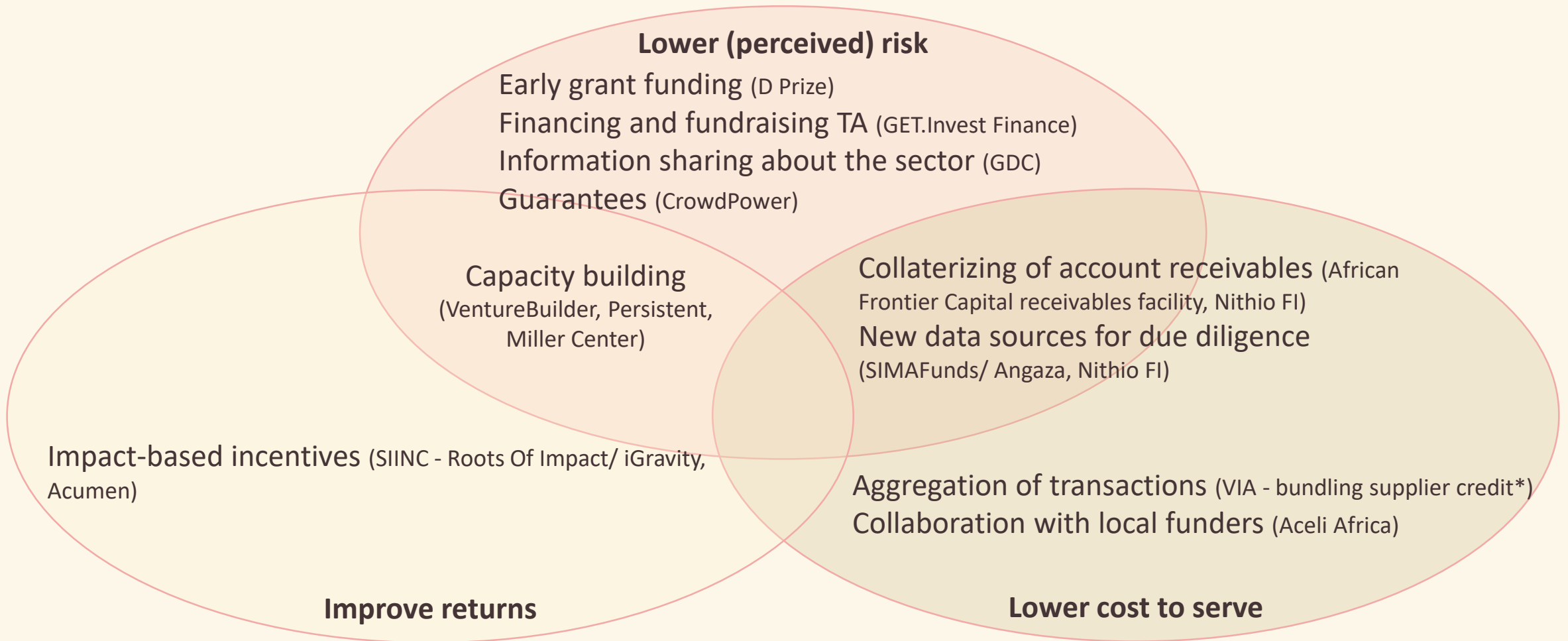
This (perception of) high risk/ low return can explain most fundraising challenges mentioned by LMDs

Investors facing the challenges of....

.... explain a large part of challenges mentioned by LMDs:



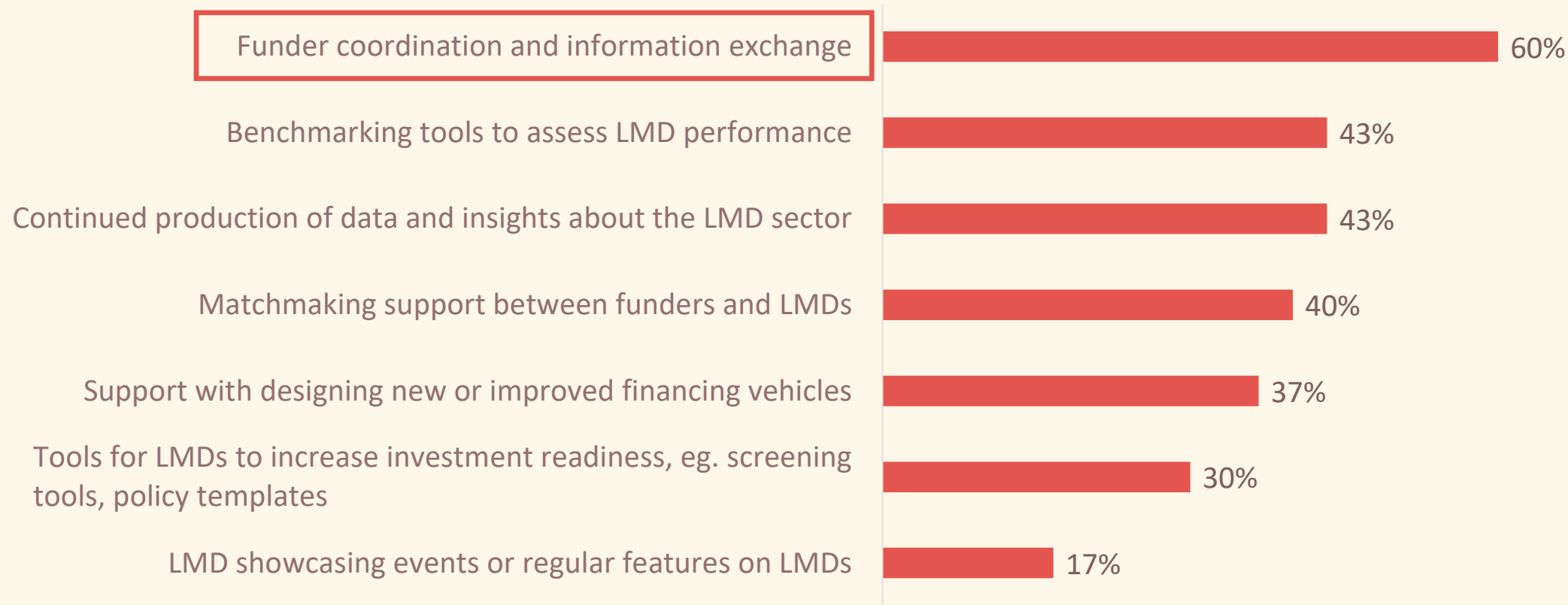
Pioneering institutions have set up initiatives that solve some of these challenges



Investors want more opportunities to collaborate and better leverage synergies

What do you want to see from the GDC moving forward?

100%= 30 investors



GDC next steps to support LMDs to access finance and to support funders to build pipeline

Priorities over the next 6 months...

- Create a clear picture of the '**capital continuum**' (*research publication*)
- Facilitate more **dedicated spaces** for LMDs, funders and TA providers to cooperate, network and exchange information (*format TBC*)
- Develop an '**investment readiness**' tool to help LMDs understand and navigate the due diligence process (*practical tool for LMDs*)

Supported by:



Q&A

Wrap up and close

Next steps

- Feedback poll
- Upcoming activities from the GDC: 2022-25 Strategy, gender and LMD webinar in partnership with V4W
- Get in touch!

GDC@practicalaction.org.uk



Credit: Mwezi



Thank you!

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GDC host:

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ACTION**

GDC implementing partners:

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