GSMA Mobile for Development Utilities

Investor Roundtable : Foundations

15th September 2016

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GSMA Mobile for Development Utilities

Our mission is to unlock commercially sustainable business models that leverage mobile to deliver affordable and improved energy, water and sanitation services in emerging markets.

Programme Activities

- Knowledge Sharing and Convening
- Advisory Services
- Innovation Fund
- Market Building

M4D Utilities programme is supported by the UK Government

M4D Utilities Innovation Fund

Mobile for Development Utilities

Sectors

Mobile enabled energy, water, sanitation services

Stage

Early stage, seed investment

Investment size & structure

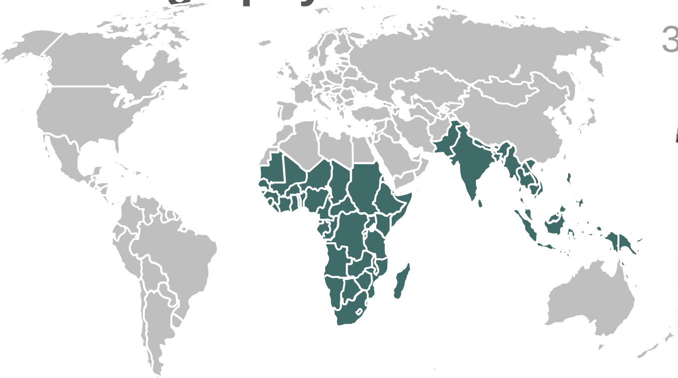
Only grants.

Seed- Up to £150,000,

Utility Partnership- Up to £200,000,

Market Validation- Up to £350,000

Geography



Investees

34 grantees till date

Africa Water Enterprises · Dialog · Loowatt · Gham Power · Wonderkid everyday solutions · fenix intl

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Why is M4D Utilities hosting the investor roundtable series?

To facilitate better communication between entrepreneurs (leveraging mobile) and funders, the webinar series aims to:

- Highlight the differences between funders
- Emphasise the need for entrepreneurs to research and know more about funders
- Improve the understanding of the investment process

Erin Crossett, Portfolio Manager, USAID Development Innovation Ventures (DIV)

Erin Crossett supports DIV’s selections process and provides portfolio support in monitoring and evaluation, particularly impact evaluation and research design. Previously, Erin worked on RCTs of latrine finance in Cambodia and WASH education in Rwanda.

Background

Sectors

All sectors

Stage

- DIV supports innovations from the proof of concept stage through scale
- Operations and research grants

Investment size & structure

Grant funding

Stage 1: up to $150k

Stage 2: up to$1.5M

Stage 3: up to $15M

Geography

Investees

161 investments to date

Investment Mandate

Mission statement & impact

DIV is an open innovation fund that sources, tests, and accelerates breakthrough ideas that address global development challenges across the world. We look for interventions that could change millions of lives at a fraction of the cost.

Return expectation

- Varies depending on stage and grant purpose
- Social impacts
- Catalytic funding

Duration of investment

Stage 1-2: Up to 3 years

Stage 3: Up to 5 years

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Finding Deals

How do you scout for deals?

Open call for applications (Expression of Interest), strategic sourcing through similar funders (e.g., Gates, GIF, Skoll), USAID Mission word of mouth, conferences (e.g., Sankalp, SOCAP, GES)

Three things you look for in an organisation before initiating discussion

1. Cost-effectiveness
2. Evidence of Impact
3. Pathway to Scale

Investment Process

Stage	Duration	Decision Makers	Evaluation Criteria
Initial assessment (EOI review + consensus)	2-3 weeks	DIV deal team (primary & secondary reviewers)	• Innovative idea and minimally viable product • Potential for scale, evidence of impact, cost-effectiveness
Due diligence	2-4 months	DIV deal team, external reviewers, relevant USAID Missions and technical bureaus	• Impact and financial due diligence • Quality of management team • Requisite institutional buy-in (e.g., for RCTs of public sector programs)
TEC Panel	1 week	Deal team, another DIV team member, external reviewer, DIV Chief	• Deal/no deal decision based on above criteria
Award negotiation and finalization	1-6 months	DIV team, applicant, USAID Office of Acquisition and Assistance (OAA)	• Payment milestones • Environmental review • Budget finalization

Red Flags

What are the top three reasons for deals not materialising?

1. Insufficient evidence of impact (i.e., lack of valid control group, confounding effects, limited measurement potential)
2. Limited potential for scale (i.e., lack of demand, poor regulatory environment, cost prohibitive)
3. Unclear rationale for value-ad of DIV funding (vs. debt/equity investment)

Expert Advice

What advice do you have for entrepreneurs to help them avoid common mistakes?

1. Clearly articulate the specific innovation and the total addressable market
2. Explain how grant funding would be catalytic to the organization’s growth
3. Identify clear and targeted proof points that allow the organization, DIV, and external funders/financers to track progress

Charlotte Ward, Director,
A.H. Lundin Foundation

Charlotte joined in 2014 to lead the portfolio in East and Southern Africa and represent the Foundation on Boards and Advisory Committees. Charlotte has 17 years experience in investment banking, project finance and small businesses, including 9 years living in Kenya. Charlotte worked at GSMA Mobile for Development and Deutsche Bank.

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Background

Adolf H Lundin Charitable Foundation

Sectors

Direct- energy access, financial inclusion, agriculture & human capital businesses.

Pooled investment vehicles - focus on frontier markets

Stage

Post revenue, pre-profit, and early growth / profitable

Investment size & structure

We make minority equity, quasi-equity and debt investments from $200,000 to $1.5M initially

Geography

Investees

13 direct investees e.g. ACRE, PowerGen, Esoko, M-Kopa

8 pooled investments e.g. responsAbility's Energy Access debt fund

2-3 new investments per year, multiple follow-on investments per year

acre AFRICA

PowerGen RENEWABLE ENERGY

esoko

Investment Mandate

Mission statement & impact

Lundin invests in high achieving impact businesses across Sub-Saharan Africa; we believe in the power of responsible profit to drive African development forward through business models where increased profits creates increased impact, and vice versa.

Return expectation

Non-profit organisation targeting risk-adjusted returns in emerging markets, target 6-8% return

Duration of investment

Lundin investments are not time bound; we will participate or lead following rounds

Finding Deals

How do you scout for deals?

We follow up references, our networks are very important, receive blind applications (but these rarely materialise), initiate conversations through networking events.

Co-investors who share ideas include LGT, Blue Haven, Novastar, AlphaMundi, Ceniarth, Accion, DoB

Three things you look for in an organisation before initiating discussion

1. High quality, committed management team with presence and experience in operating markets
2. Pathway to profitability
3. Financing and what the company is looking for in an investor (active, passive)

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Investment Process

Adolf H Lundin Charitable Foundation

Stage	Duration	Decision Makers	Evaluation Criteria
Initial meetings	1-4 wks.	Investment Manager	• Innovative approach to solving a problem and generating social impact • Quality senior management • Vision and unique value proposition
Initial Due Diligence to Term Sheet	1 month	Internal Committee, Senior Management	• Addressable market • Business and financial model • Investing instrument / financing needs
In-Depth Due Diligence to Approval	2 months	Deal Team to Investment Committee	• Risks and mitigation strategies • Growth drivers • Legal due diligence
Documentation, Close	1-2 months	Senior Management, Legal Counsel	• Rights attached to the investment • Conditions precedent / subsequent to investment

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Red Flags

Adolf H Lundin Charitable Foundation

What are the top three reasons for deals not materialising?

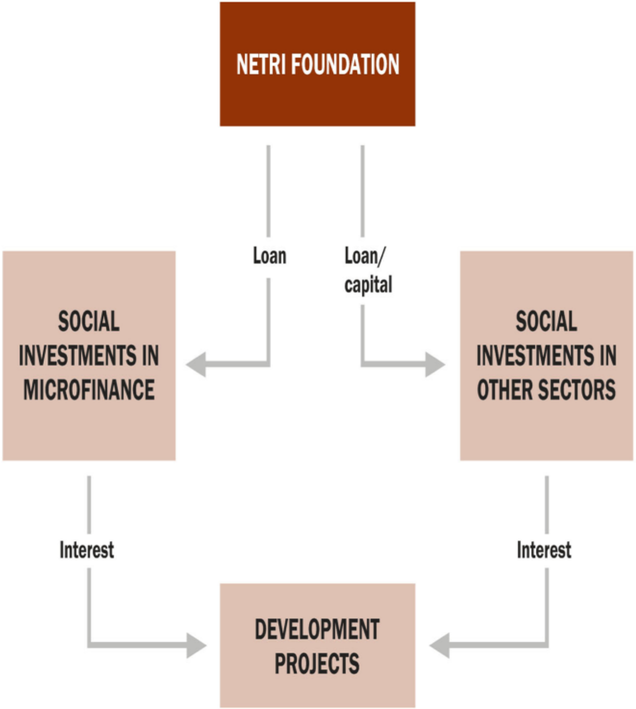
1. Lack of skills and experience in the senior management
2. Risks in growth drivers
3. Lack of proof of demand / value proposition

Expert Advice

What advice do you have for entrepreneurs to help them avoid common mistakes?

1. Understand addressable market and value proposition
2. Allow time to develop relationship with investor and close deal
3. Have the right skills suite in senior management / team / advisors

Netri´s Model



Josephine Ragni, Social Investment Manager, Fundación Netri

Over the past 5 years, she has helped shape and implement the process of investing in social enterprises so as to further Netri´s mission of alleviating critical social and environmental problems. She evaluates new funding opportunities, makes recommendations to the investment committee and monitors the portfolio. Prior to joining Netri, Josephine worked for over 14 years as an investment manager focussing in emerging markets.

Background

Sectors

Access to Finance, Agriculture / Rural Development, Education

Access to Energy, Health

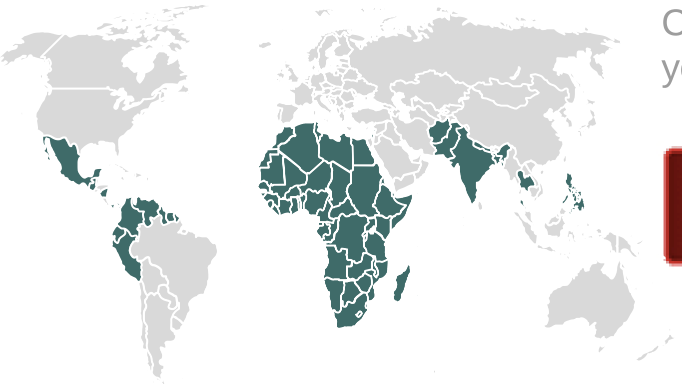
Stage

Revenue generating entities, scaling for growth; Not necessary profitable; 2 years operating history.

Investment size & structure

US$ 100,000-500,000 size, predominantly debt investments.

Geography



Investees

Currently 15 investees with an average of 4 new investments per year.

Investment Mandate

Mission statement & impact

- We make investments in enterprises whose business models are designed to solve specific social or environmental challenges and aim to improve the quality of life of their customers and for the communities they engage with.
- Typically Netri focuses on social ventures which benefit people who live on less than US$ 4 / day.

Return expectation

Below market returns. Netri's social investments have returned around 4% to 5% per annum over the past 5 years.

Duration of investment

We are not bound by time limits as opposed to some funds; debt investments tend to be between 2 to 5 years; equity 10 years.

Finding Deals

How do you scout for deals?

- We work with advisors / co-investors (Deutsche Social Finance Group, LGT VP, AlphaMundi) and other foundations to find new opportunities.
- Conferences and forums can also be helpful to meet new companies.

Three things you look for in an organisation before initiating discussion

1. Social mission is aligned; impact is monitored by the company
2. Shareholders and management team are pro-active and transparent
3. For debt investments, entities need adequate capital structure, i.e. sufficient equity, grant funding, or cash flow generation to allow them to be able to service their debt over the proposed investment period.

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Investment Process

FUNDACIÓN NETRI

Stage	Duration	Decision Makers	Evaluation Criteria
Initial screening	A few hours	Investment manager	• Is the mission of the social enterprise well aligned with ours? Is the impact monitored and assessed? • Does the business model make sense?
Impact and financial due diligence and drafting of term sheet	2 months	Investment manager and Founder	• Analyse historical financials and impact metrics; analyse future projections. Assess which financing would be most appropriate to support the company. • Assess major risks and ways to mitigate them.
Legal and contractual due diligence	Depends on lawyers but typically 2 -6 months	Investment manager, legal counsel and Founder	• Legal drafting of the contract can be challenging in jurisdictions that have high tax rates, volatile currencies, or are deemed as "risky".
Board meeting	Typically 6 months to a year after initial screening	Investment Committee	• Investment case is presented which includes Business and Impact assessment. More a formality as the commitment to invest is usually made at the term sheet stage.

Red Flags

What are the top three reasons for deals not materialising?

1. Information flow is not fluid, making due diligence difficult.
2. Financial analysis does not support the type of investment proposed.
3. A number of important risks are evident that cannot be easily mitigated.

What advice do you have for entrepreneurs to help them avoid common mistakes?

Expert Advice

1. Work hard to position your case, your vision and strategy to attract funding. Study carefully financing needs of your business plan and be pro-active and fund-raise way in advance of your needs. Attract shareholders and financial partners that are well aligned with your mission and strategic vision.
2. Seek expert help when you come across challenges; Don’t delay strategic changes that are required; Be transparent with shareholders and creditors.
3. Build relationships and delegate; attract expert board members and leadership that will be driven to make your enterprise succeed.

Q&A

Write to us:
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