

POWERING AGRICULTURE:

AN ENERGY GRAND CHALLENGE
FOR DEVELOPMENT



What Prevents Innovators from Accessing Private Capital— A PAEGC Perspective

Opportunities and Challenges for Accessing Private Capital as an Early-State Innovator
in the Clean-Energy Agriculture Nexus

October 21, 2020



Today's Agenda

Welcome and Introduction of Powering Agriculture: An Energy Grand Challenge for Development

Dr. Augusta Abrahamse | *Program Manager, Powering Agriculture and Energy Specialist, USAID*

Insights into Access to Financing for Early-Stage Innovators

Jeff Engell | *Finance and Business Advisor, Powering Agriculture Xcelerator*

Introduction of “Water & Energy for Food (WE4F)” Program

Janna Schneider | *Advisor for M&E and Communications, WE4F*

Questions and Answers

Closing

Dr. Augusta Abrahamse | *Program Manager, Powering Agriculture and Energy Specialist, USAID*



Welcome and Introduction of Powering Agriculture: An Energy Grand Challenge for Development

Dr. Augusta Abrahamse

*Program Manager, Powering Agriculture and Energy Specialist,
USAID*

Powering Agriculture Energy Grand Challenge (PAEGC)

PAEGC created to support innovations that can provide access to reliable, affordable, and clean energy to farmers and agribusinesses in developing countries to:

- Enhance agricultural yields/productivity
- Decrease post-harvest losses
- Improve farmer and agribusiness income generating opportunities and revenues
- Increase energy efficiency within the operations of farms and agribusinesses

Implicit to the approach is that idea that sustainable results and scale will be achieved through the growth of businesses and business models that achieve commercial success.

TECHNOLOGY AND BUSINESS MODEL INNOVATION

ACCESS TO FINANCE/INVESTMENT

MAINSTREAMING AND SCALING

KNOWLEDGE MANAGEMENT



Insights Into Access to Financing for Early-Stage Innovators

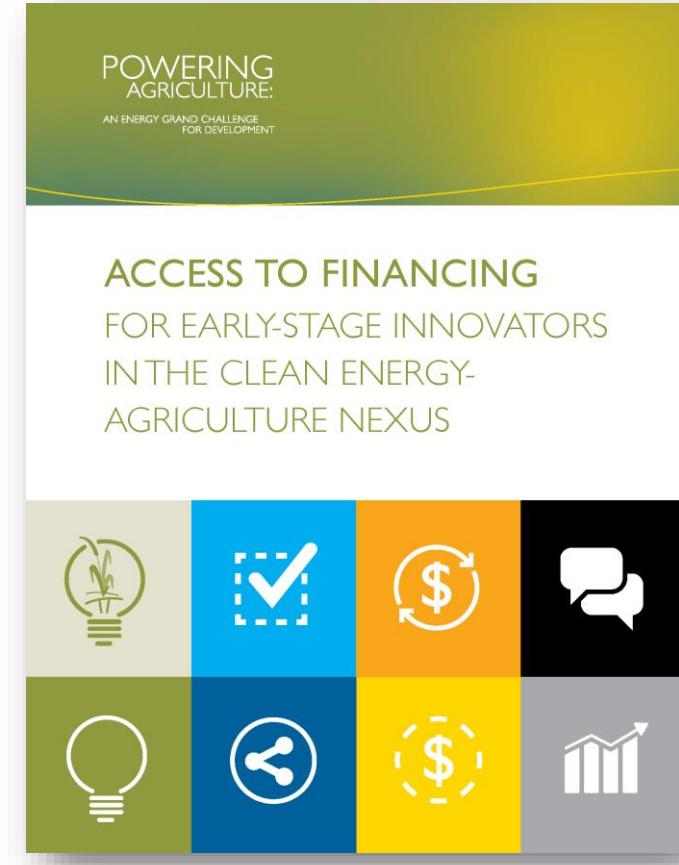
Jeff Engell

Finance and Business Advisor, Powering Agriculture Xcelerator

Access to Financing Overview

This paper seeks to answer two questions:

1. What is preventing early stage innovators from accessing private capital and follow-up funding?
2. What kind of support would prepare innovators to obtain capital?



Access to Financing Methodology

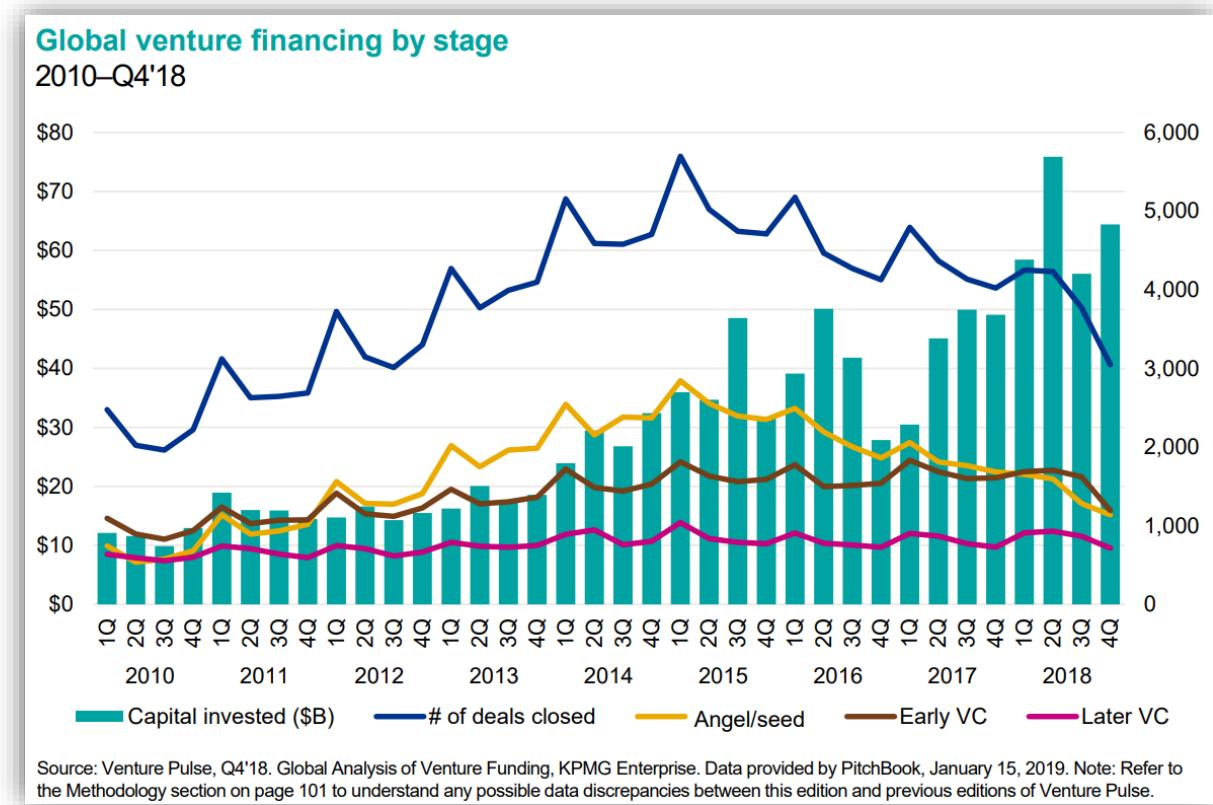
- Literature review to understand trends in current financing markets
- Conducted interviews with investors, innovators, and program stakeholders to identify barriers and obstacles faced in obtaining funding
- Identified opportunities to provide support to innovators in overcoming barriers to finance



It is a commonly held belief that micro VCs are willing to accept below-market returns or willing to hold companies to a less onerous economic burden if in fact they are creating impact. No examples of this were found in the research.

Key Findings

- Availability of funding is not the issue, access can be
- In general, innovators who were positioned to secure funding had success in doing so
- Despite the availability of funding, there is increased competition among innovators to secure deals from funders



Key Findings

“

*The increasing competition for fewer overall deals has translated to a need for all companies (regardless of size or stage) to provide investors with a **stronger business case**, to conduct **longer and more detailed proof-of-concept**, and validate more **certain paths to profitability** in order to be considered (VC) investment ready.”*

- KPMG

Key Interview Insights

- Many early-stage innovators (ESIs) have limited expertise in how to access capital
- Many ESIs lack knowledge of financial markets
- Many ESIs are unaware of the types of funding available in various markets
- Many ESIs receive inconsistent investment support (technical assistance)

5%

While seed-stage investments represented only five percent of total VC deals in 2017, there is measurable VC activity for early-stage deals in the agriculture sector.

Funding Milestones

\$ Trade credit is “one of the most important forms of external financing available to ESIs, with an estimated one-third of all debt extended to ESIs coming in the form of short-term trade credit.”⁴³

MILESTONES	PRE-REVENUE STAGE COMPANY			REVENUE STAGE COMPANY		
TECHNOLOGY STAGE	Idea	Prototype	Pilot	Revenue generating; early manufacturing runs	Recurring revenue; mass manufacturing	Profitable; new product development
MARKET STAGE	Market opportunity identified; customer discovery ongoing		Validate product market fit			Market validation and scale
TEAM STAGE	Initial founder or co-founders		First hires		Organizational structure defined; vertical growth	
CAPITAL STAGE	Founding capital	Seed-stage capital		Series A	Series B	Series C
EXTERNAL FUNDING TYPES <i>Blue = Mixed Orange = Equity Purple = Other Yellow = Debt</i>	Friends and family (personal debt or equity)					
		Angel capital (convertible debt or equity)				
			Venture capital (equity)			
			Strategic corporate investors			
					Private equity »	
					Revenue-based financing	
					Commercial debt	
Non-dilutive capital grants »						

Barriers to Finance

- Investor Fatigue
- Investment & Credit Readiness
- Deficiencies in Investor Discovery
- Profit Motivation

Table 3 JOURNAL OF SMALL BUSINESS STRATEGY
ANGEL INVESTMENT CRITERIA³⁷

SELECTED INVESTMENT CRITERIA	RANK
Trustworthiness of the entrepreneur	1
Management team	2
Enthusiasm of the entrepreneur	3
Exit potential (liquidity)	4
Revenue potential	5
Domain expertise of the entrepreneur	6
Growth potential of the market	7
Return on investment (ROI)	8
Barrier for entry for competitors	9
Product's overall competitiveness	10

Investor Fatigue

Barriers

- Realized returns for early investors have not matched forecasted expectations.
- Lack of appetite for additional deals in sector. May be in competition with existing investments.
- New investors feel market (e.g. geography or technology) is saturated and unwilling to compete with existing investors who hold positions in the market.

Opportunities

- Introduce new investors to opportunities in regions and sectors where ESIs are active.
- Support initiatives which showcase innovators to investors who do not currently have positions in the sector or geographic region.
- Consult investment liaisons who have cultivated relationships with investors who are new to the sector or geographic target region.

Investment and Credit Readiness

Barriers

- First time innovators lack investment acumen to position company for successful fundraising.
- Misperception by innovators that company is further developed than it truly is.
- Have not achieved market milestones which indicate commercial viability of organization.
- Have not established internal deal rooms and do not have organizational docs in place and at the ready.

Opportunities

- Provide targeted trainings to build financial acumen and investment process background knowledge.
- Deliver technical assistance to align innovator development pathways with investor key milestones.
- Create digital deal rooms to serve as a repository for necessary due-diligence documents and company resources

Deficiencies in Investor Discovery

Barriers

- Innovators often focus on developing technology and not building investor connections, (among other things).
- Innovators lack knowledge of investment process and investor mindset, which hinders meaningful (convincing) investor interactions.
- Innovators struggle with investor discovery and lack tools to conduct deep-dive investor due-diligence.
- Innovators lack understanding of which financing types are appropriate for which stage of development and the milestones they are trying to achieve.

Opportunities

- Engage local and regional financiers early and often. Underscore need to establish protocols for tracking investor interactions (e.g. Salesforce).
- Provide trainings on '*Understanding the Investor Mindset*' and '*Best Practices in Investor Discovery*'.
- Ensure innovators are having the right conversations with the right types of funders to maximize each investor interaction.

Profit Motivation

Barriers

- Companies at all levels must instill confidence that they can generate revenue and eventual profit to be considered investment ready.
- Donor or grant funding tied to non-market based milestones can create conflict between investor interest and (non-investor) stakeholder interests.

Opportunities

- Ensure that innovators are pursuing goals and milestones which are aligned with the expectations of current and future funding sources.

Additional Opportunities for TA Support

- **Asking too early:** Serve as a reality check for innovators to honestly assess their achieved level of development to ensure it aligns with funding being sought.
- **Asking too little:** Small rounds of capital can be inefficient pursuits for both innovators and investors. Increasing deal sizes across all levels of funding in the macro investment environment indicate smaller rounds are falling out of favor with investors.
- **Asking the wrong sources:** Guide founders in targeting appropriate sources of capital for current (and future) needs. (E.g. debt vs. equity)



While an ESI should not build its funding strategy on fortuitous meet-ups, there are concrete actions it can take to improve its funding pathways, and networking is a part of that.

Lessons from 2008

- Market disruptions (supply chain, liquidity, credit tightening, default rates increase, depressed asset pricing/valuations, unemployment, recession, etc.)
- Investors suspending funding decisions
- Winners & losers



Opportunities beyond COVID

- “Cash is king”
- Capital looking for opportunities (cheap debt, opportunistic equity)
- Stress testing & risk management
- Companies demonstrating clear value propositions and market traction will thrive in post-COVID fund raising



Water and Energy for Food (WE4F)

Introduction, Lessons Learned and
Objectives



WHAT IS WE4F?

WE4F is a joint international initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Foreign Ministry of the Netherlands, Sweden through the Swedish International Development Cooperation Agency (Sida), and the U.S. Agency for International Development (USAID). Announced at World Water Week 2018 and launched at Social Capital Markets 2019 signature event in San Francisco, California.



Government of the Netherlands



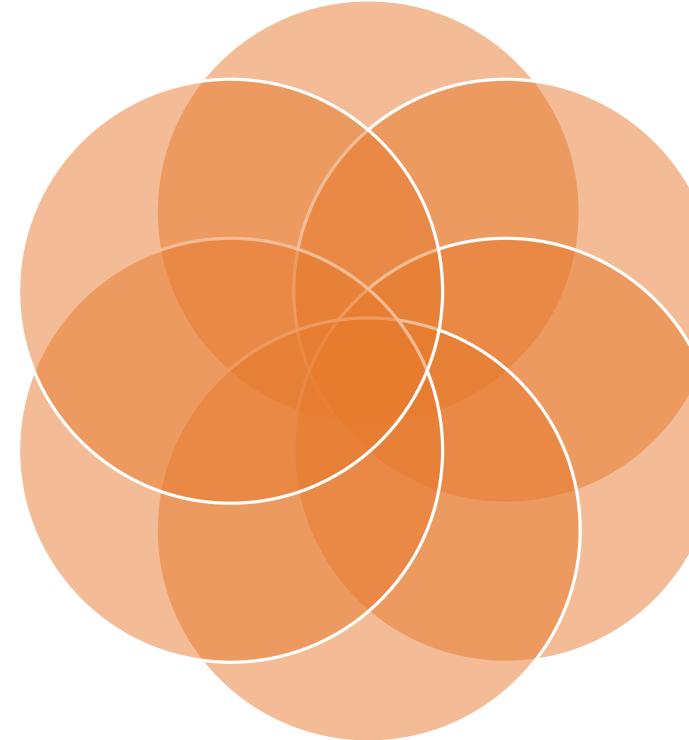
USAID
FROM THE AMERICAN PEOPLE



WE4F Areas of Interventions

ADVOCACY
for an enabling environment

KNOWLEDGE GENERATION AND FACILITATION
for sharing best practices, lessons learned, pivots, failures, and successes



DIRECT GRANTS

via regional competitions and direct selection to promising innovators

PUBLIC-PRIVATE PARTNERSHIPS

To disseminate sustainable innovations broadly

TECHNICAL ASSISTANCE

for augmenting grant funds with services that enhance business operations

FINANCIAL ASSISTANCE

including a guarantee instrument and matchmaking between innovators and investors

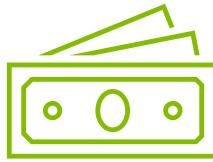
CAPACITY DEVELOPMENT
including trainings to enhance stakeholder operations



Program Impacts



Increase food production along the value chain through a more sustainable and efficient usage of water and/or energy.



Increase income for base of the pyramid women and men in both rural and urban areas.



Sustainably scale innovators' solutions to meet the challenges in the WE4F nexus.



Promote climate and environmental resilience and biodiversity through the sustainable, holistic management of water, natural resources, and ecosystems.



Learning from the Past



Facilitate relationship development between investors & innovators, e.g. by organizing match-making and other networking events



Provide technical assistance in regard to investment readiness



Develop new finance instruments to facilitate access to finance for both innovators & end-users



Sensitize the staff of financial institutions to facilitate greater understanding of the needs of innovators & end-users



Questions and Answers





Closing