From corporate finance to Kenyan start-up

By PATRICK SEETON

In September 2012, I wrote a blogpost called, "Why I quit my Corporate Finance job to join … Sanergy!" In the post, I detailed some of the reasons for my career pivot from corporate finance in Vancouver to a start-up selling toilets in slums in Nairobi, Kenya.

Two years later, with a transformative experience at my back that has helped shape a future career — helping social ventures develop viable financing structures — I'm getting a chance to expand and validate some of the reasons for my pivot.

Despite following a traditional path to obtain my chartered business valuator designation, I always intended to do something different. I was lucky; after working for six years in corporate finance and three prior years in the audit practice, my firm's sabbatical program allowed me to take (what was supposed to be) six months off to volunteer as a Kiva Fellow in Nairobi.

Kiva is a web-based microfinance-lending platform that provides low-cost, risk-tolerant capital to field partners all over the world. My fellowship took me to East Africa to help Kiva start its mobile-based direct lending platform Kiva Zip and assist one of its traditional microfinance partners build a water, sanitation and hygiene (WASH) credit portfolio.

Entrepreneurs in the developing world face an uphill battle, trying to grow their micro-businesses in a region fraught with massive security challenges, difficult supply chains, sky-high interest rates (30 per cent and up is the norm) and an often nonexistent regulatory environment. But the entrepreneurs utilize microfinance to persevere, making incremental gains as they grow their micro-businesses and provide for their families.

While completing my fellowship, I was introduced to three exceptional co-founders of Sanergy — David Auerbach, Lindsay Stradley and Ani Vallabhaneni. After completing their MBAs at MIT in 2011, they moved to Nairobi to start a pioneering social enterprise that builds healthy, prosperous communities in Africa's informal settlements by making hygienic sanitation affordable and accessible.

Sanergy's systems-based approach empowers local community members to own and operate sanitation facilities, while Sanergy provides business and operational support to ensure its operators thrive. Sanergy collects and recycles the waste into organic fertilizer, which is sold to Kenyan farmers to help address the region's food security challenges.


Patrick Seeton (centre), a CBV, CPA, CA, turned a sabbatical into a full-time job. He left his corporate finance position in Vancouver to be the chief financial officer of Sanergy, which helps establish proper sanitation in Nairobi, Kenya. Seeton works with Peter Macharia (left), accounts clerk, and Stephen Kanyi accounts payable clerk, as part of Sanergy's finance team.

They also happened to need help valuing Sanergy and raising their first equity round, which as a CBV I was well equipped for. I called up my firm and told them I wouldn't be coming back.

Patrick Seeton, CBV, CPA, CA

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Sanergy has come a long way since my initial meeting with the founders. We were recently recognized as one of the top 10 most innovative companies in Africa by Fast Company. In just three years, Sanergy has launched over 500 Fresh Life facilities run by a network of 250 operators who provide 23,000 residents with hygienic sanitation daily, and we are selling growing quantities of fertilizer to Kenyan farmers.

While building Sanergy's finance team, I have had the opportunity to work with talented local staff like Peter Macharia and Stephen Kanyi. These young professionals are hungry to learn, and they want to "uplift" themselves and their families while creating real social change. Sanergy gives them, and 150 teammates like them, that opportunity.

Sanergy's growth has come with unique challenges. We've worked through numerous finance and valuation-related issues including:

Unit profitability, business metrics

Sanergy is a complex business. In fact, during our Series A round, one investor passed, saying "Your business is too complicated." I laughed, but at times I agree.

The question is, "How do we know we're being successful?"

We target two key measures: scale and sustainability. For example, we measure our profitability at the business unit level (sustainability) and specific key operational and social metrics such as toilets launched and number of users (scale). We then combine the two to arrive at cost per use of our toilets (sustainability).

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Hybrid structure, transfer pricing

In order to tackle the sanitation crisis throughout the value chain we have instituted a unique hybrid structure. Sanergy's hygienic sanitation delivery model has been developed through a non-profit structure registered as a 501(c)3 in the United States. Sanergy's waste collection, conversion, research and development and byproduct sales operations are incorporated as a c-corporation in the United States. Each has a Kenyan operating subsidiary.

To maintain this structure, independent governance is critical. Each entity has its own board of directors whose fiduciary duty lies with that entity alone. Ultimately, we must ensure that the activities of the non-profit do not unduly enrich the shareholders of the for-profit.

In addition to governance, transfer pricing is essential — demonstrating that the pricing of our goods and services represent fair value is an ongoing exercise. This will only become more complex as our IP, brand names, trademarks and other intangible assets increase in value.

Valuation, raising patient capital

Investing for impact is a growing asset class. Capital comes in many forms and investors in this space fall somewhere on the continuum between social impact and commercial return. These investors provide a mix of capital that can be employed to fund start-up operations, expansion, and research and development. They are sophisticated and understand that financial returns from systemic change will take time (and a lot of effort on the part of management).

While capital is available for social enterprises, valuation remains difficult. These businesses cannot be valued on a purely commercial basis. The weighted average cost of capital, for instance, has no constituent that I'm aware of for social return. Often, the best we can do is value the business on a traditional basis, and subjectively adjust for value associated with its social impact potential.

We must also consider access to grant capital. We believe grants should not be used to permanently subsidize operations; rather, grant funds can help an organization develop new products, prove its market, and expand its reach. Hence, grants have intrinsic and social value to investors. If deployed properly, grants can be accretive to investors and founders alike and have a place, somewhere, in the valuation of these entities.

As valuation professionals, we need to put our skills to use in this emergent space. I'd encourage you to seek out volunteer opportunities with social enterprises where you live — aquaculture, renewable energy, sustainable housing, organic food, microfinance, and equitable employment — because there are plenty of innovative social ventures right in your backyard. You don't have to move halfway around the world and sell toilets, but I'd highly recommend it.

Patrick Seeton is a CBV and CPA, CA. He lives in Nairobi, Kenya, and is chief financial officer at Sanergy. In 2015, Patrick will be starting his next adventure in social enterprise — helping social entrepreneurs develop viable financing structures to achieve scale and sustainability. If you'd like to know more, he can be reached at seeton-patrick@gmail.com.