Scale Up!
Entrepreneurs’ Guide to Investment in Ethiopia
Foreword

Ethiopia is one of the fastest growing economies worldwide. In the last decade, the average growth rate accounted for 10% of the GDP. So far, the public investment rate is quite high due to huge investments in the infrastructure such as roads and railways, industrial parks, aviation and power plants as well as transmission lines. Nevertheless, Ethiopia acquired the highest Foreign Direct Investment (FDI) in the last years in Africa. For instance, USD 3.75 billion in 2018 (Ethiopian fiscal calendar) and 94 foreign investment projects in the second half of 2018. Mainly because of its generous investment incentives, the large market with over 100 million people and its strategic location for other markets, many foreign investors are attracted to invest in Ethiopia.

The awareness of the Ethiopian government for the relevant role of the private sector is increasing, which is displayed by the approval of a Public-Private-Partnership (PPP) law and the creation of a PPP unit, continuous privatisation of state owned enterprises and opening-up of restricted sectors for private sector participation. Several initiatives intend to support the Small and Medium Enterprises (SME) and shape the ecosystem for start-ups as well. Still, the ground is less fruitful for start-ups, SME and Small Growing Businesses (SGB) than in other African countries such as in the main competitor in East Africa, the neighbour country Kenya. Most entrepreneurs suffer from limited access to business advice, talent, markets, and capital. These constraints are even higher for those who are young, female, or live outside of the metropolitan regions. One of the key challenges for start-ups, SME and SGB is to find the right financing option, and work on the specific due diligence requirements of these instruments. The companies lack the information but also the capacity to assess themselves and the internal processes that must be in place in order to meet the requirements of the investing parties. That’s why it’s crucial to provide guidance and information for those companies on how to assess the stage of their business and what financing and support options are available on the market.

This guide aims at helping those companies to understand and navigate the variety of financing options in the Ethiopian market.
These include diverse mechanisms such as grants, seed funds, angel investment, impact oriented venture capital, debt, etc. Furthermore, the guide outlines requirements, investor expectations as well as investor types in an easily accessible way, and offers practical support to entrepreneurs in asking the right questions when approaching an investor.

Since the authors are from the incubation programme iceaddis the guide benefited from the embracing network and contact as well as the experience with regard to start-ups and SGB support iceaddis has on the ground. At this point we would like to thank Florian Manderscheid, Emebet Tita, Helina Tamene from iceaddis who shared their knowledge and experience for this guide and have proven to be experienced partner in navigating through the finance landscape in Ethiopia. In order to create a comprehensive overview, we reached out to more than 27 financing partners who present their portfolio and requirements in this guidebook and compiled information and contact details of 18 banks and 36 microfinance institutions as well as eight incubation and acceleration programmes. The Ethiopian Investment Guide was created based on a cooperation between the GIZ-Programme Global Business Network and the GIZ-Programme MakeIT Africa, which developed such a guide for Kenya and Nigeria jointly with Anton Root from Allied Crowds.

The print version will be also available as an interactive online version. Based on a quick self-assessment tool, the online version will guide entrepreneurs to find the best-suited financing mechanism, and identify potential financing partners.

We will frequently update the guide to include new financing partners, and improve the methodology based on your feedbacks. So, please, don’t hesitate to contact us via make-it@giz.de

Dr. Jan Schwaab  
Head of Programme  
Tech Entrepreneurship Initiative Make-IT in Africa (GIZ)

Jens Elsner  
Head of Programme  
Global Business Network (GBN) Programme (GIZ)
Your Partner for Development Cooperation:
The Global Business Network (GBN) Programme

The Global Business Network (GBN) Programme encourages local and German companies to get involved in sustainable economic development in selected countries in Africa and Asia. Via the Business & Cooperation Desks, the GBN-Coordinators provide information, advice and guidance for businesses on how to cooperate with development cooperation. They support new approaches and ideas and build sustainable networks between the private sector and development cooperation. The Desks are integrated into local German development cooperation offices. In addition, the GBN-Coordinators work closely with German Chamber of Commerce Abroad (AHK) regional offices and, where possible, cooperate with bilateral trade associations. The GBN Programme is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

More information:
Tech-Entrepreneurship Initiative Make-IT in Africa

Make-IT in Africa promotes digital innovation for sustainable and inclusive development in Africa. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH implements this project on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

In collaboration with more than 30 corporate and financing partners, social enterprises, hubs and networks, Make-IT in Africa strengthens an enabling environment for young tech entrepreneurs – to provide better access to finance for growth, international markets and entrepreneurial skills.

More information and contact:
www.make-it-in-africa.org
Contents

Foreword ........................................................................................................................................... 4
Contents ............................................................................................................................................ 8
Glossary ........................................................................................................................................... 10
Introduction .................................................................................................................................. 14

Chapter
1.0 Funding Instrument Overview ................................................................................ 22
   Grant ........................................................................................................................................... 26
   Debt ........................................................................................................................................... 28
   Equity ......................................................................................................................................... 30
   Mezzanine .................................................................................................................................. 32

2.0 Investor Overview .......................................................................................................... 34
   Iqiqub ......................................................................................................................................... 38
   Capital Goods Finance Companies ....................................................................................... 40
   Accelerators and Incubators ................................................................................................. 41
   Angel Investor Networks ....................................................................................................... 42
   The Angel Investor Ecosystem in Ethiopia ......................................................................... 43
   Foundations ............................................................................................................................. 44
   Crowdfunding Platforms ....................................................................................................... 45
   Public/Semi-Public Funders ................................................................................................. 46
   Banks ......................................................................................................................................... 47
   Impact Investors ..................................................................................................................... 48
   Corporates ............................................................................................................................... 49
   Venture Capital Firms ............................................................................................................ 50
   Private Equity Firms .............................................................................................................. 52

3.0 Ethiopian Financial Sector Overview ................................................................... 54
   Commercial Banks in Ethiopia ............................................................................................. 56
   Common Loan Products Provided by Banks ........................................................................ 58
   Documents Required to Obtain a Loan .................................................................................. 60
   Common Types of Collateral ................................................................................................. 61
   Micro-Finance Institutions ..................................................................................................... 62
   Common Loan Products Provided by MFIs ........................................................................... 64
   Capital Goods Finance Companies ....................................................................................... 65

4.0 Raising Capital ................................................................................................................. 66
   Stages of Start-ups and Typical Funding Needs at each Stage .......................................... 69
   Start-ups 101: What Makes a Start-up Appealing to Investors ........................................... 71
   When to Fundraise .................................................................................................................. 73
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Putting Together a Board of Directors</td>
<td>75</td>
</tr>
<tr>
<td>Assembling Your Pitch Deck</td>
<td>76</td>
</tr>
<tr>
<td>Pitch Deck Structure</td>
<td>77</td>
</tr>
<tr>
<td>Pitching Effectively</td>
<td>78</td>
</tr>
<tr>
<td>Start-ups, Your Valuation Matters</td>
<td>80</td>
</tr>
<tr>
<td>Valuing Your Start-up</td>
<td>82</td>
</tr>
<tr>
<td>What to Include in Your Financial Plan</td>
<td>83</td>
</tr>
<tr>
<td>How to Connect with Funders for Start-ups</td>
<td>84</td>
</tr>
<tr>
<td>How to Connect with Funders for SME Financing</td>
<td>85</td>
</tr>
<tr>
<td>Key to Raising Money Successfully: Telling Your Story</td>
<td>86</td>
</tr>
<tr>
<td>Negotiating with Investors: Tips from Entrepreneurs</td>
<td>87</td>
</tr>
<tr>
<td>Pitching to Impact Investors</td>
<td>88</td>
</tr>
<tr>
<td>Typical Negotiating Process with Investors</td>
<td>90</td>
</tr>
<tr>
<td>5.0 Ethiopia’s Investment Scene</td>
<td>92</td>
</tr>
<tr>
<td>A Brief History</td>
<td>95</td>
</tr>
<tr>
<td>Top Africa and Ethiopia-Focused Tech Blogs and News Sites</td>
<td>98</td>
</tr>
<tr>
<td>Profiles of Start-up Hubs, Incubators and Accelerators in Ethiopia</td>
<td>99</td>
</tr>
<tr>
<td>Other Stakeholders and Programmes in the Ethiopian Tech and Start-up Scene</td>
<td>112</td>
</tr>
<tr>
<td>Realities on the Ground</td>
<td>114</td>
</tr>
<tr>
<td>Spotlight on Financing for Female Founders</td>
<td>120</td>
</tr>
<tr>
<td>6.0 Investor Directory*</td>
<td>122</td>
</tr>
<tr>
<td>Investor Directory (of 21 Capital Providers in Ethiopia)</td>
<td>124</td>
</tr>
<tr>
<td>7.0 Conclusion</td>
<td>150</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>154</td>
</tr>
<tr>
<td>Imprint</td>
<td>156</td>
</tr>
</tbody>
</table>

* The funders are ordered by average investment amount, with smaller funding amounts appearing first.
Glossary

Currencies are stated in USD for foreign investments and ETB for local sources of funding

Accelerator | a programme that takes in relatively early stage start-ups, helps them develop their product, provides mentoring and teaching as well as access to a network of potential investors or partners. At the end of the programme, the accelerators typically put on a pitch day during which companies can pitch their services to investors. Unlike incubators, accelerators usually have a set timeframe from a few weeks to a few months.

Angel Investors | individuals with disposable income who like to invest part of their portfolio in start-ups. They usually help start-ups with money, coaching, and making business introductions.

Business plan | detailed outline of a business, including the problem it is solving, its strategy for growth, revenue projections, marketing strategy, team profiles, and more.

B2B (Business to Business) | businesses that sell products and services to other businesses.

B2C (Business to Consumer) | businesses that sell products and services to consumers.

CAPEX (Capital Expenditure) | the funding needed to invest in or improve assets that a business needs to get off the ground (e.g. computers, stock, machinery).

Capitalisation table | also referred to as the cap table, this is a simple breakdown of who owns how many shares in the business, and the corresponding ownership percentage.

Collateral | an asset (e.g. machinery, vehicles) used as security when taking out a loan.
Convertible Note/Debt | short-term debt that may or may not convert to equity in a future financing round. Commonly used to defer the valuation discussion to when an early stage company has historical financials to guide the valuation process.

Crowdfunding | typically refers to raising small amounts from a large group of people.

Debt financing | effectively a synonym for a loan, debt financing means accepting capital with the promise of repaying the principal and interest.

Due diligence | the homework that investors conduct on a business before they invest; this can include reference checks, a deeper dive into the business model and financials, and studying the market in which the business operates.

Equity | ownership stake in a company.

Exit | a way for existing company shareholders to realise their returns. Typically, this is done via an acquisition (trade sale), an initial public offering on the stock exchange (not yet established in Ethiopia), or secondary sale of shares.

Grant | type of funding that typically does not obligate the recipient to repay the funds. Usually, the money can only be used in a way agreed on prior to disbursement.

Incubator | similar to an accelerator, an incubator takes in early stage companies and helps them to narrow down their business idea and connects them to a network of partners and funders. However, incubators focus on very early stage start-ups, helping them build on an idea, instead of coming in when a start-up already has a product or service.

IPO (Initial Public Offering) | refers to when a company starts floating on the stock market, selling a significant number of their shares to institutional and non-institutional investors in the process. These large companies are what venture capitalists dream of, as they often provide large sums of capital to all parts involved (founders, early employees and investors).

IRR (Internal Rate of Return) | a measure, expressed as a percentage, used to evaluate the profitability of an investment.
**KPI (Key Performance Indicator)** | a measurable value that demonstrates how effectively a company is achieving key business objectives.

**Mezzanine** | a type of financing that has both equity and debt features.

**OPEX (Operating Expenditure)** | ongoing expenditures that are needed to run businesses (e.g. salary, subscriptions to cloud services, office rent).

**Pitch Deck** | a slide presentation that gives a breakdown of your solution, the market opportunity, the team, and the financials.

**Principal** | the original amount of a loan, without interest.

**Profit** | The bottom line of a company, which is all the money made from sales of its products or services, minus expenses, taxes, depreciation, and operating costs.

**Revenue** | The top line of a company, which means it is the money generated from all activities of the company in a given time period.

**Secondary sale of shares** | a way for existing investors to realise their returns; different from a primary sale, in which a start-up issues new shares to an investor.

**SMEs (Small and Medium-Sized Enterprises)** | a company classification that is defined differently by different countries. Ethiopia’s definition for SMEs specified in the 2011 Ethiopia National SME Strategy is based on headcount only: microenterprises have up to five employees, small enterprises have from 6 to 30 employees; medium enterprises 31 to 100 employees.

**Tenor** | the amount of time until a loan is due to be repaid.

**Term sheet** | the document investors present to a company they are interested in funding, which includes details of the form and terms of the investment. Term sheets can be issued for convertible notes, equity investments, and other forms of investments.
**Unit Economics** | the cost and revenue made per product or service sold, which is important for businesses to understand and project how per unit costs and revenues will change as the business grows and acquires more customers.

**Valuation** | the value of the company before (pre-money) or after (post-money) a funder invests in the business.
Introduction

All over the world, entrepreneurship is increasingly being recognised as a key driver of job creation and economic growth. Successful entrepreneurs are celebrated as luminaries, and the entrepreneurial mantra of accepting and learning from failure is being adopted by organisations of all sizes. In other words, it is a great time to be an entrepreneur.

The Entrepreneur’s Guide to Investment in Ethiopia is designed for start-ups and SMEs ranging from early to mature stage. The information collected for this guide gives an overview of the current status of funding opportunities in Ethiopia. The tools provided in some of the sections are intended to help entrepreneurs reflect on their business development and orient themselves in the financing landscape. We do this in several steps:

Chapter I addresses why start-ups seek funding, what steps they need to take prior to approaching an investor, and provides an overview of funding instruments, highlighting advantages and disadvantages of each.

Chapter II breaks down the different types of investors covered in our guide. We examine 12 types of funders and present information about them, including typical funding sizes, funding instruments, and non-financial benefits they offer.

Chapter III provides detailed information about the Ethiopian financial sector, with a list of operating commercial banks, microfinance institutions, and capital goods finance institutions along with their contact information. It also includes an overview of common loan products provided by these institutions and the documents required to obtain loans.

Chapter IV provides an overview of the capital raising process and discusses in detail what happens when entrepreneurs approach various types of investors. This includes an overview of the documents different types of funders will expect, the typical phase at which to approach each type of investor, and what makes a start-up appealing to investors.
Chapter V shares specific insights into the entrepreneurial ecosystem in Ethiopia and its history based on our conversations, research, and data analysis. It provides a better understanding of the start-up environment, its market focus, and highlights potential perils and opportunities.

Chapter VI is the Investor Directory — a look at 21 of Ethiopia’s investors and financial institutions active in several sectors. In addition to providing basic information about who they are, how long they have been around for, and the types of companies they invest in, we also provide unique and insightful information, including average investment size, type of funding offered, and what benefits they provide post-funding, if any.

Chapter VII concludes with an overview of the guide, key takeaways, and further sources of information.

In other words, the first part of the guide is meant to answer the how of fundraising, while the directory is meant to answer the who.

For this investment guide, we have assessed financing opportunities for both start-ups and SMEs. The biggest difference between these two company types lies in their objectives. SMEs are driven by profitability and stable long-term value, while start-ups are focused on top end revenue and growth potential. SMEs need to set a goal to grow to a certain extent in order to be eligible for financing and demonstrate their sustainability.

It is important to understand that in Ethiopia, there are few instruments available for start-up financing but start-ups may also be eligible for sources of funding that are developed for SMEs. On the other hand, many of the Private Equity (PE) and Venture Capital (VC) firms are also looking into SMEs with a great scaling potential, especially in the FMCG (fast moving consumer goods) sector.
Having introduced the purpose and the methodology, the rest of the guide is structured as follows:

Chapter I
- Overview of funding instruments
- Advantages and disadvantages of each funding instrument

See pages 22–33

Chapter II
- Overview of 12 types of investors
- Typical amounts of funding
- Typical instruments of funding
- Non-financial benefits

See pages 34–53

Chapter III
- Overview of Ethiopia’s financial sector
- List of banks
- Insight into requirements for loans

See pages 54–65
Chapter IV
- Overview on how to raise capital
- What makes an appealing start-up
- Documents you’ll need in your pitch deck
- When to approach investors
See pages 66–91

Chapter V
- Background of Ethiopia’s investment scene
- Stakeholders in the start-up scene
- Regulatory aspects of domestic and foreign investments
See pages 92–121

Chapter VI
- 21 capital providers in Ethiopia
- Average funding amount, sector interest
- In-depth profiles
See pages 122–149

Chapter VII
- Conclusion and key takeaways
See pages 150–153
How to Raise Funding
Since starting a business involves costs, entrepreneurs often seek for capital to get their business off the ground. While there are a few lucky entrepreneurs who can rely on their own savings or have wealthy friends or family members who can afford to inject capital, most business owners need to go out of their way to raise funds from outside sources.

One of the first questions a potential funder in any stage of your business development will ask is on what you want to spend the money. This leads you to the most important question of business planning: what is my immediate business objective and what resources do I need to make it happen? Money can definitely help you with getting started, but especially in the beginning of a business, there are other ways to get support or resources free of cost. The more you are able to grow your business in this way and convince others to support you, the more appealing it will be to investors or funders in the future.

If you are not able to obtain funding from outside sources, you may also think of alternatives on how to grow your business in a lean way. The lean model is often used in starting a business, as there are a number of things every entrepreneur needs to do before he or she thinks about fundraising. These steps will vary depending on the business sector, location, etc., but in general, the process leading up to getting investors looks like this:
1. Generate a great idea | This often starts with a personal frustration. As an entrepreneur, you should identify what pain point exists for businesses or consumers and on which you have personal insight, determine a solution, and think about how to turn that solution into a product or service. SMEs often follow a business model that already exists, but to which they have found a new angle or approach – a unique selling point – which refers to what they are doing different or better than other businesses in their sector.

2. Begin researching and networking | At this point, you have probably made some assumptions about market size and potential customers. It is now time to get some more sector insights by talking to potential partners, financiers or support organisations. Not only will this help you later down the line with fundraising and finding customers, but it will also ensure you get a good understanding of the market, and what has or has not been tried before. The earlier you can begin making connections, the better.

3. Build your team | If you already have co-founders to start your business, great! But it is also important to have diverse skill sets in your team, since running a business requires many different skills besides those needed to develop your product. You can start reaching out to experienced people to find a mentor who can guide you in the right direction, support you in networking, and help you assemble the right team for your business.

4. Create an early version of your product | While having a great idea is important, it does not always translate into a successful business. The most important step is to get feedback to determine if people are willing to pay for your product, which is the first step in what is called the product market fit. In order to find out if this is the case, create an early version or a dummy product. Try to get some feedback from friends and family or even potential customers. Ask if it is really solving their problem, if it is more convenient than another solution or if there any features missing. There are many more questions, but it is important not to spend too much time perfecting a product that nobody can use; rather pivot or start with a new idea. The lean start-up methodology can be useful here.
5. Consider a business incubation programme | There are different organisations in Ethiopia that support start-ups or SMEs. You can find an overview in Chapter V and request more information directly from them in order to find out whether they are a good fit for you. This depends on the kind of support the incubation programmes are providing and if these organisations have the right expertise in your sector. Often, however, incubators provide access to networks and mentorship (and sometimes funding), which can be very useful to entrepreneurs. Some of these organisations have relations to investors or financial institutes and can support your business in meeting their criteria. Note that it is not essential to have gone through an accelerator/incubator programme for you to be a successful entrepreneur.

6. Gain traction | Gaining traction means demonstrating that customers are willing to pay for your product, but your company does not need to be profitable at this stage. Usually described as a Minimum Viable Product (MVP), it is used for the first commercial transactions with customers and it is proof that your product has a market. This demonstration is one of the most important indicators for investors or other financiers before making their decision on funding your business.

7. Do your homework | After your experience with your first customers, you are ready to develop a financial model that includes the amount of funds you want to raise and from where. When negotiating with funders it is important to prepare a comprehensive documentation about your business. This includes key financial data, a short business plan, a capitalisation table (who has shares of your company) and a convincing presentation, which is often referred to as pitch deck. Some funders will provide you with a pre due diligence checklist that lists the required documents. Make sure you walk into a meeting with a potential funder well prepared, as professionalism is one of the main criteria for judging investment readiness.
8. Raise funding for scaling | Select your funders carefully by understanding in which sectors they invest, at which stage of business development, and how they support the business in which they have invested. After all, investors and other funders are assessing your investment proposal by balancing risks against returns. You need to demonstrate that your product has a market with growth potential and that money for scaling is the only challenge. Most importantly, funders invest in your team and not in an idea, which means that you have to convince them that you have the right people in your team to make it happen.
Chapter
Funding Instrument
Overview
Chapter I:
Funding Instrument Overview

One of the first and most important decisions that entrepreneurs will need to make when raising money is deciding what type of capital they need. In this guide, we cover four types of funding: grant, debt (loans), equity, and mezzanine (a mix of debt and equity). One or a mix of these four types of funding will apply to most entrepreneurs in Ethiopia, as well as in other countries.

**GRANT**
Type of funding that typically does not obligate the recipient to repay the funds

See page 26

**DEBT**
Type of funding that founders or entrepreneurs borrow and need to repay, usually with interest

See page 28
Chapter I: Funding Instrument Overview

EQUITY
Type of funding that founders need to give up a portion of their company to obtain
See page 30

MEZZANINE
Type of funding that combines debt and equity features
See page 32
A grant refers to a type of funding that typically does not obligate the recipient to repay the funds or makes any financial claim on a business in return for providing the funds. This includes everything from grants offered by national and international organisations as well as foundations, to prizes and awards offered by competitions, as well as donation-based crowdfunding campaigns. Grants are typically the most straightforward form of funding.

The amounts that organisations grant to businesses vary widely, ranging from thousands to millions of dollars. Most common grants, however, tend to be on the smaller side — typically under ETB 1.5 million (USD 50,000). This makes them most appropriate for early stage start-ups and entrepreneurs or more established entrepreneurs seeking capital to ease cash flow constraints.

Typically, organisations making the grant will put out a call for applications, inviting interested businesses to pitch their ideas. Applicants will need to show how their business or idea is relevant to the grant. A judging panel then narrows down the field to several finalists and the winner or winners are chosen from there.
While organisations that fund grants typically do not expect any sort of financial return (i.e., a stake in the business, or a promise of repayment), they will often check on the grantees to ensure the money is being used for the intended purpose, both during and after the grant has been disbursed. Some organisations release grant payments in stages to ensure the company is working towards its stated goals.

**ADVANTAGE**

→ Free money in the sense that there is no equity or interest to pay.
→ Funders have little influence in day-to-day operations of business.

**DISADVANTAGE**

→ Little support besides funding – hard to grow networks or get targeted mentorship.
→ Time-consuming.
→ Post-funding reporting is sometimes extensive.
→ Providers of grants can be inflexible in accommodating start-ups that need to pivot from one business strategy to another.
Debt financing is one of the most common ways to get funding. In simple terms, debt financing means an entrepreneur takes out a loan from a financial institution, which he or she promises to repay within a predetermined time period and subject to an agreed upon interest rate.

Debt funding can come from various types of funders, including banks, peer-to-peer crowdfunding, impact investors, development finance institutions, microfinance institutions, and others.

As entrepreneurs need to pay interest on their loans, typically in monthly installments, debt financing is best suited to more mature businesses with stable cash flows. The amount of funding that an entrepreneur can expect to borrow depends on two factors. The first is the type of organisation he or she is turning to: a bank or impact investor will be able to offer a larger loan than an microfinance institution. The second factor is the amount of debt the business will realistically be able to take on. Early stage start-ups with no product and no customers, for example, usually cannot (and should not) borrow much, while more established companies with proven cash flows will be able to tap into larger pools of credit.

In order to apply for a loan, entrepreneurs will need to show a business plan and financial projections, which are meant to demonstrate how the borrower plans to repay the debt.

When taking out a loan, borrowers typically focus on two key aspects of the financing structure: the interest rate and the tenor (the time until the entire loan must be repaid). The interest rates are seen to be correlated with the riskiness of the borrower – the
less likely he or she is to pay back, the higher the interest rate a lender is going to charge for taking on the additional risk. The rates are also determined by the central bank’s prevailing interest rates in the country.

In case of default, lenders get first claim on any assets the business has, meaning this is typically seen as a safe financing structure from the lender’s side, when compared to equity investment.

**ADVANTAGE**

→ No need to give up ownership in company.

**DISADVANTAGE**

→ Lenders will often ask for collateral (In Ethiopia only possible with immovable collateral).
→ Interest payments can be difficult to make for cash-strapped start-ups.

Debt financing can come in two forms: secured and unsecured loans. Secured loans are a financing instrument in which the entrepreneur offers some asset as collateral, making the loan less risky for the lender. This could, for instance, be a car or debenture over assets that the lender will be entitled to if the borrower defaults on the loan, offsetting some of the risk for the lender and thereby reducing interest rates. Unsecured loans do not have such protections for the lender, and therefore have higher interest rates.

Currently, there are no debt financing instruments in place in Ethiopia that do not require a collateral. But there are several initiatives from international organisations to back the collateral by providing a security fund for financial institutions. This enables the partnering financial institutes to provide debt finance to entrepreneurs without collateral. The eligibility for these programmes is often tied to impact criteria, such as being a social enterprise or an women owned business.
Equity financing means an investor puts money into a start-up in exchange for a portion of the company’s shares, becoming a part owner of the business.

Equity investment varies in amount, depending on the entrepreneur’s needs. It includes everything from relatively small (less than ETB 1.5 million or USD 50,000) injections of capital from family members or angel investors to large deals financed by private equity firms that control up to millions of dollars.

Prior to making an investment, equity investors go through a detailed screening process, commonly referred to as due diligence. At this stage, they look at the potential for a start-up to grow into a highly profitable business. Most equity investors understand that the majority of start-ups fail; therefore, they look for growth potential rather than steady cash flows. Equity investors like to back tech start-ups because of their ability to scale with relatively low capital requirements compared to traditional brick and mortar businesses.

In order to receive equity investment, entrepreneurs will typically need to have an extensive business plan, with strong financial models showing growth projections, competitor analysis, proposed approach to marketing, and more.

Equity is the riskiest type of financing for investors, as the funders stand to lose their entire investment should a company fail.
ADVANTAGE

→ No interest payments to pay back.
→ Investors have an incentive to be as helpful as possible by providing mentorship, advice, and connections.

DISADVANTAGE

→ Misaligned time horizons: start-ups building for the long term while investors want to exit quickly.
→ Control mechanisms can mean entrepreneurs are less in charge of their business.

Note that SMEs are also eligible for equity funding, depending on the scalability of their business model. Investors base their decision on whether SMEs can grow into large enterprises and become a market leader in their segment.
Mezzanine is a hybrid instrument that refers to financing that sits between equity and debt (hence the name), and combines aspects of both types. It gives the lender the right to convert to an equity interest in the company in case of default. It is popular with some investors because it shields investors from certain risk associated with pure equity investment while still providing an upside if a business becomes highly successful.

To raise mezzanine finance, a company must have a credible track record in the industry, consistent profitability, and a feasible plan for expansion through an initial public offering (IPO) or acquisition. Thus, mezzanine finance is used by companies that have a positive cash flow.

There are several reasons why investors and entrepreneurs may want to issue convertible notes instead of debt or equity. For the investors, it provides a level of protection in case the money is used in a fraudulent way – they have the right to pursue the debt issued (typically this is at 0% rate, so they will attempt to recoup their investment). For entrepreneurs who expect their company’s equity to be worth more in the future, issuing a convertible note likely minimises their share dilution. Both investors and entrepreneurs are also likely to benefit from kicking the can on valuation to a later point, when an institutional investor comes in. While convertible notes can be difficult to understand, the key thing to keep in mind is that the amount an investor puts in as debt will be converted to equity at a later point, to be defined in the contract. The share price will determine how many shares that funding injection will be converted. To give a very brief example: a founder and an investor
agree to a USD 50,000 convertible debt at a discount of 20%. This means that when the company raises money in the next round, the early investor is able to purchase shares at 80% of what they are worth. If, for instance, the shares are priced at USD 1 each in the next round, the investor will be able to purchase them for USD 0.80. That means instead of buying 50,000 shares at USD 1 each for the USD 50,000 lent in the convertible note, the early investor will actually be able to purchase 62,500 shares (USD 50,000 / USD 0.80).

There are other considerations and clauses that can be agreed upon, including a valuation cap. An in-depth overview of convertible notes is outside the scope of this guide, but there are plenty of online resources, books, and individuals who will be able to walk entrepreneurs through the complexities.
Chapter
Investor Overview
Chapter II: Investor Overview

There are various types of investors that are active across Ethiopia. The table below provides a brief description of each type of funder, including typical funding amounts and non-financial benefits that you can expect from each type of funder before providing a more detailed overview of each.

### IQQUB
An informal credit and saving association established by a small group of people in order to provide substantial rotating funding for members

See page 38

### CAPITAL GOODS FINANCING COMPANIES
Provide lease financing for the purchase of any equipment or machine that may be used to produce products or to provide services and includes accessories

See page 40

### ACCELERATORS AND INCUBATORS
Work with early stage start-ups to help them refine their idea or product, and coach them on how to realise their vision

See page 41

### PUBLIC / SEMI-PUBLIC FUNDERS
Local, federal, and international organisations that have a mandate to promote entrepreneurship or fund small businesses

See page 46

### BANKS
Well-known financing entities that are typically wary of investing in small companies; some, however, are looking to lend to small businesses

See page 47

### IMPACT INVESTORS
Varied group of funders that look for social and/or environmental returns in addition to or instead of financial returns on their investment

See page 48
Chapter II: Investor Overview

**CORPORATES**
Companies that make strategic or impact investments in small businesses and start-ups

**VENTURE CAPITAL FIRMS**
Companies that raise outside capital to invest in small businesses and start-ups, which are often from the tech sector or sectors with high growth potential. Venture capital (VC) is a type of private equity

**PRIVATE EQUITY FIRMS**
Companies that raise outside capital to invest in later-stage businesses, often funding deals of millions of dollars

**FOUNDATIONS**
Organisations that fund projects or companies that are within their sector of focus; typically, they are philanthropic in nature

**CORPORATE NETWORKS**
Member organisations that recruit individuals with spare cash who are interested in investing in small businesses

**CROWDFUNDING PLATFORMS**
Online or mobile platforms that allow companies and projects to raise funding from (typically) a large group of investors

**ANGEL INVESTORS**
Networks

**PRIVATE EQUITY Firms**
Companies that raise outside capital to invest in later-stage businesses, often funding deals of millions of dollars

See page 42
See page 44
See page 45
See page 49
See page 50
See page 52
Iqqub is a traditional and informal savings and credit association established by a small group of people in order to provide substantial rotating funding for members of the group. As a highly relevant socio-economic way of financing in Ethiopia, Iqqub was traditionally established among neighbors, workers, and colleagues who typically used raised funds to improve their living conditions or deal with emergencies such as a death in the family.

However, the role of Iqqub has changed over the years and some of the successful businesses in Ethiopia have started with this model. These include restaurants or shops and individuals seeking to buy assets, such as taxis, in order to create their own jobs. This form of financing comes with a high risk if the contribution exceeds the actual financial capacity of a member. Failing to contribute to the Iqqub implies social consequences or debt with a high interest rate. Iqqubs vary in the number of members and contribution amounts. Membership is based on social or business ties. Members can be from the same neighbourhood, in the same family, colleagues, having businesses located in a similar complex etc. Joining existing Iqqub groups, especially those of large sizes in which members may not be well acquainted, may require testimony from a few of the existing members as a way of vouching for the newcomer’s/newcomers’ creditworthiness.
Each member of the group periodically pays a fixed amount of money which is collected into a common pool. Each member will, in rotation, receive one large sum which is the total collected. Members will usually cast a lot to determine which member receives the collected pool of money. Members who win are expected to continue contributing to the collection until all members of the group have had a chance to receive the periodical pool of money.
Capital goods financing companies provide lease financing for the purchase of any equipment or machine that may be used to produce products or to provide services and includes accessories. The financing covers 80% of the total purchase amount plus service charges, with up to 85% coverage available for import substitution products. The repayment period will vary (taking up to five years) and will be based on the type of machine, income generation capacity, and nature of business.

Generally, the documents required to obtain capital goods financing include a feasible business plan or business case, renewed licenses, and the business’s tax certificate. Businesses will submit their request to obtain financing, provide at least three pro-forma invoices of machinery to be purchased and submit required documentation. Once the financing company conducts an assessment and an agreement is signed, the customer deposits the required amount (20 – 25%) per agreement and the purchasing follows. If all required documentation is fulfilled, this process may take an average of three months but could take longer if the machine needs to be imported.
Chapter II: Investor Overview

Accelerators nurture start-ups at a crucial stage in their lifecycle by providing them with an environment conducive to growing their business. Though both accelerators and incubators often focus on technology start-ups, there are some differences between the two.

Generally, incubators are less structured and more focused on providing a physical coworking space and access to their networks for very early stage start-ups, which are idea based and not making revenue at the time of application. Some incubators provide funding for start-ups in the incubation programme but most do not.

Accelerators are also aimed at early stage companies but ideally at those advanced enough to grow and scale their business, which means the businesses are already making revenue. Accelerators generally take equity in the business in exchange for access to their programme, their facilities, and their mentor network, which often includes investors and experienced business managers. As opposed to incubators, accelerators usually have a set timeframe, from a few weeks to a few months.

Accelerators and incubators typically have a selective application process and start-ups need to prove themselves in order to be granted access. The application process examines the start-up’s business model, its financial performance to date, projections for the future, and the quality of the team. While they are typically well run and help entrepreneurs to refine their business, one downside of accelerators and incubators is that they often require entrepreneurs to spend valuable time away from their businesses.

There are a few accelerators and incubators in Ethiopia, the vast majority of which are based in Addis Ababa.
A n angel investor network is a group of individuals (called business angels) who inject capital into an angel network fund to provide funding for start-ups in exchange for equity. The network is made up of experienced professionals who have knowledge and contacts in the industry in which they invest.

Business angels invest in companies with high growth potential, though they tend to look at a wider range of sectors than venture capital (VC) investors, which like to invest in highly scalable sectors like tech. Business angels typically step in to provide funding for companies that have exhausted any friends and family investments or personal savings they may have been able to access before they receive any investment from VCs.

While most business angels are engaged and helpful, some may see the start-up as their own company and look to obtain too much control early on. As an entrepreneur, it is important to listen to their feedback, but to ensure not to blindly follow their advice.

There are also angel investors from outside Ethiopia, although the regulatory framework prevents them from taking equity.
The Angel Investor Ecosystem in Ethiopia

The number of start-ups in the Ethiopian ecosystem remains small and angel investment is widely unknown. There are several initiatives launched from incubators and business networks but only a few deals have materialised. This is because of two reasons: very early stage start-ups are trying to raise funding without having a track record and the potential angel investors are having little experience within the network and in investing in companies of other people. Additionally, certain regulatory factors militate against foreign investment in companies that tend to be in the incubator space. Firstly the Ethiopian investment law requires a minimum investment of USD 150,000 from foreign investors, which at this stage of development far exceeds many incubator company’s needs. Secondly, some of the more appealing areas of investment that may yield such early stage investment, such as banking or broadcasting and mass media services, are restricted to Ethiopian investors.

Often, this translates into the need to teach business angels not only about the opportunities for high returns, but also about the Ethiopian tech sector in general. Entrepreneurs approaching business angels need to keep this relative inexperience in mind and be more patient in finding the right investor that will help their companies with introductions and mentoring based on relevant industry experience.
Foundations are non-profit charitable organisations that are founded with an initial endowment typically made by an individual or business. They tend to have a specific goal or sector of interest and fund other charities, NGOs, projects, and companies that work towards that goal or in that sector. Alternatively, foundations may also operate projects in their sectors of interest, if they have the capacity to do so.

The amount of funding foundations make available varies drastically depending on their endowment. Large foundations can fund millions of dollars’ worth of projects, although the vast majority are much smaller.

In order to get funding from foundations, companies will need to go through an application process. Some foundations only accept applications from companies and projects they have invited to participate so it is important to know whom to approach within the foundation to get an invitation. Foundations will typically look how closely a company’s mission and activities match with the desired outcomes they want to achieve. For this reason, when approaching foundations, it is important to focus on the impact of your business.
Chapter II: Investor Overview

Crowdfunding is the practice of raising money from a large group of individuals, typically through an online portal. There are four prevalent models of crowdfunding:

→ **Donation-based**: the crowd donates money to a cause, individual, project, or business, without expectation of any financial or non-financial return.

→ **Reward-based**: the crowd gives money to an individual, project, or business in exchange for a non-financial reward. The rewards are generally either items like shirts or stickers, or an early version of a product (essentially, a pre-sale via crowdfunding).

→ **Lending-based**: the crowd lends money to an individual or business, with expectations of getting the principal back with interest.

→ **Equity-based**: the crowd invests in a business with hopes of sharing in the business’s success as it grows.

Depending on the type of crowdfunding campaign an entrepreneur chooses, he or she will need to prepare different types of pitches. For lending and equity-based campaigns, investors will want to see a strong business plan, financial projections, and a growth strategy. For reward-based campaigns, backers will want to see an innovative product or project in a sleek campaign video. For donation-based campaigns, backers will want to see how their donation will benefit the recipient entrepreneur(s) or people. So, while crowdfunding can be effective, it is also highly time-consuming.

While there is no online crowdfunding platform in Ethiopia, some entrepreneurs have used international platforms for crowdfunding, although this has been strictly limited to reward or donation-based campaigns. Diaspora funding can be a solid strategy for some companies looking to crowdfund, if they are able to access networks of Ethiopians living abroad.
Typical funding instrument: 
Grant, Equity + Debt

Typical funding amounts: 
> ETB 100,000  
(USD 3,000)

Non-financial benefits: Mentorship, access to new investors, media exposure (in some cases)

Public or semi-public capital refers to funding providers where part or all of their funding is received from government sources. The government may place certain restrictions on how the company operates and invests.

This is a broad group that includes a wide range of capital providers including fully or partially publicly funded organisations that work in various sectors to promote access to capital and technical assistance. These may include annual government funded start-up and/or innovation competitions, industry consortiums and development banks, multilateral aid organisations, credit guarantee schemes, development finance institutions (DFIs), etc.

Because they are backed by the government, public and semi-public funders enjoy trust among entrepreneurs and project owners and can be the first port of call when looking for capital.
Banks are licensed financial institutions that are able to make loans and take deposits, among other services. In developed economies, banks often step in to provide capital to start-ups and SMEs. In emerging markets, however, commercial banks tend to shy away from the SME sector, seeing it as risky and costly; they tend to work with large firms. The same applies to Ethiopia.

Banks that work with SMEs offer various financial products, including asset financing and invoice factoring. Like other funders, they want to see a comprehensive breakdown of how the funding will be used, several years’ financial history, and collateral. This is used to estimate the creditworthiness of the business, how long to lend the money, and at what interest rate.

Banks can be an efficient source of capital, but most will charge high interest rates given the risk associated with start-ups. Make sure you calculate how much you will need to pay every month and consider carefully whether that is something your company can afford.
Impact investors invest with the intention of creating a positive, measurable, social or environmental impact alongside a financial return. The expected range of returns for these investments is often below the market rate or return is measured by a different metric, e.g. social change or impact measurement.

Impact investors include high net worth individuals (HNWIs), family offices, foundations, banks, pension funds, impact-focused venture capital firms, private equity firms, angel investor networks, and development finance institutions (DFIs). Some impact investors are organised in a network, such as the Global Impact Investing Network (GIIN).

Impact investors can also provide a level of expertise to entrepreneurs and project owners in emerging markets, especially when it comes to making sustainable decisions. However, their expertise is likely to be limited, because they tend to be global institutions that focus on impact as well as financial gain. For example, many of GIIN’s members are based in the developed world and therefore may not have the appropriate expertise on the ground. Furthermore, they must spend resources on examining impact, which means potentially fewer resources towards providing entrepreneurs and project owners with technical expertise.

As social and environmental impact is key for these funders, it is important to show not only how your company will work towards achieving these aims, but also how you will measure and prove the impact you want to achieve. That is one of the downsides of accepting impact investment: measurement can be highly onerous.
Compared to other countries, support provided by larger enterprises for entrepreneurs, projects, and SMEs is rare in Ethiopia. Nevertheless, there is a growing interest from larger corporates to engage with innovative start-ups. This is to ensure they stay up to date on what innovative start-ups are doing in relevant sectors and get an opportunity to invest in those companies early on. Another way how corporates support start-ups or SMEs is to spend corporate social responsibility (CSR) funding. SMEs who are operating in the value or supply chain of larger corporates can also try and approach those companies, as there are opportunities for outsourcing and the development of strong business relationships.

The fundraising process and amounts will vary depending on the type of funding that corporates employ. When companies are funding other companies and projects via their CSR initiatives, they will often act like impact investors. This means that they are not only asking for a business plan, but also a way to monitor how the money is being used, and whether it is meeting its stated social and environmental goals. Otherwise, corporates will look at how the business they invest in could grow and how this growth may fit into the company’s long-term plans.

While corporates can be a great partner for your start-up, make sure you protect your intellectual property (IP) before opening up any business secrets.
Venture capital (VC) is a type of private equity and refers to investments made in exchange for equity in early stage businesses. Venture Capitalists (VCs) are focused on funding, developing, and expanding early stage businesses.

VCs tend to invest in adolescent stage start-ups which have the potential to grow rapidly and earn the investors 10 times to 30 times return on their capital over a fairly short time period of three to seven years (in Ethiopia, as well as many other developing countries, that time horizon is often closer to seven up to ten years). Typically, VCs look to invest in companies within sectors that have the capacity to tap into economies of scale and expand rapidly, often backing information technology (IT) and software companies as a result. As the percentage of companies that are able to earn such profitable returns is small, VCs tend to diversify their investments across multiple firms, often co-investing with others to minimise exposure to a single company.

VCs provide several services in addition to providing capital. They play an important role in guiding the company through the later rounds of raising capital, can help to formulate and implement the business strategy, and aid in appointing the management team. However, given their influence on an early stage business, VCs can be overly controlling and influence decisions in a way that benefits them more than the business itself in the long term.
Chapter II: Investor Overview

This table shows the typical funding progression for a company, as its revenues increase over its lifecycle. The ‘valley of death’ is where many start-ups die: unable to generate revenues and investor interest, they fizzle out before their ideas take off.

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-seed and seed capital</td>
<td>Series A, B</td>
</tr>
<tr>
<td>Angels, crowdfunding platforms, accelerators/ incubators, foundations</td>
<td>VCs, impact investors, foundations, corporates, crowdfunding platforms, public/semi-public</td>
</tr>
</tbody>
</table>

Exit-opportunities
Private equity (PE) firms invest directly in private companies. They tend to focus on companies that are more mature than those in VCs’ remit. PE firms are often structured as a limited partnership, with institutional investors and/or HNWIs providing funds for partners to manage. As PE firms invest in more mature companies, and sometimes acquire a 100% stake in these companies, they tend to invest much larger amounts than VCs – ETB 150 million (USD 5 million) and above. That makes them an imperfect fit for smaller firms.

Private equity is a catch-all term that captures many types of firms; venture capital, for example, is a subset of PE. As PE funds tend to make large equity investments, they typically get fairly involved in the management of the companies. They usually focus on larger, more established companies that they feel can improve operations and become more profitable.
Chapter
Ethiopian Financial Sector Overview
Chapter III: Ethiopian Financial Sector Overview

Ethiopia’s financial sector is dominated with 18 commercial banks (two state owned), 17 insurance companies (one state owned), 37 microfinance institutions, one reinsurance company owned by state and private investors, five capital goods finance companies, and over 18,000 savings and credit cooperatives. The financial market in Ethiopia remains nascent, limited to treasury bills and government bonds. There are a total of 38,957 access points including branches, automatic teller machines (ATMs), point of sale (POS) terminals and agent outlets providing financial services, the majority of which are concentrated in the capital, Addis Ababa.

Commercial Banks in Ethiopia

The following is a comprehensive list of commercial banks in Ethiopia, both private and public, along with their contact information.

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Public Banks</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Private Banks</strong></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Awash Bank</td>
<td>T: +251-115-570167 W: <a href="https://www.awashbank.com/">https://www.awashbank.com/</a></td>
</tr>
<tr>
<td>4</td>
<td>Dashen Bank</td>
<td>T: +251-114-661380 Ext. (450), (451), (453), (455): +251 114 671803 W: <a href="https://dashenbanksc.com/">https://dashenbanksc.com/</a></td>
</tr>
<tr>
<td>5</td>
<td>Bank of Abyssinia</td>
<td>T: +251-115-583667/118-959459 W: <a href="https://www.bankofabyssinia.com/">https://www.bankofabyssinia.com/</a></td>
</tr>
<tr>
<td>No.</td>
<td>Bank Name</td>
<td>Phone Numbers</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
</tbody>
</table>

**Source:** National Bank of Ethiopia (June, 2018)
Common Loan Products Provided by Banks

Commercial banks in Ethiopia provide most or all of the loan products listed below:

- **Overdraft facility**: A form of short-term credit facility by which a customer may be allowed to draw beyond his or her current account up to a prescribed limit. The facility is usually used to bridge short-term working capital constraints arising in business between receipt of funds and disbursement of funds.

- **Merchandise loan**: A short-term credit facility provided against physical pledge of merchandise goods or documentary evidence (letter of credit, export documents, warehouse receipt, etc.) as collateral for the loan.

- **Term loans**: Credit facilities with structured repayment to be effected within a certain period of time. Repayments of a term loan shall be in line with the cash flow programme of the customer and nature of business. Term loans can be short-term, medium-term or long-term and their repayment can be monthly, quarterly, semi-annually, annually or at lump sum payment.

- **Construction machinery loan**: Loans extended in the form of term loan for the purchase of construction machinery.

- **Letter of credit facilities**: A credit product extended to importers, upon payment of a certain percentage of the value of the letter of credit (L/C). The facility can be either for one-time or revolving for a specified period of time (usually one year).

- **Pre-shipment export credit facility**: A facility extended for expenses until the time of shipment for purposes including the purchase of raw materials, processing, warehousing, packing and transporting the goods.
• **Revolving export credit facility:** An advance extended to exporters upon presentation of acceptable export documents, except a bill of lading.

• **Advance on export bills or post-shipment export credit:** A credit facility extended to exporters, upon presentation of all relevant export documents. Utilised to finance the working capital needed between the shipment of goods and the realisation of proceeds.

• **Advance on import bills:** A provisional account opened to record value of letter of credit (L/C) documents received less margin paid until such time that the importer settles the bill and collects documents to clear the goods from customs or port.

• **Guarantee facilities:** Guarantee products are contingent liabilities which include all types of guarantees, such as bid bond guarantee, performance bond guarantee, advance payment guarantee, suppliers credit guarantee, custom bond guarantee, and retention payment guarantee.
Documents Required to Obtain a Loan

Most of the documents that are required to obtain a loan are listed below. The combination of documents required will vary based on the amount, type, and terms of the specific loan product.

- Loan application and identity
- Loan application form and letter
- Identity card
- Proof of income or employment
- Marital status (certificate of marital status)
- Collateral ownership document
- Trade/business license
- Tax identification number
- Value-added tax identification number
- Investment license
- Principal registration certificate
- Financial statement
  - Audited financial statements
  - Projected financial statements
- Business plan
  - Feasibility study
  - Brief company profile
- List of facilities (factory, building, store, shop, vehicles, machines, etc.)
- History and nature of the business
- Loan account statement with other banks
- List of stock, debtors, and creditors, and breakdown of other significant figures
- Ownership certificates or rent contracts of properties
- Memorandum and article of association
- Contracts at hand and construction projects completed
- Machinery invoice – purchased and to be purchased
- Tax clearance certificate.
Common Types of Collateral

The common types of collateral that can be used to secure a loan with commercial banks in Ethiopia are listed below. The appropriate collateral will vary depending on the amount, type and terms of the specific loan product.

- Fixed assets (houses, buildings)
- Motor vehicles
- Cash and cash substitutes, deposits (savings accounts; current accounts; fixed time deposits)
- Machinery and equipment
- Bank guarantee (local and foreign)
- Treasury bill
- Government bonds
- Merchandise pledge
- Trade receivables
- Share certificates.
## Micro-Finance Institutions

A comprehensive list of microfinance institutions in Ethiopia including their contact information is assembled below.

<table>
<thead>
<tr>
<th>No</th>
<th>Micro-Finance Institution</th>
<th>Head Office</th>
<th>Contact</th>
</tr>
</thead>
</table>
| 1  | Amhara Credit and Savings Institution | Bahir Dar | T: +251-582-201651/52  
W: [www.acsi.org.et](http://www.acsi.org.et) |
| 2  | Dedebit Credit and Saving Institution S. Co. | Mekelle | T: +251-344-409306 |
| 3  | Oromia Credit and Saving Institution S. Co. | Addis Ababa | T: +251-115-571158/18/33/  
W: [www.oromiamfi.com](http://www.oromiamfi.com) |
| 4  | Omo Micro Finance Institution S. Co. | Hawassa | T: +251-462-202053/7384 |
| 5  | Gasha Micro Financing S. Co. | Addis Ababa | T: +251-118-952389/90/91 |
| 7  | Sidama Micro Finance Institution S. Co. | Hawassa | T: +251-462-200850/6151 |
| 10 | Poverty Eradication and Community Empowerment MFI S. Co. | Addis Ababa | T: +251-114-6521541/42 |
| 11 | Addis Credit and Saving Institution S. Co. | Addis Ababa | T: +251-111-572720/111512/13  
W: [www.adcsi.org](http://www.adcsi.org) |
W: [www.meklitmfi.com](http://www.meklitmfi.com) |
| 13 | ESHET Microfinance Institution S. Co. | Addis Ababa | T: +251-113-206451/52 |
| 14 | Wasasa Microfinance Institution S. Co. | Alemgena | T: +251-113-384133  
W: [www.wasasamfi.com](http://www.wasasamfi.com) |
<p>| 16 | Kendil MFI | Shashemene | T: +251-461-105952/3831/5663 |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Micro-Finance Institution</th>
<th>Head Office</th>
<th>Contact</th>
</tr>
</thead>
</table>
W: [www.diremicrofinance.com](http://www.diremicrofinance.com) |
| 19  | Aggar Microfinance S. Co. | Addis Ababa | T: +251-116-183382/3104 |
| 20  | Letta Micro Finance Institution S. Co. | Addis Ababa | T: +251-116-636947  
W: [https://iassist.org/projects/letta-microfinance](https://iassist.org/projects/letta-microfinance) |
| 22  | Digaf Micro Credit Provider S. Co. | Addis Ababa | T: +251-112-787390/2252 |
| 23  | Harar Micro Microfinance Institution S. Co. | Harar | T: +251-256-663745/4078 |
| 24  | Lefayed Credit and Saving S. Co. | Addis Ababa | T: +251-116-296976/118-237179  
| 26  | Gambella Micro Financing S. Co. | Gambella | T: +251-475-511271 |
| 30  | Lideta Micro Finance Institution S.C. | Adigrat | T: +251-344-450064/32 |
| 32  | Adaday Micro Finance Institution S. Co. | Mekelle | T: +251-342-405095/69 |
| 33  | Rays Micro Finance Institution S. Co. | Addis Ababa | T: +251-913-386180 |
| 34  | Afar Micro Finance Institution | Afar | T: +251-913-399644 |
| 35  | Kershi Micro Finance Institution S. Co. | Addis Ababa | T: +251-118-721106/02 |
| 36  | Debo Micro Finance Institution S. Co. | Addis Ababa | T: +251-911-758872 |
Common Loan Products Provided by MFIs

Microfinance institutions in Ethiopia provide the common loan products listed below:

- Micro and Small Enterprise Loans
- Small and Medium Business Loans
- Small Loan
- Agriculture Loan
- Micro-lease Loan
- Short-term Loan
- WEDP (Women Entrepreneurship Development Project) Loan
- Group Business Loan
- Clean Energy Loan.
Capital Goods Finance Companies

The table below lists the capital goods finance companies operating in Ethiopia along with their contact information.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Operation Area</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Waliya Capital Goods Finance Business S. Co.</td>
<td>Amhara</td>
<td>T: +251-582-206780/728</td>
</tr>
<tr>
<td>4</td>
<td>Debub Capital Goods Finance Business S. Co.</td>
<td>SNNPR</td>
<td>T: +251-462-208091/125191</td>
</tr>
</tbody>
</table>
Chapter IV
Raising Capital
Chapter IV: Raising Capital

STAGES OF START-UPS AND TYPICAL FUNDING NEEDS AT EACH STAGE
We break down the stages of a start-up’s lifecycle, typical funding needs at each stage, and whom to approach for capital.

See page 69

START-UPS 101 AND WHEN TO FUNDRAISE
Here, we discuss what makes start-ups appealing to investors, which will allow you to better understand what funders look for when evaluating companies.

See page 71 + 73

MIND THE VALUATION
Valuing a start-up is one of the hardest and most contentious aspects of fundraising. We introduce the concept and examine several valuation methods.

See page 80

CONNECT AND NEGOTIATE WITH FUNDERS
Here we provide advice for negotiating with investors from entrepreneurs that have been there before.

See page 84

ASSEMBLING YOUR PITCH DECK
Every entrepreneur needs to put together a pitch deck to present to investors. We highlight the most important components you should include.

See page 76
Stages of Start-ups and Typical Funding Needs at each Stage

The decision on when and how to raise capital differs for every entrepreneur. Some entrepreneurs will be able to bootstrap their start-up for years before needing to turn to an investor for additional growth capital; others will need to tap into their friends and family in order to get their idea off the ground.

Raising money is an important part of every start-up’s journey. Without an effective way to get funding, even the most promising start-ups may fail. After all, competition among start-ups is intense, and one of the surest ways to beat your competitors is growing fast, which is usually achieved using external financing.

Every founder’s (and therefore, every company’s) financial situation is different. That means each start-up’s financing needs and journey will be different too. There are, however, things that every company, project, or organisation should know when raising money. This guide is meant to help business owners get a firm grasp of how the funding process works, when to approach investors, the documents they will be asked for when fundraising, and more. For more tailored advice, start-ups can consult experts or join incubator or accelerator programmes.

For SMEs this section is helpful if they want to grow faster, if they can demonstrate their market potential, and are looking for external funding. It can also be helpful if an SME is looking for funds from other sources than institutional financiers.
### STAGE

<table>
<thead>
<tr>
<th>Description</th>
<th>Ideation</th>
<th>Building</th>
<th>Prototype</th>
<th>Proof of Concept</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-product and revenue, only idea</td>
<td>Working on developing a product</td>
<td>Finished prototype in users’ hands, getting feedback</td>
<td>Refining product, reaching larger audience</td>
<td>Early market success, expansion and growth to new markets or new products</td>
<td></td>
</tr>
</tbody>
</table>

### Approximate Funding Needs

<table>
<thead>
<tr>
<th>Stage</th>
<th>Ideation</th>
<th>Building</th>
<th>Prototype</th>
<th>Proof of Concept</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-product and revenue, only idea</td>
<td>ETB 0 to 600,000 (USD 0 to 20,000)</td>
<td>ETB 600,000 to 1.5 million (USD 20,000 to 50,000)</td>
<td>ETB 1.5 million to 5 million (USD 50,000 to 150,000)</td>
<td>ETB 3 million to 15 million (USD 100,000 to 500,000)</td>
<td>ETB 15 million to 60 million + (USD 500,000 to 2 million +)</td>
</tr>
</tbody>
</table>

### Potential Investors

<table>
<thead>
<tr>
<th>Stage</th>
<th>Ideation</th>
<th>Building</th>
<th>Prototype</th>
<th>Proof of Concept</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-product and revenue, only idea</td>
<td>Angel investor networks, incubators, friends/family members, foundations making grants</td>
<td>Accelerators, angel investor networks, crowdfunding platforms, public or semi-public grants, foundations</td>
<td>Seed-stage venture capital firms, impact investors, crowdfunding platforms, corporates, public or semi-public grants</td>
<td>Seed-stage venture capital firms, corporates, crowdfunding platforms, impact investors</td>
<td>Venture capital firms, private equity firms, banks, impact investors, public or semi-public funders</td>
</tr>
</tbody>
</table>

*This chart breaks down start-up stages, the typical funding amounts that each stage requires, and potential types of investors to approach at each stage.*
Start-ups 101: What Makes a Start-up Appealing to Investors

Before we get to the fundraising, the following section provides a brief overview of the signs of a successful start-up. These are things that an investor will want to see when he or she considers putting money into your company.

According to Sam Altman, one of the most experienced start-up mentors in the world, there are four essential internal components to a start-up: the idea, the product, the team, and the execution. On the external side, timing plays the most important role: a study among 200 start-ups has shown that it was the most significant reason for failure at 42% of the cases. Timing is something which is hard to predict; it can be good to be in the market as a first player but sometimes the market does not develop fast enough. Therefore, we only focus only on internal components here.

Ideas
Ideas are key to setting the company’s vision and to creating a compelling story around the start-up. While many companies end up pivoting as they develop their product and moving away from the company’s founding ideas to establish new ones, creating a unified vision for the start-up is a good way to focus everyone in one direction. It also makes it easier to sell the vision of the company to investors.

Product
Once you have a good idea, you build a product around it; this is what customers actually use or buy when they are interacting with your company. A successful company will be able to translate a good idea into a great product and will listen earnestly to early users, taking their feedback into account and understanding how the product is being used (regardless of how it was intended to be used). Indeed, it’s not just the product that investors are examining. They also consider the product-market fit: does the product satisfy a demonstrable need in the market?
Team
One of the most important success factors for any start-up is hiring the right team. The first few employees of a company will often make or break the company. Aim to hire only when you are desperately in need of new employees and recruit from your personal networks first, asking your friends and acquaintances to put you in touch with high-performers they have worked with. Do not be afraid to give your first employees a relatively large chunk of equity, as they will be the ones who will make the company succeed and do not be afraid to quickly fire people who are not working out.

Execution
Execution means putting everything together. This is the crucial aspect of the CEO’s job: making sure the team is focused, motivated and growing. It means managing the team in a way that maximises the employees’ efforts, and manages disagreements among team members. It also means setting clear, measurable goals so that progress and employee performance can be evaluated. Keeping these four components in mind is useful for all start-ups, and especially for those that are looking to raise money, as investors will organise their thinking around the same themes – is the idea any good? How about the product the company built around this idea? What about the team? And how focused and motivated is the company to execute its vision?
When to Fundraise

One of the most important decisions you need to make is when to actually begin approaching investors.

Each start-up is different, but nearly every start-up should be bootstrapped for as long as possible. There is no point in giving outside investors equity, paying for administration and legal fees, and spending time (that could be spent working on your product) just for the sake of fundraising. If you can get your company to profitability without raising money from outside investors, you should.

The decision on when to fundraise also depends on the founders’ connections and experience in the start-up industry. If you have exited several companies in the past and have connections to investors, then the timing of the fundraising process will be different than for someone who is a first-time founder.

Most, however, are not experienced entrepreneurs, and do not have the ability to bootstrap the company indefinitely. That means they will need to seek investors sooner or later. The good news is, you can raise money fairly early on in a start-up’s development. As long as you have a strong idea, and do some work around putting together a pitch deck that explains how this idea will become a viable business, you may be able to approach (relatively small) investors. It typically takes three to six months to raise funding from investors; sometimes a lot less or a lot longer. Depending on how much money you have in the coffers, you will probably need to start looking for capital at least six to nine months before you find yourself strapped for cash.
Start Small
One thing to keep in mind is that it is better to aim low and raise more than you had planned, than aim high and lose face when you do not quite meet your goal. Ideally, you will only need to raise funding just once from outside investors before you reach profitability; however, this is rare. More realistically, you are likely to raise money for the next one to two years, and will need to fund-raise again after that.
Putting Together a Board of Directors

Networking is crucial for businesses in Ethiopia. The reason for establishing a board of directors even before getting investment is that the members might be able to get you closer to investors. The board is responsible for the overall direction of the company and will help you make important decisions, so it is key to get people who are engaged and have a good track record. As the founder(s), you will be on the board, along with (most likely) your investors. After this, you will be able to invite several other individuals to sit on the board – try to make this an odd number so there are no ties during voting. Here is some advice on putting together a board:

1. **Do your research** – much like you want to screen the companies/individuals who invest in your business, you also need to screen potential members of your board. Look out for what other businesses they are involved in, and whether there may be potential conflicts of interest; ask those businesses about how engaged the person is.

2. **Find advisors in your market** – board members are typically busy with other projects, and will tire of traveling long distances to attend meetings. So, make sure the board is made up of people who are near your target market, and who will be able to allocate reasonable amounts of time to your start-up.

3. **Focus on the value addition** – the board members should have a tangible value addition to your business. As one investor put it, board members should add value in one of two ways: deep industry experience in your sector, or deep functional experience in an area crucial to your business (e.g., sales, finance or operations).

4. **Take advice seriously** – being humble and taking feedback and constructive criticism is key to keeping the board on your side. It is also a quality of successful entrepreneurs. One board member said that one of his key responsibilities is to question everything the founder thinks and does, as his or her employees may not feel comfortable questioning their boss.

For earlier stage businesses that have not received funding, a board of advisors could also play the role of the board. It pushes the founder to be accountable to external parties while getting much needed advice and guidance. The process of getting a board of advisors is similar to the one of getting a formal board.
Assembling Your Pitch Deck

The documents you will need depend on the stage of funding you are in and who you are approaching. If you are looking to raise money from a grant-making institution or an angel investor, you are likely to get away with a one page document articulating your idea and why it is important now as well as a pitch deck. If you are going to a private equity firm or a bank, you are likely to need a detailed business plan, financial projections, etc.

As this guide is geared more towards younger start-ups and first-time entrepreneurs, we will focus on the documents they will need to present when going to investors.

Generally, they will want to see a comprehensive one page document that outlines a business idea and how the company plans to build their compelling product around this idea, considering current and future challenges, and how to get around them. Entrepreneurs should also include a pitch deck – a set of slides that they can use to showcase their ideas, traction, and market opportunity to potential investors.

Brief ‘One-Pager’

The one pager is an important document that every entrepreneur should spend time to get just right. This should be a mini business plan, and should include a concise overview of what the business is, what problem it is solving, and how you plan to turn your idea into an appealing product. Include charts, images (including your company logo), and graphs as much as possible but do not forget to clearly articulate the purpose of your business in writing and how you plan to execute it. This is a document you should be able to leave behind and that someone would want to read, so make sure to balance substance with visual appeal.
Pitch Deck Structure

The second document every entrepreneur will need to prepare is a pitch deck. A common standard for pitch competitions or in individual presentations is around 10 to 12 slides in the following format:

- What you do described in 30 seconds
- The problem
- Your solution (+ one slide here if you need it)
- Market fit
- Market size
- Business model (USD)
- Defensibility and intellectual property
- Competition
- Distribution
- Team
- Money and milestones
- Financials (only if it adds value).

Additional slides investors may want to see include: traction to date, use of funds and investment instrument sought, and exit route. You can get some good orientation from looking up pitch decks from other companies in your sector online.

For both the one pager and the pitch deck, a small amount of customisation to better fit the investor can increase the chances for success. For example, if the investor is known for wanting to see how the investment may affect social or environmental change, add a slide (or at least a few bullet points) about how your start-up may do that.

Remember that as soon as you raise money, expectations will shift. It is no longer just your money and time. Investors will expect increased reporting and tracking, as well as formalised record-keeping and the like. Do not be unreasonable, and do not make empty promises, but do come across as optimistic, hopeful, hungry, and ready for increased scrutiny of the business.

If a pitch is successful and a potential investors signals interest, the first step is done. Make sure to have all other documents at hand and you can forward it as quick as possible to continue the negotiations.
Pitching Effectively

Every entrepreneur has a different pitching style, and the start-up’s business model and maturity will affect what exactly the pitch looks like. Likewise, every investor will ask different questions. But there are similarities around what investors will want entrepreneurs to cover.

1 **Traction so far.** A good idea will typically not be enough for investors to put money into a start-up. They want to see what your start-up has achieved. ‘Has anyone parted with their money for your product or service?’ is how one investor put it. If you are not there yet, get letters of interest from interested businesses or show how many active users you have. Simply put, investors want to see positive signals from the market that your product or service is in demand and solves a true need.

- *How many units have you sold?*
- *How many sign-ups do you have?*

2 **What makes your team special?** Investors often look at the entrepreneur more closely than the businesses those entrepreneurs started. After all, investing in a company means forming a partnership that will last years. If an investor is not convinced of your team, they will not invest in your business no matter how much potential the idea has.

- *Why is your team in a unique position to solve this market problem?*
- *What is the team’s experience in this field?*

3 **Know your market well.** Investors will ask about your market, why you are focusing on the segment, and potential challenges in the future. You need to be able to answer their questions knowledgeable, backing up your assertions with hard data. Importantly, investors are looking not at just how well you know the market, but also how well you know how to make money in the market.

- *Has anyone else tried to solve this problem? How is your solution different?*
- *What are the challenges you foresee in the future, and how will you navigate around them?*
Your track record. If you are a first-time entrepreneur, you will not be able to show what your previous companies have done. But you should be able to talk about what you have done since you graduated from school – how did you do, what companies have you worked for, what problems have you tried to solve? Investors will often do reference checks, so keep up with old contacts who may be asked to vouch for you.

- What have you done in this space already?
- Do you have people who will vouch for you?

Your thinking process is important. Investors understand that as a start-up, projecting growth numbers is difficult; at best, it is an educated guess. While you should ground your financial projections in reality, the most important thing about the numbers is being able to clearly talk through them, and to explain your hypothesis.

- How do you justify your growth plans?
- How did you evaluate the size of the market?

Next, you will want to plan a results chain, also known as a theory of change. This is a mapping of how the actions your company takes will eventually lead to the desired social impact. Often, making a model in a spreadsheet or visualising it in another way will be most effective. Each entrepreneur and investor will have different templates they look for. Typically, however, you want to show the following:

- Current challenges
- Your company’s inputs
- Direct outputs
- Eventual outcomes
- Market changes
- Social impact.
Start-ups, Your Valuation Matters

Overview
Valuing a company is a highly important part of the fundraising process, especially when raising money through equity. However, it is also imprecise and highly difficult. This is because many start-ups are in the ideation stage and it is nearly impossible to value a company that has few assets besides an idea and the commitment of a few eager co-founders. One way to avoid this question early on is to consider convertible debt, a form of mezzanine funding mentioned in the previous chapter. At some point, however, it will be necessary to determine your start-up’s value.

Valuation and why it matters is important for every start-up to understand. This is because it affects not only the company’s short-term prospects, but can also have important ramifications down the line.

There are many online resources available (find them in the links section) to entrepreneurs that will help them to better understand how valuation works. In the box on page 82, we provide a basic example to introduce the concept, and to explain why it is important.

Of course, one of the key questions is how does the investor obtain a certain valuation and, hence, the shareholding he or she accepts in the business. Many factors come into play to determine this, key among them being the cash flows a company expects to make, current performance, and even the number of investors interested in the deal.

There are various methodologies used to come up with a company valuation. The key ones include discounted cash flow (DCF), multiples-based, and asset-based methodologies:
**DCF (Discounted Cash Flow) Model**

The DCF methodology computes the cash flows the start-up expects to make in future and discounts this to the present. This means taking all the cash in the future and making adjustments for inflation and risk to find out the value of these cash flows as at present. The discount rate is a highly debated variable, and it will be set by the funder when evaluating the investment. It is a good idea to create several scenarios with different discount rates and therefore different net present values. Make sure that you can explain the reasoning behind the different scenarios.

**Multiples Model**

The multiples approach compares similar start-ups to obtain the valuation. This would mean if one start-up – similar to yours in terms of sector, size, business model, etc. – with sales of ETB 600,000 (USD 20,000) is valued at ETB 3 million (USD 100,000) it implies a value to sales multiple of five (ETB 3 million / ETB 600,000, or in dollar terms USD 100,000 / USD 20,000). If the start-up is truly similar to yours, you can use this multiple to value your start-up. Assuming your start-up had sales of ETB 120,000 (USD 40,000) its valuation would therefore be ETB 120,000 x 5 = ETB 6 million (or USD 40,000 x 5 = USD 200,000 in dollar terms).

**Net Assets Model**

The net assets valuation approach calculates the total value of the tangible assets the company has. For start-ups, this would usually result in the lowest valuation, since most start-ups do not own a lot of assets – it is the intangible assets like the idea, the potential, and team talent that excites investors.

It is important for each entrepreneur to note that the final price in a deal is a combination of the valuation and negotiation between the investor and entrepreneur.

Do not raise more money than you can handle! Many investors we interviewed warned against raising too much money too quickly. If your valuation is high early on in your company’s lifecycle, investors will expect you to show similar (if not faster) growth when you raise money again in the future. If you cannot justify a rise in value, you may need to settle for a ‘down-round’ – an investment that results in a lower company valuation than previous rounds. That not only leads to unhappy investors, but can also seriously hurt employee morale.
Valuing Your Start-up

Imagine a fictitious entrepreneur has an idea for an e-commerce company. He discusses it with a friend, and the two of them decide to set up a company around it – Widgets Ltd. The two go about working on the company for a month, developing a clearer strategy and business plan, as well as a website design to show potential investors. Because they have committed the same amount of time on the idea, they decide that it is fair to split up ownership of the company in half. They issue 1,000 company shares, and take 500 shares each, meaning each one owns 50% of the company.

After spending some time to work on their idea and the pitch deck, they approach several angel investors, one of whom is interested. He decides to invest USD 10,000 in the company, to help the founders set up a functioning website and to begin building up a pipeline of products they want to sell on their site. In exchange, he gets 100 shares that the founders issue to the angel investor. So, he owns 100/1100 shares (9.1%), while the founders now own 500/1100 (45.5%) each. Because the angel’s USD 10,000 investment bought him 9% of the company, the post-money valuation is USD 110,000. At this point, the price per share is USD 100 (=110,000/1100).

A couple of months go by and Widgets Ltd begins to attract media attention and customers. Things continue to go well, and several VC firms become interested in investing in the company. The start-up’s founders are feeling bullish about their prospects and decide they need to raise USD 100,000 to keep the company going for the next six months. They turn to an early stage VC firm, who agrees to invest the money in exchange for 500 shares. That gets the VC firm 500/1600 shares (31.3%), and values the company at USD 320,000. The price per share after this investment rises to USD 200 (=320,000/1600). That means if the angel investor wanted to (and was able to) cash out, he or she would have made 100% return in just a few months – that helps to explain why investing in start-ups can be so lucrative, and why it is attracting so much interest.
What to Include in Your Financial Plan

Every investor will weigh the financial plan in different ways, but most investors in early stage companies will understand that start-ups' financial models are educated guesses at best. Your financial plan should be more of a way for investors to judge your ability to plan ahead, conduct research, and come up with a compelling pitch. Here are the things you should include as your financial plan.

1. **Key assumptions** – What is the cost of acquiring a customer? The product price? Increase of goods sold per month or year? Customer retention rate? Projected employee costs? Attainable market size? Think your business through, create a list of key assumptions, and be able to walk the investors through them. Make sure the assumptions are grounded in reality. Create different cases based on different assumptions; worst case scenario in which business is slower than you expect and a best case scenario in which business is better. It would be good to assess the probability for each.

2. **Cash flow statement, balance sheet, and income statement** – The three documents are linked to one another, so you should think of them as a package. They are meant to provide a snapshot of your business, as well as create a basis for future projections.

3. **Use of funds** – Investors will want to understand how, specifically, you plan to use their capital to grow the business. Be intentional here – specify how you plan to use the money, and how it will get you to break-even or to the next fundraise.
How to Connect with Funders for Start-ups

Entrepreneurs can struggle to find out how to contact funders once they figure out who they would like to approach. Here are a few suggestions from investors and entrepreneurs.

1. **Personal introductions are best.** Do your research and find out how you may be able to get introduced to an investor. Because the start-up scene is still emerging in Ethiopia, there are probably only a few degrees of separation between you and the investor.

2. **Seek out portfolio companies.** Find out who the investor has already backed and reach out to those start-ups. Most will be happy to share their experiences, and put you in touch if your idea is well-developed.

3. **Enter accelerator, incubator or mentoring programmes.** Connecting to investors is one of the key reasons start-ups apply to these programmes, and they can be good for facilitating introductions. Make sure the programme is related to your start-up’s sector, so the investors will be relevant.

4. **Networking events.** These can be invitation only (in which case you can reach out to the organiser), or open to the public. Even if you do not find the right investor there, the people you meet can bring you one step closer.

5. **Cold outreaches are a last resort.** If you did your research and cannot find a connection, send a brief but informative email with your pitch deck attached. Emphasise your track record in your email (products sold, users signed up, etc.).
How to Connect with Funders for SME Financing

For banks or individuals:

1. **Evaluate potential loan options:** Finding the right loan for your small business is easier if you understand the various types of loans that are available for small businesses. The purpose of your loan often dictates the type of loan needed and the available financing options. The three primary loan types are asset-based loans, short-term loans and long-term loans.

2. **Determine your eligibility:** Every lender has its own set of parameters for determining whether or not you qualify for their loan products. When comparing small business lending options, it is important to understand the eight primary factors that lenders evaluate you on. Understanding these eligibility requirements will help you determine which loan products are best for your business’ situation.

3. **Find a lender experienced in your industry:** Having a lender experienced with loans for small businesses in your industry is a good indication that the lender understands the nuances of your business needs. The type of small business loan that you can qualify for and the information that you may be required to provide may vary based on the type of business that you have.

4. **Start reaching out:** Knowing the amount of financing you need and if you meet the minimum qualifications will help you to choose the right type of small business loan to apply for. The type of loan you’re applying for will determine how much documentation you will need to gather prior to submitting your application. While short-term loans from online lenders usually require the least amount of documentation, long-term loans typically have an extensive application process.
Key to Raising Money Successfully: Telling Your Story

Time after time, we hear from both investors and entrepreneurs that being able ‘to tell the right story’ is key for raising money successfully. But what does that actually mean? We have used the insights from investors and entrepreneurs to break this down.

1. **Introduction** – Here, investors will want to understand who you are as the founder, and the motivation driving you and, therefore, your company. Be ready to answer questions about your leadership skills. Many investors will put money in you as the entrepreneur, more so than in your company. So make sure you are clear about why you have started your company and what you hope to achieve.

2. **Market** – You should be able to know your market: who are you selling to, and what problem are you solving? If you have a track record of sales, great; if not, be ready to answer questions about why someone will pay you to solve a perceived problem. Set lofty, but achievable goals, and use concrete examples.

3. **Future growth** – The details here will differ based on how advanced your company is. If you have not sold a product yet, then you need to make clear, provable assumptions about how many you will aim to sell in the coming months, how much each unit will cost to produce, and how many units you need to sell before you reach the break-even point. While you should be able to tell a growth story, most investors will want to understand your process of thinking and how you come up with your projections, rather than what the numbers are, specifically – for early stage start-ups, these are educated guesses.

4. **Investment ask** – Do not just ask for a random number, do your research and explain how the funding will get you to the next key milestone. This should not be an investment in people or machinery, but the outcome of that investment. The most important consideration is the time span of investment during which you will use the fund to reach the milestone. The other is the equity you are willing to give to the investor in return, which is based on your companies’ valuation.

5. **Finish** – Use this opportunity to showcase how your company is aligned with the investor you are pitching to. Research on the funders will help a lot here. If he or she prioritises impact, talk about the potential social or economic benefits of your company; if one of the partners has experience in the field, explain what connections you would like them to facilitate. Investors like to be seen as smart money, so talking to them about why you think they would be good partners could be a good way to get them to warm up.
Negotiating with Investors: Tips from Entrepreneurs

Negotiations can be a difficult time for entrepreneurs, especially those who have not been there before. Here is some advice from entrepreneurs who have been there before:

→ Speak to objective investors (i.e. those who do not invest in your sector) about how they would value your company, and use their estimate.

→ Check all the valuation methods as you don’t know which type will be used by the investors and get to know which method is most appropriate for your business. There are resources online that will walk you through how to value your company (see a list of resources in the conclusion).

→ Be able to explain your projected numbers and your assumptions behind them. Investors will push back on everything you will tell them, so have an answer ready for multiple scenarios of the business. Practice makes perfect – go through the pitch with your friends or in front of a mirror.

→ Bring a draft term sheet to the pitch meeting, to anchor the investors to the terms of the deal you would like – you are more likely to walk away with better terms if you put your cards on the table first.

→ Get external advice – most entrepreneurs will negotiate anywhere between one to five times with equity investors during the life of their start-up. A typical investor handles a similar number of negotiations a week. This means that the odds are most often with the investor, and a good advisor could help to even the negotiation table.
Pitching to Impact Investors

Impact investors are funders who seek to effect positive social or environmental change in addition to making a financial return. They vary widely in their emphasis on impact. Some will screen out investments that have potential to make a negative impact, but will not specifically look to invest in companies that have a stated aim to make a positive impact. In these firms’ view, the act of investing in Ethiopia is likely to have direct and indirect positive effects, including job creation.

Others have a much more specific view on what counts as impact, and will ask entrepreneurs to report the impact metrics they agree upon. Some will forgo potential financial returns as long as the company’s social and environmental impact is high enough; others will not sacrifice financial returns.

Typically, when approaching impact investors, you will need to prepare the same documents as you would for other funders. Additionally, you will need to show how you plan to effect positive social or environmental change.

The first task will be to choose which metrics to track. Often, this will be a natural fit – if your company is involved in renewable energy, for example, tracking the number of households affected and the amount of CO₂ emissions foregone makes sense.
Additionally, you should integrate impact into your financial model. Just as you make assumptions about annual customer growth, customer retention rate, etc., you can also estimate how much impact each additional customer or product will bring. Above all, investors want to see how your company affects the bottom of the pyramid (BOP) — the poorest citizens in a country.

Finally, you should include a separate spreadsheet in your model that makes it clear how you plan to measure the impact you are setting out to achieve. This should link to your financial model and your theory of change. Impact metrics should be easily attainable — do not promise to get in-depth survey responses from each of your customers if you are not sure each one will respond. Measuring outcomes should not get in the way of running your business, especially early on, so be reasonable about what you can show. If investors want to see more impact, they will ask for it.

While these concepts may be foreign to many entrepreneurs, they do matter to a growing number of investors in Ethiopia. You should think carefully before you attempt to position your company as an impact investment. It may be a natural fit for some, but less so for others. If your company is not positioned to make an impact, getting funding from impact investors will create a big burden with regards to reporting and in board meetings. In the long term, it will lead to a breakdown in your relationship with the investor and will likely be a net negative, even if it does result in more funding early on.
Typical Negotiating Process with Investors

1. Research potential investors
2. Pitch to investor
3. Sign term sheet
4. Complete legal documents
5. Find point of contact or apply for funding
6. Initial investor analysis
7. Legal and financial due diligence
8. Disburse funds
9. Monitor post-investment
Chapter V: Ethiopia’s Investment Scene

A BRIEF HISTORY
Ethiopia’s very young start-up ecosystem is still under emerging but some structures and organisations have been driving it’s development.

See page 95

SUPPORT SYSTEMS
We review some of the support systems and framework conditions for start-ups and SMEs.

See page 99

REALITIES ON THE GROUND
Doing business in the Ethiopian context has limitations and opportunities different from other countries. We take a look at some realities for entrepreneurs to be aware of.

See page 114
A Brief History

Despite having a large population and thus a large market potential, Ethiopia’s start-up ecosystem is very young and relatively small compared to other African countries. As investors are starting to have a closer look into Ethiopia’s start-up scene, the opportunities are growing rapidly. Yet, Ethiopia has seen very few investments in start-ups and none has exited thus far.

Ethiopia’s ecosystem for incubation is in an early stage of development, even though the emergence of Micro, Small and Medium Enterprises (MSMEs) has been high on the agenda of the Ethiopian government as a means to generate employment and reduce poverty. The Ministry of Innovation and Technology has recently developed a start-up incubation programme, which is called 2-2-2. Furthermore, financial institutions in Ethiopia do not have a commonly agreed definition of MSMEs, and as a result, the financing strategies specific to MSMEs are very limited.

The classification of MSMEs used by some financial service providers in Ethiopia is based on the national Micro, Small and Medium Enterprises strategy originally developed in 1997, revised in 2011 and edited in 2016. The classification below is provided by the 2016 version, which is mainly based on the number of workers employed, total assets and two broad sectoral classifications (industry and service).

<table>
<thead>
<tr>
<th></th>
<th>Micro Enterprises</th>
<th>Small Enterprises</th>
<th>Medium Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td>Services</td>
<td>Industry</td>
<td>Services</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>≤ 5</td>
<td>≤ 5</td>
<td>6-30</td>
</tr>
<tr>
<td><strong>Capital (ETB)</strong></td>
<td>≤ 50,000</td>
<td>≤ 100,000</td>
<td>50,001 – 500,000</td>
</tr>
</tbody>
</table>

However, in terms of asset value, this classification is far below the standards commonly used internationally. This limits the financing available to businesses in this range as financiers (such as PE firms) may not target them considering the commonly used classification of MSMEs (a company classification that is defined differently by different countries. Ethiopia’s definition for MSMEs specified in the
2011 Ethiopia National SME Strategy is based on headcount only: microenterprises have up to five employees, small enterprises have from 6 to 30 employees; medium enterprises 31 to 100 employees). Most start-ups in Ethiopia are likely to fall in this category which further enhances the issue of ‘the missing middle’. On the part of start-up incubators, Ethiopia’s ecosystem provides several opportunities for support and limited options for financing of start-up ventures. Furthermore, the available start-up hubs, incubators and growth accelerators in the country are all located in close proximity to one another in the capital, Addis Ababa. This implies only those with resources and ability to reside in the city are likely to gain access to the network, support and financing opportunities.

Training opportunities for software engineers and web developers are available through private educational institutes. The trainings aim on closing the skills gap, which allows the students to work on international projects for short-term or long-term contracts, or to start their own ventures. The demand for this type of training is permanently increasing, as university graduates are often not ready for employment, due to a lack of practical skills and exposure to professional work environments.

Idea stage start-ups that are often founded by university students or graduates from private training institutes have few options to access support services in Ethiopia. Universities offer incubation services and trainings, which are conducted in an academic mode and are therefore far off the dynamics of the private sector.

Privately operated incubators are rare in number, but offer a variety of services including business skills trainings, access to funding opportunities, and international exposure in start-up competitions. Typically, in combination with a coworking space, incubators provide start-ups with free (or low cost) office space, internet access, administrative services, and opportunities for networking with the community. Incubators with rolling application processes offer an individualised programme that relies on the commitment of the individual entrepreneurs to their own development. The focus of the incubation services lies on the development of an MVP (Minimum Viable Product) and team development to bring the start-up’s product out in the market and test it with the first batch of customers. As this is the first step into start-up growth, funding for
start-ups in the range of USD 30,000 to 100,000 is often not available and start-ups following a lean approach by reinvesting their profits for growth. As the first private incubator, blueMoon has launched an agritech incubation programme, which provides early stage funding in order to bridge and accelerate the gap in business growth for innovators. The programme is based on a clearly defined training course, which takes the start-ups by the hand and thus ensures measurable outcomes for the justification of the programme funders’ financial contributions.

**Growth stage start-ups** have limited options to attract funding and support as there is currently just one programme existing in Ethiopia. The programme focuses on a cohort of up to 10 start-ups and aims on the investment readiness, even though it remains difficult to find local or international investors at this stage. Individual support for these start-ups comes from VC firms or consultants who focus on the due diligence process and business growth strategies in order to identify promising business models.

**Social enterprises** with scalable business models can find support in capacity and skills development and funding from different organisations. These types of start-ups have higher chances to attract funding for product development and growth as their impacts are related to the goals of international development organisations. Programmes are typically organised in boot camps or consultancies as there is no existing physical hub for social enterprises and the main drivers of social entrepreneurship incubation are programme based interventions.

Apart from social enterprise interventions, **aid and development organisations** are using the start-up approach in the value chains of their programme activities to achieve sustainable solutions for their intended impacts. Together with the start-up incubators, the organisations identify the needs in their respective programme activities and select social or for-profit enterprises to supply services on a private sector approach. These companies must have the capacity for business survival at the end of the programmes by scaling and offering added value to the communities, even though this often remains a challenge when business development is mainly donor driven.
## Top Africa and Ethiopia-Focused Tech Blogs and News Sites

<table>
<thead>
<tr>
<th>Name</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shega</td>
<td><a href="https://www.shega.org/">https://www.shega.org/</a></td>
</tr>
<tr>
<td>Disrupt Africa</td>
<td><a href="http://disrupt-africa.com/">http://disrupt-africa.com/</a></td>
</tr>
<tr>
<td>VentureBurn</td>
<td><a href="http://ventureburn.com/">http://ventureburn.com/</a></td>
</tr>
<tr>
<td>TechLoy</td>
<td><a href="https://medium.com/techloy">https://medium.com/techloy</a></td>
</tr>
<tr>
<td>Afrinnovator</td>
<td><a href="http://afrinnovator.com/">http://afrinnovator.com/</a></td>
</tr>
<tr>
<td>Timbuktu Chronicles</td>
<td><a href="http://timbuktuchronicles.blogspot.co.ke/">http://timbuktuchronicles.blogspot.co.ke/</a></td>
</tr>
<tr>
<td>TechCabal</td>
<td><a href="http://techcabal.com/">http://techcabal.com/</a></td>
</tr>
<tr>
<td>MacJordan</td>
<td><a href="http://macjordangh.com/blog/">http://macjordangh.com/blog/</a></td>
</tr>
<tr>
<td>TechMoran</td>
<td><a href="https://techmoran.com/">https://techmoran.com/</a></td>
</tr>
<tr>
<td>TechWeez</td>
<td><a href="http://www.techweez.com/">http://www.techweez.com/</a></td>
</tr>
<tr>
<td>Ibex Frontier</td>
<td><a href="https://www.ibexfrontier.com">https://www.ibexfrontier.com</a></td>
</tr>
<tr>
<td>Lioness of Africa</td>
<td><a href="http://www.lionesssofafrica.com/">http://www.lionesssofafrica.com/</a></td>
</tr>
<tr>
<td>Tech Talk with Solomon</td>
<td><a href="http://www.techtalkwithsolomon.com/">http://www.techtalkwithsolomon.com/</a></td>
</tr>
<tr>
<td>Addis Insight</td>
<td><a href="https://www.addisinsight.net/">https://www.addisinsight.net/</a></td>
</tr>
</tbody>
</table>
Profiles of Start-up Hubs, Incubators and Accelerators in Ethiopia

growthafrica

<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>Growth Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Investor</strong></td>
<td>Accelerator</td>
</tr>
<tr>
<td><strong>Brief Description</strong></td>
<td>Growth Africa was founded with the desire and mission to proactively contribute to the social and economic growth of African economies through the strengthening of the competitiveness of local enterprises</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.growthafrica.com">www.growthafrica.com</a></td>
</tr>
<tr>
<td><strong>YearFounded</strong></td>
<td>2002; commenced operations in Ethiopia in 2017</td>
</tr>
<tr>
<td><strong>Vision</strong></td>
<td>Growth Africa accelerates businesses through strategic advice and access to investment by driving and delivering impact through scalable, innovative and ambitious ventures.</td>
</tr>
<tr>
<td><strong>Programme</strong></td>
<td>• Growth strategy, catalytic support, financial modelling, investment support, peer-to-peer learning, mentorship, leadership and networking opportunities • Programme runs for three years → First six months – intensive boot camp targeting six major areas of the business – founder, market, supply chain, delivery, organisation structure and governance, and investment readiness → Select and focus on tackling five major challenges of the business → Year two and three – Follow-up and support</td>
</tr>
<tr>
<td><strong>Presence</strong></td>
<td>Kenya, Uganda, Malawi, Zambia, Ethiopia</td>
</tr>
<tr>
<td><strong>Sector</strong></td>
<td>Sector agnostic, including - Agribusiness, Fintech, E-commerce, Health, Education, Information and Communications Technology (ICT)/Mobile, Retail/FMCG</td>
</tr>
<tr>
<td><strong>Funding Instrument</strong></td>
<td>No financial investment</td>
</tr>
<tr>
<td><strong>Selection Criteria</strong></td>
<td>• Ready to scale the business • Turnover of min 50,000 USD • Existed for two or more years • Dedicated full-time founding team consisting of at least two founders • Full-time and dedicated core team • Open to raising external investment as part of the business’ growth strategy</td>
</tr>
</tbody>
</table>
blueMoon

Type of Investor: Incubator

Brief Description: blueMoon is an agribusiness incubator which identifies, incubates, and funds exceptional agribusiness ideas that are innovative, scalable, and have huge transformational potential, especially among youth.

Website: https://www.bluemoonethiopia.com/

Year Founded: 2016

Vision: To discover and grow young Ethiopian agribusiness start-ups that can change the world.

Programme: National competition conducted twice a year and five to ten start-ups are accepted into the on-site six-month incubator programme based in Addis Ababa.

Programme provides:
- Co-working space
- Training and coaching
- Business administration support
- Networking
- Mentorship programme
- Incubation programme

After completing incubation successfully:
- Seed investment (for 15% equity share)
- Participation in ‘Lions Den’ (pitch competition with angel investor network)

Presence: Ethiopia – Addis Ababa

Sector: Agribusiness

Funding Instrument: Equity – Seed money

Average Investment Size: Up to ETB 200,000 per start up

Selection Criteria:
- Team composition
- Idea – Innovative, potentially transformational, combines agriculture and tech
- Where the business is and how well the idea has been developed or thought through
### xHub

**Company Name**: xHub  
**Type of Investor**: Incubator  
**Brief Description**: xHub is an initiative of the Center for African Leadership Studies that incubates and mentors young social entrepreneurs to turn their ideas into businesses and services.  
**Website**: [http://www.xhubaddis.com](http://www.xhubaddis.com)  
**Year Founded**: 2014  
**Vision**: To empower, develop and grow young people in order to grow our society  
**Programme**: Incubation programme is based on membership. Different types of membership and tiers are available. Incubation programme members have access to the following services for free:  
- Working space  
- High-speed internet connection  
- Mentorship  
- Coaching  
**Presence**: Ethiopia – Addis Ababa  
**Sector**: Sector agnostic; start-up must be a social enterprise  
**Funding Instrument**: No financial investment  
**Selection Criteria**:  
- Applicant must be young  
- Idea must be relevant, innovative and practical, providing local solution to a local problem
**Company Name**: iceaddis  
**Type of Investor**: Incubator  
**Brief Description**: iceaddis is an innovation hub and co-creation space which facilitates technological innovations and creative projects. iceaddis provides young entrepreneurs, local and visiting creatives with professional support and consultancy.

**Website**: [http://www.iceaddis.com](http://www.iceaddis.com)  
**Year Founded**: 2011  
**Vision**: To be a catalyst and accelerator of Ethiopia’s economic growth by promoting market-driven and environmentally suitable innovations of young entrepreneurs.

**Programme**
- Pre-incubation; designed for early stage start-ups and interested individuals to get an insight in the start-up world
  - Support in developing viable business ideas
  - Value proposition modeling
  - Peer learning and community exposure
- ‘Ice180 incubation’; designed to enable high potential individuals to start their own ventures in the quickest time possible with the highest professionalism. The goal is to achieve investment readiness with entrepreneurial knowledge, skills, and strong networking
  - Co-working space
  - Training and coaching
  - Business administration support
  - Networking
  - Mentorship programme
### Programme

Acceleration; designed for post revenue start-ups with high scaling potential to lead them through the process of maturation and attracting investment capital for growth and scale-up

- Investment facilitation
- Training and coaching from local and international industry experts
- Networking
- Business analytics and growth strategy

### Presence

Ethiopia – Addis Ababa

### Sector

Technology driven

### Funding Instrument

No financial investment; in-kind contributions for specific requests

### Selection Criteria

Rolling applications and interviews; teams must demonstrate

- Their commitment for the start-up journey
- The scalability of their idea
- An understanding of their sector
- Their problem-solving capacity
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th><strong>Entrepreneurship Development Centre (EDC)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Investor</strong></td>
<td>Entrepreneurship Training Provider</td>
</tr>
<tr>
<td><strong>Brief Description</strong></td>
<td>The Entrepreneurship Development Centre (EDC) is a semi-governmental entity established under the framework of the Entrepreneurship Development Programme (EDP). To facilitate the realisation of the entrepreneurship development goals set in the government’s Growth and Transformation Plan (GTP), the Government of the Federal Democratic Republic of Ethiopia, represented by the Ministry of Urban Development and Housing (MoUDHo). In partnership with the United Nations Development Programme (UNDP), formulated and introduced an innovative entrepreneurship and enterprise development initiative, namely the Entrepreneurship Development Programme (EDP).</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://www.edcethiopia.org">https://www.edcethiopia.org</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2013</td>
</tr>
<tr>
<td><strong>Vision</strong></td>
<td>To identify growth-oriented enterprises as well as potential entrepreneurs, unemployed youth and women nationwide. Provide them with direct support to enhance their entrepreneurial skills and competencies to establish and operate profitable, competitive businesses on a sustainable basis</td>
</tr>
</tbody>
</table>
| **Programme** | • Training: EDC provides various entrepreneurship training programmes to existing and start-up entrepreneurs in its operating regions  
• Business development services: available to its training programmes’ graduates – packaged programme of entrepreneurial and management skills training and customised business advisory services on a one-to-one basis  
• Innovation services: provides innovators and entrepreneurs a platform to innovate ideas, share experiences and exchange ideas, build networks, enhance capacities and commercialise inventions |
### Chapter V: Ethiopia’s Investment Scene Overview

<table>
<thead>
<tr>
<th>Presence</th>
<th>Ethiopia – Addis Ababa, Hawassa, Mekelle, Bahir Dar, Bishoftu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Sector agnostic</td>
</tr>
<tr>
<td>Funding Instrument</td>
<td>No financial investment</td>
</tr>
<tr>
<td>Average Investment Size</td>
<td>Based on participants’ interest they can approach EDC or EDC identifies them in the regions it is working in</td>
</tr>
</tbody>
</table>
| Selection Criteria | • Team composition  
• Idea – Innovative, potentially transformational, combines agriculture and tech  
• Where the business is and how well the idea has been developed or thought through |
<table>
<thead>
<tr>
<th>Company Name</th>
<th>DOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Investor</td>
<td>Technology, Entrepreneurship and Leadership Training Provider</td>
</tr>
<tr>
<td>Brief Description</td>
<td>DOT Ethiopia is committed to creating a world shaped by young social innovators who have the tools, knowledge, and networks to create opportunities and transform their own communities. DOT supports youth to become innovators and leaders, and to create and apply digital solutions that have a positive impact in their communities</td>
</tr>
<tr>
<td>Website</td>
<td><a href="https://ethiopia.dotrust.org">https://ethiopia.dotrust.org</a></td>
</tr>
<tr>
<td>Year Founded</td>
<td>2009</td>
</tr>
<tr>
<td>Vision</td>
<td>Committed to creating a world shaped by young social innovators who have the tools, knowledge, and networks to create opportunities and transform their own communities</td>
</tr>
<tr>
<td>Programme</td>
<td>Access to ICT, business and entrepreneurship coaching and training, networking and knowledge sharing events, and a library and ICT lab, free of charge at business development services centres</td>
</tr>
</tbody>
</table>

**Programmes**

- **Youth Leadership**: supported by mentors, the programme equips young people with the skills, motivation, and knowledge to create and apply digital solutions that solve pressing challenges and have a positive impact in their community
- **Business Development Service Centres**: are business innovation incubators, run by youth and supporting local entrepreneurs with the skills, knowledge, and networks to build sustainable businesses that create jobs and contribute to the local economy
Programme

• Women’s empowerment: the programme focuses on equipping women with technology, business and entrepreneurial skills so that they can create opportunities for themselves and participate fully in the economic and social development of their communities.

• Capacity building for community organisations: Young people who have participated in DOT Ethiopia’s youth leadership programme work with community organisations throughout Ethiopia. The goal is to integrate digital technology into their work, facilitate best practices, and utilise proven community outreach methods to scale up their impact.

Presence
Ethiopia - Addis Ababa, Hawassa, Bahir Dar

Sector
Digital solutions

Funding Instrument
No financial investment

Selection Criteria
Entrepreneurs must be between 18 and 29 years old
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>Antler</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Investor</strong></td>
<td>Start-Up Generator and early stage VC</td>
</tr>
<tr>
<td><strong>Brief Description</strong></td>
<td>Antler is a start-up generator and early stage VC that aims to turn the world's top talent into great founders of great companies</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://antler.co/">https://antler.co/</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2017</td>
</tr>
<tr>
<td><strong>Vision</strong></td>
<td>Enable global talents to become great founders of great companies</td>
</tr>
<tr>
<td><strong>Programme</strong></td>
<td>The programme consists of four phases:</td>
</tr>
<tr>
<td></td>
<td>Phase 1: Talent sourcing (pre-programme):</td>
</tr>
<tr>
<td></td>
<td>Talents go through a highly competitive selection process which includes interviews and hackathons assessing leadership potential, drive, problem-solving capabilities, and technical expertise</td>
</tr>
<tr>
<td></td>
<td>Phase 2: Concept and teams (2 months)</td>
</tr>
<tr>
<td></td>
<td>Iterative process to develop a co-founding team and the company idea to build. Co-founding teams with a business idea proceed to the next phase. Antler invests an equity stake in each of these companies</td>
</tr>
<tr>
<td></td>
<td>Phase 3: Company building (3 months)</td>
</tr>
<tr>
<td></td>
<td>Depending on the type of ideas; work on developing a prototype, minimum viable product, or work towards obtaining the first customer. The focus is on producing the potential and viability of the idea. At the end of the programme, the opportunity to pitch to a select group of leading investors to secure seed funding to support further company growth</td>
</tr>
</tbody>
</table>
Phase 4: Scaling and fundraising (post-programme): Guidance through the process of incorporation, founder agreements and more, in order to help the founder focus on building their business. Teams continue meeting their coach and work towards getting their business pitch ready for demo day. Followed buy support in fundraising through introductions to partners and investors as well as access to customers and partners.

Funding, office space, hands-on coaching, access to experienced venture partners, mentors and more are provided as part of the programme.


Sector:
- Consumer technology – consumer products, E-commerce, FinTech
- Enterprise companies – software as a service (SaaS), logistics and transport, environment and energy
- Life science and health – biotech, digital health preventative healthcare
- Robotics – autonomous vehicles, safety and environment, drones
- Deep tech – Artificial Intelligence (AI), Blockchain, advanced materials and chemicals

Funding Instrument: Venture capital (early stage)

Selection Criteria:
- Leadership potential, drive, problem-solving capabilities, and technical expertise
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Reach For Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Investor</td>
<td>Social Entrepreneurship Incubator and Accelerator</td>
</tr>
<tr>
<td>Brief Description</td>
<td>Reach For Change launches, strengthens and scales social businesses with innovative solutions to some of the most pressing problems faced by women, children and youth across Ethiopia</td>
</tr>
<tr>
<td>Website</td>
<td>ethiopia.reachforchange.org</td>
</tr>
<tr>
<td>Year Founded</td>
<td>2015</td>
</tr>
<tr>
<td>Vision</td>
<td>To transform the lives of women, children and youth across Ethiopia by empowering local social entrepreneurs</td>
</tr>
<tr>
<td>Programme</td>
<td>This programme supports social enterprises all the way from inception through to scale. It aims to empower them to become strong businesses which are financially self-sustainable while having a transformative social impact on women, children and youth. It does this by running accelerator, incubator and rapid scale programmes</td>
</tr>
</tbody>
</table>

**Accelerator:**
Six-month programme supporting aspiring entrepreneurs to bring their ideas to life. This includes:

- A programme of six modules to take them through the stages of running a successful pilot (group training)
- One-to-one coaching from experts
- Access to networks

**Incubator:**
It supports entrepreneurs to move from project to organisation phase, establishing as formal businesses, helping them to consolidate their business model, strengthen their social impact model, their operations and establish their team

- One to three year programme of tailored support
- Focus on one to one coaching and capacity building
- Access to networks (investors, strategic partners and implementing partners)
Rapid Scale: Works with already established social businesses that have proven business models and social impact that want to scale. Supports them to scale rapidly and effectively through a highly intensive, tailored support programme. Provides catalytic support which enables them to achieve transformational scale of 10 to 100 times within five to ten years.

- Three-year programme of highly tailored support
- Several intensive residential programmes
- Regular ongoing long-term coaching
- Access to networks (investors, strategic partners and implementing partners)

Presence
Addis Ababa, Southern Nations, Nationalities and Peoples’ Region (SNNPR)

Sector
Social entrepreneurship, education, health, early childhood development, women’s economic empowerment

Average Investment Size
Accelerator – 40,000 ETB
Incubator – 400,000 ETB
Rapid Scale – up to 1,000,000 ETB

Selection Criteria
Idea – creates positive social impact for women, youth and children; innovative; potential for scale; potential for system change; potential to be financially self-sustaining

Entrepreneur – smart, passionate and brave
Accelerator – must have tested idea on a small scale
Incubator – must have a business license
Rapid Scale – must have been in operation for at least three years
Other Stakeholders and Programmes in the Ethiopian Tech and Start-up Scene

iCog Labs
http://www.icog-labs.com/

iCog Labs is a research and development company based in Addis Ababa, Ethiopia, collaborating with international artificial intelligence research groups and serving customers around the world. iCog Labs specialises in artificial intelligence, including machine learning based data analysis, computational linguistics, computer vision, mobile robots and cognitive robotics, cognitive architectures and artificial general intelligence. It aims to advance science and technology for the good of all humanity, with a special focus on advanced artificial intelligence and on the use of cutting-edge technology to help leapfrog Africa into the future. Select projects by iCog Labs that are working to promote the tech and innovation sector in Ethiopia include Solve IT and the Anyone Can Code Programme.

Solve IT is an annual nationwide innovation competition which provides a modern, adaptable, and properly configured and conditioned platform, decentralising innovation activities to the grassroots level.

Solve IT has been guiding young Ethiopians, ages 18 to 28, into the realm of tech entrepreneurship by providing technical and theoretical training courses on software, hardware, marketing concentrated towards the concept of start-ups, and pro-poor technologies. The Anyone Can Code Programme targets children ages 8 to 18. Through after-school programmes and summer camps, iCog Labs staff teach students the basics of coding and robotics.

Gebeya IT Academy
https://gebeya.training/

Gebeya IT Academy is an online workplace for Africa that matches highly skilled, certified and multilingual IT professionals with customers to develop innovative technology solutions, improving development efficiency, scalability and mobile success.
With presence in Ethiopia, Kenya and the Silicon Valley, Gebeya aims to produce African IT talent and provide an online IT services marketplace for the global business market. It works on expanding IT capabilities with training, increasing availability of IT talent, reducing IT operational costs and eliminating technology hardware and software needs for clients, as well as increasing opportunities for IT professionals.

**AppFactory Academy**

In 2017, Wollo University in Ethiopia, Tulane University, Center for Global Health Equity and Microsoft – 4Afrika collaborated to launch the App-Factory Academy for young professionals with the aim of developing critical skills needed to innovate and maintain application software systems. The programme provides a six-month internship opportunity to highly motivated individuals that have successfully completed their undergraduate studies from Wollo University in the last three years in computer science, information technology, information systems, software engineering, computer engineering, electrical engineering or related fields. On completion of the internship, graduates will be able to design, implement and deploy cloud-enabled, mobile and IT solutions in various sectors. They will also be equipped with critical business skills helping them to secure jobs or create their own businesses.

Wollo University will host the AppFactory Academy at its institution of technology campus, the Kombolcha Institute of Technology (KIoT). Each year, it will set projects based on different sectors, from healthcare to education, agriculture, air transportation and others.

**Start-up Factory Ethiopia**

[https://start-upfactoryethiopia.com/](https://start-upfactoryethiopia.com/)

Founded in 2019, the Start-up Factory is a new entrant to Ethiopia’s start-up scene which aims to build innovative, scalable and investable ventures with exceptional entrepreneurial teams.
Realities on the Ground

Currently, Ethiopia’s value chain for start-ups and SMEs growth is fragmented and lacks fundamental elements for the successful development of innovative businesses with a high employment and growth potential. However, Ethiopia’s government is showing a high commitment in addressing those challenges and defining a roadmap together with actors from private sector and civil society through the organisation of policy forums and public dialogues.

Start-ups and SMEs face numerous challenges such as access to fast and reliable internet connection, which is crucial to many companies for their successful development. Compared to other countries, Ethiopia has a high cost for data access which limits the use of online services and their growth. Even though the access for start-ups is provided by the hubs, this limitation remains on the user end and is cutting off a large number of potential new users. For hardware based solutions, start-ups are facing the lack of electrical and computing components to develop and advance products, which have the potential to contribute to the growth of Ethiopia’s manufacturing industries.
Access to Foreign Direct Investment

In order to scale, innovation hubs taking an approach to fundraise for start-up programmes targeting a specific sector. Ethiopia's bottleneck in terms of funding originates from restricted foreign investments in certain sectors, which would benefit tremendously from FDIs that come together with technical expertise. For sectors that are opened for FDIs, the minimum threshold starts at USD 150,000, which exceeds the funding need of early stage and post revenue start-ups in most of the cases. Local equity funding is not available, as the Ethiopian business community is still unaware of this opportunity or not willing to take the risk. The Ethiopian banks have not developed any loan instruments for the sector, and software products are not considered as a collateral. In addition to that, the capital of the majority of start-up's is typically too low to receive funding from banks.

The African Development Bank (ADB) has launched the Boost Africa Programme (end of 2017), which targets the early stage investment gap. This is a good example of addressing the biggest challenge for start-up growth – investment in a size of USD 50,000 to 100,000. If backed by public loans, the expected success of this programme could be leveraged.
Overview of the Regulatory Environment
The regulatory environment is the same for all business in Ethiopia with no policy or regulation specific to start-ups

Regulator
→ The Ethiopian Investment Commission (EIC) is the autonomous government institution which regulates investments in Ethiopia.

Main legal framework for investments
→ The Investment Proclamation No. 769/2012 (as amended)
→ The Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers Regulation No. 270/2012 (as amended)
→ The Ethiopian Investment Board and Ethiopian Investment Commission Establishment Council of Ministers Regulation No. 313/2014.

Key services provided by EIC include
→ Promoting the country’s investment opportunities and conditions to foreign and domestic investors
→ Issuing investment permits, business licenses and construction permits
→ Notarising memorandum and articles of association and amendments
→ Issuing commercial registration certificates as well as renewals, amendments, replacements or cancellations
→ Effecting registration of trade or firm name and amendment, as well as replacements or cancellations
→ Facilitating the acquisition of land and utilities, loan and residence permit applications.

Other relevant institutions
→ The Ministry of Trade
→ The National Bank of Ethiopia
→ The Ministry of Environment, Forest and Climate Change
→ The Documents Authentication and Registration Agency.
Requirements for foreign investors

- USD 200,000 – the minimum capital required of a foreign investor to invest in Ethiopia
- USD 150,000 – if the foreign investor invests in partnership with a domestic investor(s)
- Approval from the Ministry of Trade – required in advance if foreign investors wish to purchase an existing private enterprise, or shares therein
- USD 100,000 - the minimum capital required of a foreign investor investing in architectural or engineering works or related technical consultancy services and analysis or in publishing work if the investment is wholly foreign owned
- USD 50,000 if the investment is made jointly with a domestic investor.

Areas reserved for domestic investors

- Banking, insurance, finance
- Broadcasting
- Air transport, shipping
- Wholesale trade, resale trade and the export of coffee, oilseeds, hides and skins
- Printing industries
- Import trade (excluding Liquified Petroleum Gas (LPG) and bitumen).
Challenges in the Ethiopian Entrepreneurial Ecosystem

Funders, start-up hubs, incubators and accelerators identify the following challenges in the entrepreneurial ecosystem in Ethiopia.

**Ecosystem support**
- Very few angel investors
- Not enough start-up support programmes
- High rent prices
- Co-working spaces, start-up hubs, incubators and accelerators are located in Addis Ababa and in close proximity to one another
- Existing support systems are not delivering and producing the intended impact
- Not a lot of start-up or entrepreneur support programmes focusing on coaching and building the character of the founder(s)
- Donors not allowing much room for failure, especially when it comes to start-ups
- More funding directed towards external compared to local experts in supporting the development of the entrepreneurial ecosystem.

**Financial sector**
- Financial institutions are not creating products specific to start-ups
- Foreign currency shortage and restrictions (e.g. some investors not willing to invest in companies that are dependent on forex)
- Access to foreign investors is limited due to sector restrictions.

**Services**
- Limited number of legal and financial service providers available with experience in transaction advisory services, mergers and acquisitions (M&A), etc.

**Collaboration**
- Lack of collaboration between stakeholders in the sector
- Lack of collaboration between private and public sector in decision-making.
Chapter V: Ethiopia’s Investment Scene Overview

Regulatory environment
→ Regulations and directives are not clear and up to date (e.g. difference between documentation available and information on the ground)
→ Sector restrictions and funding amount restrictions for foreign investors limiting the supply of capital to different sectors and businesses who require small amounts
→ Investment policy not focused on start-ups
→ Double taxation issues.

Stability
→ Fear of political instability may affect risk averse investors.
Spotlight on Financing for Female Founders

One group that is overlooked when it comes to fundraising are female founders. Hard data on whether women are over- or under-funded relative to men is difficult to come by. However, women need to battle negative perceptions and stereotypes, in addition to overcoming the many other challenges entrepreneurs face on a daily basis. Furthermore, female entrepreneurs may not have access to networks and subnetworks of potential mentors and partners that are often crucial for entrepreneur development. Female entrepreneurs need to become more comfortable with networking and turning connections into funding or business partners. Visibility is the key, as people will invest in your business if they have seen you around and read about your start-up. Ultimately, focusing on female or male entrepreneurs only is misguided — after all, companies that are built on and embrace diversity typically end up doing the best.

The Women Entrepreneurship Development Project (WEDP), was initiated in 2013 in Ethiopia with the support of development partners and a USD 50 million credit from the World Bank. In November 2018, the project has received further financing from the European Investment Bank, which has injected a long-term loan of Euro 30 million into the project.

The objective is to increase the earnings and employment of Micro and Small Enterprises, or Micro and Small Enterprises (MSEs) owned or partly owned by the participating female entrepreneurs in the targeted cities. This will be achieved by: i) tailoring financial instruments to the needs of the participants and ensuring the availability of finance; and ii) developing the entrepreneurial and technical skills of the target group and supporting cluster, technology and product development for their businesses.
There are three components to the project, the first being access to microfinance. The aim of the component is to facilitate access to financial services for female growth-oriented entrepreneurs by providing working capital and investment finance through a dedicated line of credit. At the same time, the component aims at improving the capacity of existing microfinance institutions, or MFIs, to serve female growth-oriented entrepreneurs with tailored financial products. The second component is the entrepreneurial skills, technology and cluster development. The aim of this component is to develop growth-oriented women entrepreneurs’ skills, facilitate their access to more productive technologies that can raise their incomes, and help to unleash synergies through clustering. Finally, the third component is combined out of elements of the project management, advocacy and outreach, as well as monitoring, evaluation and impact evaluation.
Chapter VI
Investor Directory
Chapter VI: Investor Directory

The following is a list of funders that finance start-ups and SMEs in Ethiopia. While this is not an exhaustive list, it does provide a good start for entrepreneurs who are looking to raise money for their ventures, with extensive information about each funder. The data collected comes from the interviews with funds, banks, MFIs and other stakeholders as well as the AlliedCrowds Capital Finder, publicly-available sources, and self-reporting. Some of the responses below have been edited for clarity and due to space constraints.

The firms are organised by the type of funding.
Africa Agriculture and Trade Investment Fund (AATIF)

**Brief Description**
The Africa Agriculture and Trade Investment Fund (AATIF) is an innovative public-private partnership dedicated to uplift Africa’s agricultural potential for the benefit of the poor. It targets small, medium and large scale agricultural farms as well as agricultural businesses along the entire agricultural value chain which will be financed directly or indirectly.

**Website**
https://www.aatif.lu/home.html

**Year Founded**
2007

**Average Size of Investment**
USD 3.5 million to 15 million

**Focus Country or Region**
Africa

**Sectors of Interest**
Agriculture and agribusiness

**Investment Instrument**
Senior debt, mezzanine

**Interest Rate**
Market-based

**Time to Exit**
Up to 12 years depending on the type of investment made

**Fund Vision**
Improving food security and providing additional employment and income to farmers, entrepreneurs and labourers alike by investing patiently and responsibly in efficient local value chains

**Funding Goals**
Enabling growth of target clients along the agricultural value chain to ultimately increase productivity, production and local value addition

**Services Additional to Funding**
- Complimentary Technical Assistance Facility that seeks to support both potential and/or existing investees to address various capacity issues such as governance, management and business systems and hence enable the growth of their businesses
- Access to domestic and export markets
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>Development Bank of Ethiopia - SME Lease Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>The Development Bank of Ethiopia is currently offering lease financing for SMEs. This financing scheme is intended to purchase new machinery based on 80% (bank) and 20% (applicant) contributions. A total fund of USD 200 million is earmarked by the World Bank, and the Ethiopian government has put additional USD 76 million into this scheme. Under the lease financing, ownership of the leased equipment shall be registered in the name of the bank until final settlement of the loan. For companies who cannot make upfront contribution a hire-purchase principle is applied, i.e. ownership of the machinery will be transferred proportionally to the SME when they settle their loan</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.dbe.com.et/homenew/">http://www.dbe.com.et/homenew/</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2016</td>
</tr>
<tr>
<td><strong>Average Size of Investment</strong></td>
<td>Up to USD 350,000</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Ethiopia</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Agro-processing, manufacturing, touristic sector and mining</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Lease financing</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>11%</td>
</tr>
</tbody>
</table>
## Export Finance

**Brief Description**

Export finance is relatively easily accessible in Ethiopia. All commercial banks offer collateral free loans for export businesses. Commercial banks offer pre-shipment and revolving export credit facilities. Pre-shipment export credit facility is a loan meant for purchasing, processing, packing and transporting export products. Whereas the revolving export credit facility is an advance extended to exporters upon presentation of acceptable export documents, except bill of loading. It is intended to solve working capital problems of exporters with continuous export transaction emanating from money tied up in goods in transit of shipment.

**Website**

*Check with all commercial banks*

**Average Size of Investment**

70% to 90% depending on the types of goods to be exported

**Focus Country or Region**

Ethiopia

**Sectors of Interest**

Pre-shipment export credit facility is a loan meant for purchasing, processing, packing and transporting export products

**Investment Instrument**

Debt

**Time to Exit**

One year term
## Company Name
**Loan for Women – Enat Bank**

## Brief Description
Enat Bank SC is a commercial bank which is majority-owned by women. The bank particularly advocates for women participation in business and hence has financial products that can help women owned businesses. The bank claims to represent the vision, innovation and perseverance of Ethiopian business women in SMEs. They have financial and non-financial services to support women owned businesses. Currently, they are providing the Enat Loan to Women, which is served against cash collateral deposited by willing individuals. It is a loan for women owned SMEs, where the lack of collateral is a bottleneck to the growth of the business.

## Website

## Average Size of Investment
Minimum ETB 20,000

## Sectors of Interest
Women owned SMEs

## Investment Instrument
Debt

## Fund Vision
To promote women’s participation in business and support women owned businesses

## Services Additional to Funding
Training for six days on document preparation, business recording and basic accounting for literate women, and saving money, business planning and balancing incomes and expenses for those who are not able to read and write.
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>Addis Capital Goods Finance Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>Supply of capital goods through lease financing and purchase loan to micro- and small-scale enterprises</td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2014</td>
</tr>
<tr>
<td><strong>Average Size of Investment</strong></td>
<td>ETB 100,000 to 1 million</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Ethiopia</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Manufacturing in textile, wood, metal, leather and agro-processing</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Lease financing</td>
</tr>
</tbody>
</table>
**Company Name**  
Nisir MFI

**Brief Description**  
Nisir Micro-finance Institution is one of the emerging financial institutions of Ethiopia. Currently Nisir has four branches in Addis Ababa and a total of 3,700 clients. Its main products are savings accounts and credits with attractive interest to depositors and loans provided to the missing middle.

**Website**  
http://www.nisirmfi.com/

**Year Founded**  
2014

**Average Size of Investment**  
ETB 100,000 to 500,000

**Focus Country or Region**  
Ethiopia

**Sectors of Interest**  
Sector agnostic. Current portfolio includes trade, construction, transport, services, agriculture (small amount) and manufacturing.

*Exceptions: MFIs are not allowed to do transactions related to forex

**Investment Instrument**  
Debt

**Interest Rate**  
Varies

**Time to Exit**  
Up to two years loan term depending on loan product

---

**Fund Vision**  
To be the most inclusive MFI in Ethiopia

**Funding Goals**  
To enable the transformation of MSEs to a sustainably high net worth business through need based financial services
**RENEW**

Navigating emerging economies

<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>RENEW Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>RENEW Strategies is an impact investment and advisory firm that connects angel investors, who seek to make both social impact and financial returns on their investments in Africa.</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://renewstrategies.com/about-renew/about-renew">https://renewstrategies.com/about-renew/about-renew</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2013</td>
</tr>
<tr>
<td><strong>Average Size of Investment</strong></td>
<td>USD 200,000 to 3 million</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>East Africa – Ethiopia and recently Uganda</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Multiple sectors including clean energy, agro-processing, manufacturing and healthcare</td>
</tr>
<tr>
<td></td>
<td><em>Eight companies in Ethiopia: Injera baking, food processing, coffee export, ambulance service, garment</em></td>
</tr>
<tr>
<td><strong>Average Time to Close a Deal</strong></td>
<td>Six months to one year</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Equity</td>
</tr>
<tr>
<td><strong>Average IRR</strong></td>
<td>25%</td>
</tr>
<tr>
<td><strong>Time to Exit</strong></td>
<td>Three to seven years</td>
</tr>
<tr>
<td><strong>Type of Exit</strong></td>
<td>Management buyout</td>
</tr>
</tbody>
</table>

**Management Control**  Board seat

**Investor Vision**  To be the best SME investing firm in Africa

**Funding Goals**  Increase volume of transactions

**Entrepreneurship Experience**  Strong experience in financial modelling, legal, governance, sales and marketing

**Services Additional to Funding**  (Through The Exchange (RENEW’s in-country investment platform), RENEW provides patient capital to SMEs and focuses on post-investment support by running the following core training programs: PES00 (works to raise awareness of and develop the private equity investment ecosystem); The Exec’s Program (a 16-session executive business management and leadership training) and CFO100 (a 13-week intensive financial management program). RENEW also provides consulting and wrap-around growth services in the areas of finance, governance, marketing and sales and recruitment.)
Company Name: Zoscales

Brief Description: Zoscales is a private equity investment firm managed by a team of international investment professionals and local East African entrepreneurs. The firm focuses on growth capital in small and medium sized companies with superior return potential.

Website: [http://www.zoscales.com/](http://www.zoscales.com/)

Year Founded: 2014

Average Size of Investment: USD 3 million to 10 million

Focus Country or Region: East Africa

Sectors of Interest:
1) Consumer Goods: Packaging, personal care, food processing
2) Healthcare: Pharmaceuticals, private hospitals, medical devices
3) Materials: Chemical producers, basic materials
4) Energy: Small wind projects and solar power

*Sectors invested in Ethiopia: FMCG

Average Time to Close a Deal: Up to one year

Investment Instrument: Equity

Average IRR: 25% to 30%

Time to Exit: Five to seven years

Type of Exit: Secondary buyouts and strategic sales

Management Control: Board seat or management control

Investor Vision: To grow into an East African fund

Entrepreneurship Experience: Team of local and international experts in transactions, environmental or governance sectors, strategy, operations and local knowhow

Technical Experience: Available based on the technical needs of the company invested in

Services Additional to Funding: Network access
| **Company Name** | NovaStar Ventures |
| **Brief Description** | NovaStar Ventures invests in early stage businesses led by entrepreneurs with the ambition to transform low-income consumer markets and alleviate severe social issues by deploying innovative business models. Emphasises the potential of growing rapidly, notably by widening access, improving quality and/or lowering costs of basic services or goods. |
| **Website** | [http://www.novastarventures.com/](http://www.novastarventures.com/) |
| **Year Founded** | 2014 |
| **Average Size of Investment** | USD 100,000 to 6 million (multiple rounds) |
| **Focus Country or Region** | East Africa, West Africa (Nigeria and Ghana) |
| **Sectors of Interest** | Sector agnostic, with businesses that target the bottom of the pyramid. Sectors include education, healthcare, small agri-businesses, and access to food, water and critical information. |
| **Average Time to Close a Deal** | Varies |
| **Investment Instrument** | Equity |
| **Average IRR** | Varies |
| **Type of Exit** | Various |

**Management Control**

*Board seat*

**Investor Vision**

*Novastar is a venture catalyst firm assisting the next generation of exceptional entrepreneurs who are designing and executing innovative business models to profitably serve East Africa’s aspiring mass market. These ‘New Stars’ are the catalysts for innovation, accountability, efficiency and the accumulation of wealth for the common good.*

**Funding Goals**

*Proving that venture in East Africa can provide commercial returns and catalysing the venture asset class in East Africa*
Entrepreneurship Experience

Extensive team experience in starting and running companies. Fund management – successful exits in Europe; management consultancy; impact investing; development work; provide a lot of strategic advisory

Technical Experience

Portfolio companies can draw from the team’s network of technical expertise

Services Additional to Funding

Access to global and local networks, help with further fundraising, recruitment and talent
### Company Name
Ascent Capital

### Brief Description
Ascent Capital is the exclusive advisor to the Ascent Rift Valley Fund. The fund invests into East Africa based small and mid-sized companies that have experienced double digit growth or have significant potential for future growth.

### Website
http://ascent-africa.com/

### Year Founded
2014

### Average Size of Investment
USD 2 to 15 million

### Focus Country or Region
East Africa (mainly Ethiopia, Kenya and Uganda)

### Sectors of Interest
The fund invests in all sectors except: Real estate, primary agriculture, mining and infrastructure
*Sectors invested in Ethiopia: plastics and chemical manufacturing, health care

### Average Time to Close a Deal
Six to nine months

### Investment Instrument
Equity

### Average IRR
20%

### Time to Exit
Four to eight years

### Type of Exit
Strategic sale, management buyout

---

**Management Control**
Plays an active role on the board of its investee companies

**Investor Vision**
To develop and nurture a league of enterprise champions that set the bar for business standards in their respective markets

**Entrepreneurship Experience**
The team has amassed many years of operational experience in starting, growing and developing companies in a wide range of industries and regions

**Technical Experience**
Consultants and technical experts hired depending on sector needs

**Services Additional to Funding**
- Developing or improving the corporate governance system of investee companies
- Improve financial reporting systems
- Work closely with management in developing a roadmap for revenue expansion, cost control and possible add-on acquisitions
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>SGI Frontier Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>SGI Frontier Capital is the frontier markets investment platform for Cerberus Capital Management</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://www.cerberus.com/investment-platforms/sgi-frontier-capital/">https://www.cerberus.com/investment-platforms/sgi-frontier-capital/</a></td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Ethiopia, Georgia, Mongolia</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Various including: consumer goods, clean energy, real estate, healthcare, building materials</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Equity</td>
</tr>
<tr>
<td><strong>Company Name</strong></td>
<td>54 Capital</td>
</tr>
<tr>
<td>------------------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>Brief Description</strong></td>
<td>54 Capital is an Africa-focused asset manager investing in and managing proprietary deals across the continent, alongside selected co-investors: Family offices, high net worth individuals, private investment firms and development finance institutions</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.54capital.com/">http://www.54capital.com/</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2013</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Ethiopia, Morocco, Mozambique</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>FMCGs, retail, education, pharmaceuticals and healthcare (a competitive advantage versus potential imports is a must)</td>
</tr>
<tr>
<td></td>
<td><em>Sectors invested in Ethiopia: pharmaceuticals, FMCG</em></td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Equity, debt, mezzanine</td>
</tr>
<tr>
<td><strong>Type of Exit</strong></td>
<td>Strategic sale, secondary buyout, IPO</td>
</tr>
</tbody>
</table>

**Management Control**
*Management control or board seat*

**Funding Goals**
*To build scale and first-class expertise in a small number of countries with strong growth potential and favourable investment environment*

**Technical Experience**
*External industry expertise available per the portfolio company’s needs*
Catalyst Principal Partners is a fundamentals driven private equity fund manager, specialising in sourcing, structuring and managing investments in dynamic, high growth emerging and mid-sized companies with experienced managers to achieve medium to long-term capital appreciation.

**Website**
www.catalystprincipal.com

**Year Founded**
2009

**Average Size of Investment**
USD 5 million to 20 million

**Focus Country or Region**
East Africa

**Sectors of Interest**
- Consumer goods and retail
- Financial and business services
- Industrials, manufacturing and value addition processing
- Technology and telecommunications

*Sectors invested in Ethiopia: FMCG (Water)*

**Investment Instrument**
Equity

**Average IRR**
20% to 25%

**Type of Exit**
Sale to strategic investors, other financial investors, or through IPOs

**Funding Goals**
To grow the footprint and impact of private equity funds across the region, enabling more businesses to access innovative financing solutions, while offering value beyond capital to develop leading regional champions of scale.

**Entrepreneurship Experience**
A highly experienced team of seasoned investment professionals with a depth of regional and international credentials and expertise of private equity investing in Africa and across emerging markets. With its depth of experience in investment management, financial advisory, management consulting and strategic planning across a diversity of sectors, Catalyst Principal Partners has substantial capability to proactively provide strategic and operational input to its investee companies.

**Technical Experience**
Access to industry experts and specialist resources through its regional and international network.

**Services Additional to Funding**
Experience and networks alongside performance improvement strategies and capabilities. Best practices in social, environmental, health and safety, and governance standards.
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>8 Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>8 Miles is a private equity firm focused exclusively on making investments in African businesses. The firm invests in established businesses and sectors with strong growth prospects</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://8miles.com/">https://8miles.com/</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2011</td>
</tr>
<tr>
<td><strong>Average Size of Investment</strong></td>
<td>Between USD 15 million and USD 45 million</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Pan-African</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Agribusiness, consumer goods, education, energy and utilities, financial services, healthcare, industrials, real estate, telecommunications, media and technology, transport and logistics</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Equity, debt</td>
</tr>
<tr>
<td><strong>Management Control</strong></td>
<td>Management control</td>
</tr>
<tr>
<td><strong>Entrepreneurship Experience</strong></td>
<td>The team at 8 Miles is comprised of individuals from private equity as well as corporate backgrounds, with proven track records of driving operational change and value creation in businesses in Africa and other emerging markets</td>
</tr>
</tbody>
</table>
Progression Capital Africa is a manager of private equity funds specialising in financial services, financial technology and adjacent sector investments in early stage to mature companies in Sub-Saharan Africa, with a particular focus on East and Southern Africa.

Website: https://www.progressioncapitalafrica.com/

Year Founded: 2011

Average Size of Investment: USD 2 million to 8 million

Focus Country or Region: Kenya, Ethiopia, Uganda, Tanzania, Rwanda, Zimbabwe and Zambia

Sectors of Interest: Financial services, financial technology

Investment Instrument: Equity and quasi-equity

Time to Exit: Five to eight years

Management Control: Board seat

Funding Goals: To achieve medium and long term capital appreciation together with a positive social impact

Technical Experience: Managing partners with over four decades of combined experience in micro, retail, commercial and investment banking
### Acumen

**Company Name**: Acumen

**Brief Description**: Acumen is a non-profit impact investment fund that focuses on poverty eradication. The organisation raises charitable funds to invest equity and debt in enterprises serving low-income people.

**Website**: [https://acumen.org/east-africa/](https://acumen.org/east-africa/)

**Year Founded**: 2001

**Average Size of Investment**: USD 200,000 to 1 million

**Focus Country or Region**: East Africa, West Africa, America, Latin America, India, Pakistan

**Sectors of Interest**: Agriculture, clean energy, education and healthcare. The fund focuses on inputs, markets for end products and branding

**Average Time to Close a Deal**: Four to six months

**Investment Instrument**: Equity, loans, and mezzanine

**Average IRR**: 17%

**Time to Exit**: Seven to ten years

**Type of Exit**: Trade sale, management buyout, sale to co-investor

**Management Control**: Board seats, management control

**Investor Vision**: Changing the way the world tackles poverty

**Funding Goals**: Bridging the gap between the efficiency and scale of market-based approaches and the social impact of pure philanthropy

**Entrepreneurship Experience**: Combined 20 years of experience

**Technical Experience**: Combined 50 years of experience

**Services Additional to Funding**: Leadership development programme, lean data (impact measurement), post investment management support
<table>
<thead>
<tr>
<th><strong>Company Name</strong></th>
<th>GreenTec Capital Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Description</strong></td>
<td>GreenTec Capital Partners invests in African start-ups and SMEs with a focus on combining social and environmental impact with financial success</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.greentec-capital.com">www.greentec-capital.com</a></td>
</tr>
<tr>
<td><strong>Year Founded</strong></td>
<td>2015</td>
</tr>
<tr>
<td><strong>Average Size of Investment</strong></td>
<td>USD 100,000 to 500,000</td>
</tr>
<tr>
<td><strong>Focus Country or Region</strong></td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td><strong>Sectors of Interest</strong></td>
<td>Agriculture, resources (e.g., energy, water), digital (fintech, etc.), ICT</td>
</tr>
<tr>
<td><strong>Average Time to Close a Deal</strong></td>
<td>Three to nine months</td>
</tr>
<tr>
<td><strong>Investment Instrument</strong></td>
<td>Equity (KPI agreement, based on performance) with a maximum of 20%</td>
</tr>
<tr>
<td><strong>Average IRR</strong></td>
<td>&gt;20%</td>
</tr>
<tr>
<td><strong>Time to Exit</strong></td>
<td>Four to five years</td>
</tr>
<tr>
<td><strong>Type of Exit</strong></td>
<td>Various</td>
</tr>
</tbody>
</table>

**Management Control**
*Being an active part of the team, board seat possible*

**Investor Vision**
*To transform innovative local businesses with a proof of concept into successful and sustainable enterprises that have growth perspective in Africa and beyond*

**Funding Goals**
*To give up to 15 companies per year access to their model, resources and funding*

**Entrepreneurship Experience**
*GreenTec Capital is built by entrepreneurs for entrepreneurs; cumulative experience of 50+ years*

**Technical Experience**
*Significant technical experience that involves their partner network where appropriate*

**Services Additional to Funding**
*Capacity building, business model optimization as well as network access*
**Company Name**  
HELIOS Investment Partners

**Brief Description**  
HELIOS Investment Partners is the largest Africa-focused private investment firm, with a record that spans from creating start-ups to providing established companies with growth capital and expertise.

**Website**  
http://www.heliosinvestment.com/

**Year Founded**  
2004

**Average Size of Investment**  
USD 30 million to 100 million

**Focus Country or Region**  
Pan-African

**Sectors of Interest**  
Retail and consumer products, telecommunications, media and technology, financial institutions and services, power and energy, transportation, logistics and distribution

**Average Time to Close a Deal**  
Very variable given proprietary nature of their business; estimate: nine months

**Investment Instrument**  
Equity, debt

**Average IRR**  
25%

**Time to Exit**  
Five to seven years

**Type of Exit**  
Sale to strategic investor or IPO

---

**Management Control**  
Board seat and management positions

**Investor Vision**  
To build the leading Africa-focused investment firm, generating globally competitive returns by combining world-class investment capabilities, an entrepreneurial business building approach, and unparalleled local and global connectivity

**Funding Goals**  
Buying and building market-leading, diversified platform companies operating in core sectors of important economies, with an emphasis on portfolio operations as a creator of value
Entrepreneurship Experience
HELIOS has founded and built numerous businesses on the continent. In the African environment, private equity can also be a creator of businesses, not merely an optimiser of existing ones. There are numerous economic white spaces which make it possible to create large and profitable companies within a relatively short time period, leveraging globally established business models, adapted as appropriate for Africa.

Technical Experience
22 years average experience across investment, portfolio operations, and finance and administration team partners. The professionals on our investment team come from leading developed market PE firms including TPG, Bain Capital, Warburg Pincus and Carlyle.

Services Additional to Funding
HELIOS are active with their portfolio companies throughout their ownership. The Portfolio Operations Group focuses on three key pillars in terms of value creation: Organisation design, incentives and development; continual process improvement; and top-line growth (including pricing strategies).
Norfund is Norway's Development Finance Institution. It is an active strategic minority investor which offers risk capital and expertise to help build sustainable businesses in poor countries.

**Website**
https://www.norfund.no

**Year Founded**
1997

**Average Size of investment**
Minimum USD four million

**Focus Country or Region**
Africa, with the main focus on Sub-Saharan Africa

**Sectors of Interest**
Clean energy, financial institutions, food and agribusiness, specialised SME funds

**Average Time to Close a Deal**
Several months

**Investment Instrument**
Equity, loan offered to selected companies

**Average IRR**
Approximately 6% on average

**Time to Exit**
Five to ten years

**Type of Exit**
Equity: sale of shares. Loans: repayment and interests

**Management Control**
Takes position as an active owner, board seat

**Investor Vision**
To support the building of sustainable businesses in poor countries and thereby contribute to economic and social development

**Funding Goals**
To invest in sectors and countries where it can have the greatest impact, where the private sector is weak and access to capital is scarce

**Entrepreneurship Experience**
Experts in business development and corporate governance available through its network

**Technical Experience**
Required resources with industrial sector experience available through its network

**Services Additional to Funding**
Norfund can offer business development and support to its investees through its Grant Facility scheme. The scheme allows the fund to co-finance improvement initiatives such as management systems, governance policies and routines, energy efficiency, accounting, occupational health and safety, and capacity building
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Triple I – Inclusive Impact Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief Description</td>
<td>Triple I is an impact investment fund that invests in SMEs that have a substantial (expected) positive impact on the lives of the bottom of the pyramid (BoP). This particularly concerns women, youth and small farmers through measures such as job creation, improvement of income and/or availability of necessary products and services</td>
</tr>
<tr>
<td>Website</td>
<td><a href="https://www.inclusive-investments.com">https://www.inclusive-investments.com</a></td>
</tr>
<tr>
<td>Year Founded</td>
<td>2014</td>
</tr>
<tr>
<td>Average Size of Investment</td>
<td>EUR 100,000 to 500,000</td>
</tr>
</tbody>
</table>
| Focus Country or Region | • South East Asia and South Asia (Vietnam, Thailand, Cambodia, Laos, Myanmar, Indonesia and Nepal)  
• East Africa (Uganda, Rwanda, Tanzania, Kenya and Ethiopia)  
• West Africa (Nigeria) |
| Sectors of Interest | Business with impact focus in the Social, Environmental or Governance (SEG) related areas |
| *Triple I does not invest in: |  
• Cooperatives, farmer groups, savings, credit and cooperative organisations, NGOs, private persons, listed companies and foundations  
• Companies active in real estate, project finance (housing, water irrigation and power plants), leisure (hotels, restaurants and travel agencies), private schools and private health clinics |
| Investment Instrument | Equity, quasi-equity and debt |
| Time to Exit | Maximum eight to ten years |
| Type of Exit | No formal exit strategy |
| Investor Vision | To optimise sustainable social impact while aiming for a modest financial return |
| Funding Goals | To support the full spectrum of SMEs in the ‘missing middle’ and provide them with the tailor-made programmes and finance |
| Services Additional to Funding | Local business development support and post-investment venture assistance |
Cepheus Growth Capital Partners

**Company Name**  Cepheus Growth Capital Partners

**Brief Description**  Cepheus Growth Capital is a private equity firm, founded by Ethiopian-born partners, focused primarily on investments in Ethiopia. The firm provides growth capital and relevant advisory experience to SMEs while generating high risk adjusted returns to investors.

**Website**  [http://www.cepheuscapital.com/](http://www.cepheuscapital.com/)

**Year Founded**  2016

**Average Size of Investment**  USD 3 million to 15 million

**Focus Country or Region**  Ethiopia

**Sectors of Interest**  Manufacturing, agro-processing and services

**Investment Instrument**  Equity

**Time to Exit**  Five to six years

**Type of Exit**  Varies

**Investor Vision**
To provide much-needed growth capital to Ethiopian SMEs while delivering attractive risk adjusted returns and strong developmental impacts

**Funding Goals**
Establish close financial and operational partnerships with portfolio companies so they can realise their maximum growth potential – while addressing the critical long-term financing needs of the Ethiopian economy

**Entrepreneurship Experience**
Uniquely qualified team with deep international and local investment and fund management expertise

**Technical Experience**
Long-term and deep networks in Ethiopia, together with international experience in investment and fund management. With the credibility and reputation to manage investments, growth, and exits

**Services Additional to Funding**
Supporting growth in volumes, products, geographies, and exports. Operational improvements in management techniques, human resource development, corporate governance, environmental and social standards leading to margin expansion
Chapter
Conclusion
Conclusion

Raising money for your company is not easy. It will take enormous amounts of patience, determination, and persistence. Nevertheless, it is also an extremely rewarding process that will teach you a lot about yourself, your business, and your market.

This guide is a high-level overview of what you need to think about as you begin preparing for fundraising: the general processes involved, the documents you need to have, what types of investors are out there and the instruments they use when funding companies. We include insights gathered from investors, entrepreneurs, and others in the Ethiopian ecosystem, so you can learn from the people who have successfully raised money in the past, and who are looking to fund companies today.

Every company’s fundraising process is different, and the stage at which you approach investors will also be different. But, by distilling some of the most salient points from our conversations, we hope this guide will serve as a good starting point for entrepreneurs on how to fundraise.

Furthermore, by providing a directory of potential funders and detailed information about them, we hope that you as the entrepreneur will have a better understanding of the different types of funders in this market, their average investment size, and the sectors they are active in. While this is not an exhaustive list, it does highlight some of the key players in the market, and shows the sort of information you need to know before you approach investors for funding.
Key Takeaways:

1. Do research on the investors you approach: you should find someone who is a truly good fit.

2. When approaching investors, introductions are best: try to meet investors at a pitch event, a conference, or through one of their portfolio companies.

3. Enter accelerator or incubator programmes: while they may not be a great tool for every entrepreneur, they will help you get exposure and learn how to think about your business.

4. Know your market: you should be able to explain not only the intricacies of your market, but also challenges you foresee, the offline aspects of your business, and back up your assertions with facts.

5. Know how much you should look to raise, and why: do not ask for a million dollars just because it is a round number; do your research, and explain how this round of funding will get you to your next key milestone, and where you will go from there.

6. Do not raise too much money too quickly: if you cannot keep raising your company’s valuation in future rounds, you will likely sputter and burn out.

7. Local and international investors: there has been an uptick in interest among international investors in Ethiopia – find out how they are different and if they are a better fit.

8. Consider impact investors: this may be a good fit with your company, or it may not. Think hard before you approach impact investors whether you have the capacity to report metrics they will want to see.

9. Promote trust: investors are wary of entrepreneurs who are not serious about their companies. Find several credible references (professors, mentors, employers) who will vouch for you if a potential investor calls.
Acknowledgement

In order to write this guide and compile the funder directory, we relied on several sources of information. As mentioned already, we spoke with numerous investors, entrepreneurs, and industry stakeholders in Ethiopia to get insight from people who know it best. In total, we spoke with over 15 people who are active in Ethiopia’s entrepreneurial ecosystem.

We also relied on our AlliedCrowds Capital Finder, a data ecosystem that underpins the original data findings in this guide. The Capital Finder is a database of 7000 funders in emerging markets (excluding China), including a wealth of data points that are relevant to entrepreneurs, investors, analysts, academia, and many others. Finally, we conducted an extensive literature review to better understand the market and the latest trends.

We would like to thank the start-up incubators, accelerators, tech hubs, investors, and other stakeholders who have participated in this research (in no particular order): Bethel Tsegaye (NovaStar), Esete Lulseged (Zoscales), Gaym Asmelash (Ascent Capital), Selam Kebede (Growth Africa), Bekure Tamirat (Gebeya), Anna Chojnicka (Reach for Change), Markos Lemma (iceaddis), Michael Addisu (Nisir MFI), Renata Makhoul (RENEW Strategies), Biruk Yosef (blueMoon)
Notes