Founder's Guide to Fundraising

Ethiopia

Implemented by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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Make-IT in Africa

BRITER BRIDGES

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Partners

Make-IT in Africa believes in the catalytic power of African innovation and digital technologies for green and sustainable development. In close collaboration with digital visionaries like start-ups, innovation enablers and political partners, we empower African innovation ecosystems. Together, we aim to strengthen an environment in which the full potential of African digital innovation can unfold. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH implements this project on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Briter Bridges is a fast-growing market intelligence and research firm focused on emerging economies. Briter has built the largest collection of visual publications on Africa and underserved markets and regularly provides data and insights to corporates, development finance institutions, governments, and investors. Briter's proprietary business data platform, Intelligence, is regularly used by thousands of public and private organisations ranging from the World Bank to Amazon and governments.

Shega is an Addis Ababa-based research, advisory, and media company focusing on innovation, technology, finance, and entrepreneurship spaces in Ethiopia.

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Foreword

Make-IT in Africa

Startups are a key driver of economic growth and digital transformation in Africa. Investment into Africa's startup founders is on the rise. Disclosed funding is on its way to $4bn in 2022. Countries like Ethiopia are seeing the opportunities presented by startups to attract investment and also contribute to the broader growth and transformation agenda. The government has recently liberalised their telecommunications sector and a startup act is being put in place to make it easier for startups to operate and raise funding in Ethiopia.

This momentum creates a unique opportunity for startups and investors who understand the realities and opportunities in the market. The challenge with the existing support and guidance received is that the information and guidance is either absent or not anchored within the realities of the ecosystem.

The GIZ project Make-IT in Africa partnered with Briter Bridges and Sahara Ventures to address this information and knowledge gap. This Founders' Guide to Fundraising in Tanzania is part of a broader initiative set out to build local knowledge and tools for startup founders that can strengthen entrepreneurial ecosystems across Africa. To date, 18 guides have been developed covering Benin, Cote D'Ivoire, Ethiopia, Ghana, Kenya, Morocco, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, Sudan, Tanzania, Togo, Tunisia, Uganda and Zambia.

By building knowledge and tools with the ecosystem for the ecosystem we believe we can strengthen the offering that the ecosystem can provide to startups, in turn strengthening their role in driving economic growth and digital transformation.

Matthias Rehfeld
Head of Programme
Make-IT in Africa

Briter Bridges

Strengthening the knowledge and tools that entrepreneurial ecosystems have to support investment into startups in Africa is at the heart of our mission at Briter Bridges. Since our establishment in 2018, we have been working with local ecosystem stakeholders to map, understand, and make sense of entrepreneurial ecosystems in Africa for investors, development finance institutions, governments, and most importantly, founders. We understand that by working with local ecosystem stakeholders like Shega, we can produce knowledge and information that best reflect the realities on the ground. Their creator, Anteneh Tesfaye, has been a key driver of the Ethiopia ecosystem and understands the important difference between it and other ecosystems in Africa.

This partnership with GIZ project Make-IT in Africa to develop Founders' Guides to Fundraising has further reinforced this understanding. The difference in the contexts of the ecosystems across the countries presents varying funding and technical support options for Founders. Founders need this local and contextualised knowledge and information to ensure they don't waste valuable time and resources. For example, while Ethiopia has a similar market size to Nigeria or Egypt the investment landscape is very different. Ethiopia's investment is less than $15m. Designing knowledge and information for these different contexts is critical to ensure we give Founders the best chance to be successful.

Dario Giuliani
Founder
Briter Bridges

Shega

The last few years have seen big changes in Ethiopia's innovation and startup ecosystem. The opening up of the telecommunications sector and the wave of regulatory reforms to promote entrepreneurship are ushering in a new era in Ethiopia. However, funding remains limited. Since 2015, startups in Ethiopia have raised more than $14m. The majority of which has gone into a few deals for Fintech companies. Funding for early-stage startups is limited, and development financial institutions (DFIs) play a large role in supporting the nascent entrepreneurial ecosystem. Even at this late stage, international investors are still cautious about investing in Ethiopian startups.

But pockets of funding exist if you know where to look. I am continuously asked by founders where they should go to fundraise. I suggest looking towards the development finance institutions (DFIs), diaspora, and angel investors who are all contributing to startups currently. Furthermore, there is a strong pay-it-forward culture amongst startups, so I often recommend startups to other startups to learn from what they have done.

The purpose of this guide is to make this information more accessible and available in Ethiopia to support founders on their fundraising journey. In partnership with the GIZ project Make-IT in Africa and Briter Bridges, we worked with over 20 stakeholders in the ecosystem to identify opportunities and realities for startups and share them in this Founders Guide to Fundraising in Ethiopia. The guide strengthens the knowledge and guidance that Ethiopian support organizations like Shega can offer to the ecosystem, resulting in a more resilient and impactful ecosystem in Ethiopia where startups can flourish.

Anteneh Tesfaye
Creator
Shega

Contents

Introduction to the guide

Startup ecosystems across Africa are at very different stages of maturity. Some startup ecosystems are home to a robust local investor and ecosystem support landscape, while others rely on international support. Navigating these different ecosystems and the different financing and support options within them can be time consuming, particularly for start-up founders who are still learning how to run and grow a business.

This guide is designed to help early stage startup founders, saving you time by consolidating the financing and support options available to you, so you can more easily get on with running your startup and realising your goals. We start by taking you through a fundraising 101 recap to reflect on whether now is the right time for you to start fundraising, what you need to know before you start, what to expect while you are raising, and what happens after you've closed the deal. It also includes a **glossary** of common terms to ensure language is not a barrier to your success.

Armed with the information contained in this guide, you will be equipped to tackle the Ethiopia startup ecosystem landscape. You will find information on:

- The startup ecosystem, including trends in funding for startups.
- Relevant ecosystem support organisations and their features, including helpful links to local and global accelerator programmes.
- Funding options for startups in Ethiopia, their use cases, tradeoffs and how to access them.
- Learnings from other startup founders that offer further guidance and tips for you on your journey.
- Legal and regulatory considerations when starting and fundraising for your business.
- Helpful links to legal and government resources.

Navigating the guide

1 **FUNDRAISING 101**

Learn more about the basics and processes of raising funding, from getting started to closing the deal.

2 **COUNTRY OVERVIEW**

Get familiar with the ins and outs of your ecosystem, learn from other startups, and understand your market.

3 **INVESTOR CATALOGUE**

Ready to start raising? Get an overview of some of the key investors in your space.

4 **RESOURCES**

Not sure where to begin? We've put together a list of useful resources for you to get started!

Making your way through the guide

This guide has 4 key chapters. Use the navigation tabs at the top to move easily move between them. Each section of the guide is broken down by key questions to ask yourself, material to prepare ahead of your raise, context about your country, and an overview of resources that could be helpful. Check the glossary at the end of the document for an overview of important terms and definitions.

Top tip: keep an eye out for hyperlinks directing you to useful sources!

Reading the signs:

To help you navigate this guide, we've added some visual cues to look out for:

Getting there
This is a summary of how you will get to the goal in each section.

Destination
This is the goal for each section. It should be clear from the destination what we want you to be able to do after each section.

Binoculars
These are deep dives featuring lessons learned from founders who have been through this fundraising journey in Africa.

Compass
These are additional resources that we have made available for you to support you at the different stages of your journey.

Signpost
These are tips to keep you on course while working through the different sections in the guides.

A few things to note about the data

1. The funding data presented leverages Briter Intelligennce and considers deals between January 2015 and May 2022.
    b. Funding analysis is based on the primary African country office.
    c. Figures are based on disclosed deal values.

4. We have used both local currencies as well as US$ through the guide. We use US$ when analysing Briter data and for global and foreign investor data. We use the local currency when presenting information on local funding opportunities or information related to the cost of registering or incorporate your business.

CHAPTER 1

Fundraising 101

1

3 things every founder needs to know about fundraising in Ethiopia

1 **The startups ecosystem has growing support systems and institutions, but specific fundraising support isn't always available.**

- Many organisations, including hubs, universities, and donors, provide support for the ecosystem and individual startups. The support is mostly technical and sometimes some grant funding is provided.
- Training and technical support programmes supported by donors are available in Ethiopia.
- Hubs and accelerators are an excellent way to scale up your startup if you can get access to them.
- On average, more support is available for digital startups than for other sectors.

2 **Funding options are limited, and some viable options are not being seized.**

- Various types of equity investors are the primary sources of funding for Ethiopian startups.
- International investors don't fund Ethiopian technology startups often. But the few that do tend to be angels rather than institutional investors.
- International angel investors can invest in Ethiopian companies and provide a wider funding alternative for early-stage startups that need smaller checks. Although this route is less travelled than other options.
- Local institutional funding is quite limited. Angels and other individual investors are a better option to get funding.
- The Ethiopian startup scene is driven as much by donor support as investor capital. Many donors have contributed capital either directly to startups or to the ecosystem in general, in addition to the technical support some of them provide. Thus, grants and other donor support available in the market should be fully explored by startups.
- Reaching out to the Ethiopian diaspora is one viable funding option that isn't being used much.

3 **There are many regulatory restrictions currently, but upcoming regulations have much support for start-ups.**

- Minimum capital requirements for foreign investors have put limitations on raising money from abroad. There are also regulations restrictions on sectors which are closed off for foreign investors.
- Certain start-ups in ICT have tax exemptions and breaks in general regulations, but the details haven't been announced yet.
- The upcoming startup act includes several positive developments, including a startup fund, incentives for investors, more inclusion of foreign investors, and tax breaks. It also removes the requirement to get a business licence before starting operations.

Fundraising 101 cycle

Fundraising is a big part of every founder's startup journey. It often includes multiple rounds and can range from pre-seed all the way to Series A and beyond. Often the closing of one round is the trigger to begin the next one.

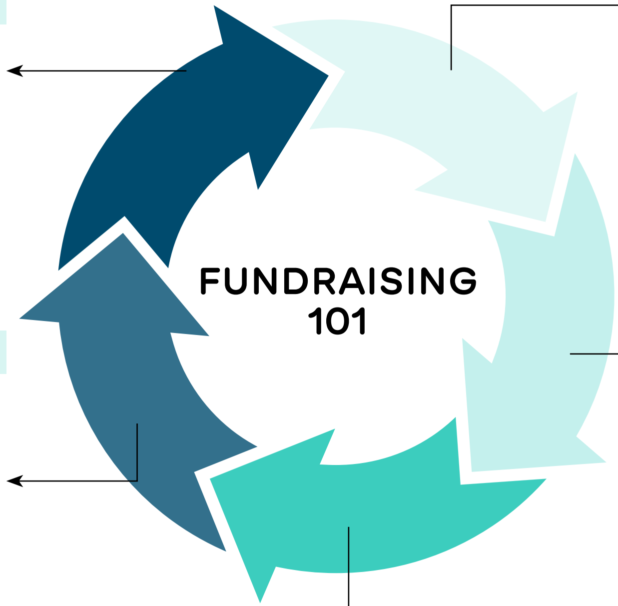
Before each fundraising round it is important for you to step back and determine if and when you should raise. If it is the right time to raise, it's important to get the basics in the place before starting to raise. When you begin to start raising you want to rather be focused on what the best funding option for your current needs is, how much you need, where to get it and how to get to yes with funders. After a successful pitch you need to be ready to close the deal. It's important to remember that this is a very important stage and it shouldn't be rushed as the agreements you make at this stage will have big implications for your business. Once you've closed the deal it's not over. It's important to manage your investor expectations and keep good relations with them as they will be your starting point when you kick off the next fundraising round which you will already need to start planning for. This creates a fundraising cycle as can be seen in the diagram below:

After the close:

- Managing expectations
- Investor relations
- Getting prepared for the next round

To raise or not to raise:

- Where am I on my startup journey?
- Why would I raise?
- Why is now the right time to raise?



Closing the deal:

- How should I negotiate with the investors?
- When do I say no?
- Agreeing on the term sheet
- Moving to due diligence

Before you raise:

- What terms should I be aware of?
- Is my startup registered and incorporated for fundraising?
- Do I have basic governance in place?
- Do I have the systems in place to start fundraising?

Starting to raise:

- What are my funding options?
- How do I value my business?
- How much do I ask for?
- How do I get in front of the right investors?
- What do I pitch?
- How do I get to yes?

To raise or not to raise?

Destination: Deciding whether to fundraise or not.

Getting there: Don't waste time and energy on fundraising if it's not necessary for your startup. To help you decide, you'll need ask yourself

Where are you on your startup journey?

The starting point for determining whether it is the right time for you to raise funds is to assess where you are on your startup journey. The best way to do this is by comparing your startup to the different investment stages (glossary) and associated investor requirements and expectations, as mapped out below.

Requirements	Pre-Seed	Seed	Series A	Series B
Early team	✓	✓	✓	✓
Idea	✓	✓	✓	✓
Market need	✓	✓	✓	✓
Prototype	✓	✓	✓	✓
Business plan	✓	✓	✓	✓
Beta and user testing	✓	✓	✓	✓
MVP		✓	✓	✓
Revenue model		✓	✓	✓
Product-market-fit		✓	✓	✓
Revenue generation		✓	✓	✓
Growth, marketing		✓	✓	✓
Assets & valuation			✓	✓
In-house tech & engineering			✓	✓
Product expansion			✓	✓
New markets			✓	✓
Team expansion			✓	✓
Profits				✓
Boost revenues				✓
Structuring for M&A				✓

As you can see from the comparison table, investor requirements and/or expectations are associated with different startup milestones. In the first funding rounds, the pre-seed milestones include having developed a clear idea, having assessed the market opportunity for the idea, and having established an early founding team. In most cases it also includes having a prototype of the product or services, a business plan and evidence of some testing and feedback on market demand. Funding at this stage typically comes from family and friends, grants from accelerators and incubators, low-interest loans, or equity from angel investors. This is very different from the later growth stage of funding, such as Series A and beyond. There, expectations from investors are often much higher, reflecting the size and growth of the company, and the larger funding sums typically required.

Where you are on your startup journey will determine (1) if you are ready to start fundraising and (2) what stage of funding you should be targeting.

Checking the compass: Where are you on your startup journey?

» Learn more about investment stages in the glossary.

Why would you raise?

So you've determined that your startup is at a stage where you can consider fundraising. The next step in the process is to determine why you want to raise. It's important to remember that it's not a requirement for startups to raise external funding. You may have enough funding from your existing revenues to fund your growth, or may deliberately choose to avoid sharing equity with external parties or taking on debt.

Similar to determining where you are on your startup journey, why you want to fundraise is often associated with specific milestones you want to achieve for your startup. These milestones differ depending on where you are at in your startup journey and drive the purpose for your fundraising. Some of the common milestones associated with different stages are noted below:

For **early stage companies,** fundraising can unlock resources for you to:

- Build runway
- Develop a product or service
- Research the market
- Test assumptions
- Build a skillful team
- Launch a product or service to the market

At the **growth-stage,** fundraising can help you:

- Strengthen different branches of the business, such as sales or marketing
- Expand to new markets
- Scale business operations
- Develop new products or services
- Gain credibility in the market
- Build strategic partnerships and networks

If your startup is ready to start fundraising and you are clear on why, external financing can be an excellent way to build or grow your business. Funding can help fast track your development, remove financial limitations, and help you secure your footing in the market. Aside from financing, fundraising can also include technical assistance and support from experienced stakeholders in the space you are operating in, and can be pivotal to understanding how to build a viable business.

Looking through the binoculars: Bootstrapping your business with Inyad in Morocco

Inyad is a startup offering a range of applications for the digitalisation of small businesses. Its main products are Konnash, an application to record and follow up customer debt; Mahaal, a point-of-sale application; and Takam, an application to manage staff and payroll. Inyad has raised over $8m from five fundraising rounds. But funding was tricky to start with. Inyad's founder, Moncer Chlouchi, bootstrapped his business in 2018, knowing he would not be able to raise funds without demonstrating traction. Rather than focusing on fundraising at this early stage, Moncer put all his savings and energy into building and adapting a product that could solve real problems for small businesses in Morocco. He capitalised on all his existing resources and relied on incremental support from the people around him. Today, Inyad's applications have reached 5 million downloads and created a community of 800,000 active users across the MENA region. Its Konnash application has so far tracked and recorded an impressive $20 billion in customer debt.

Checking the compass: Where are you on your startup journey?

- Tips to know when it's the right time to raise

Why is now the right time to raise?

Now that you've assessed where your startup is on its journey and why you want to raise, as well as the specific milestones you want to raise for, you can think about timing! The right time to raise is driven by external and internal factors. These includes:

- **When funds are disbursed.** Nearly a third of venture capital rounds are in January and March[1]. This is often linked to the internal processes of venture capital firms. Other funders like development financial institutions, accelerators and incubators, and governments have similar cycles related to internal processes. It's important to understand these cycles to best align your fundraising with them.
- **Your runway.** Your runway is the amount of time (typically measured in months) until you run out of money. Calculating your runway is one of the most important determinants of when you need to fundraise. You can calculate your business runway by taking your current cash balance and dividing it by your net burn rate.
- **Average time it takes to raise.** The average time for fundraising differs across rounds and is usually associated with the size of funding required. For example, a pre-seed round can take 6 months while later stage rounds such as Series A to Series C can take anywhere from a year to a year and a half.

Reading the signpost: Ultimately the timing of when you raise should be aligned with the investment cycles of the funders you are targeting, your financial runway and the average amount of time it takes to raise for the round. A simple way to think about it is that your timing to fundraise should be when your remaining financial runway is less than the funding you need to achieve your next growth milestone.

Checking the compass: Where are you on your startup journey?

- How to calculate your startup funding runway?
- 5 factors to consider when calculating your startup funding runway
- How much time should you set aside for fundraising?

Before your raise

Destination: Getting the basics in place to fundraise.

Getting there: Preparing yourself to be investor-ready before you start raising greatly increases your chances and helps to manage the demands of the process. This includes familiarising yourself with the investor lingo as well as getting basic governance and operations in place. While not all the governance requirements in this section will be relevant to you now, it's good to be aware of what will be expected of you on your startup journey.

What terms should you be aware of?

Investors tend to have their own lingo when it comes to describing operations and opportunities. We've developed an investor lingo cheat sheet to equip you with the basics before you kick-off fundraising.

Checking the compass: What terms should you be aware of?

» Investor lingo cheat sheet

Is your startup registered and incorporated for fundraising?

Top of the checklist is basic business hygiene, which includes registering and incorporating your business. Registering your business often comes with compliance requirements and runs against the ethos of many startups to "move fast and break things". It's important not to fall into this trap and understand that your funders are also liable for your business. Choosing the location to incorporate your company is one of the most important decisions a business makes. Some jurisdictions have restrictions on foreign investment which restricts companies from accessing foreign funding, which is a major issue in Africa where the majority of VC funding is international. The location a company incorporates can also increase or reduce investor confidence. Some jurisdictions have better investor ratings as they are deemed to have better institutional and regulatory frameworks to govern companies and investments. This includes protection of minority shareholders, clear disclosure requirements, limited government capital and intellectual property controls, amongst others.

Looking through the binoculars: Overcoming exchange controls as a barrier for investment in Tanzania

Many countries in Africa have exchange controls. Exchange controls present one of the biggest barriers for startups in Africa trying to attract funding, given the reliance on international funding. Simply put, exchange control regulations prohibit transactions where capital or the right to capital is directly or indirectly exported from the country, without permission from the government. In some cases, like in South Africa, this also extends to IP as it can be quantified financially. IP generates revenue and therefore tax must be paid in the jurisdiction where the IP is owned. For international investors, this means getting their money or assets out of a country after they've made an investment is either not possible or subject to government permission. This often discourages international investment and forces startups to look to locate offshore when raising from international investors.

In Tanzania, there are major restrictions on trading major assets and exchange controls. The Fair Competition Act requires companies to file with the Fair Competition Commission (FCC) which can be very costly for early stage businesses. The cost is between TZS 25-100 million. Most startups work around this by registering a completely separate business offshore in a more favourable jurisdiction with limited exchange controls. The IP is then licensed to the offshore entity and the entity puts in place investments to develop and own new IP. Over time the business is less reliant on the previous IP and they pay diminishing taxes on it over time. It is advisable for startups looking to raise foreign capital to consult and engage founders who have raised capital in their jurisdiction before or engage the help of an investment advisory firm.

Do you have basic governance in place?

Founders' agreement

A founders' agreement is a baseline for how your co-founder relationships will work in the future, how your company is structured, and what each owner brings to the business. It is important no matter what type of business entity structure you have, and whilst it is optional in most cases, there are several reasons why having a founders' agreement is useful for an early stage startup:

- Clarifies each owner's role in the business
- Provides a structure for resolving disputes among founders
- Provides clarity if and when a partner wants to enter or exit the business
- Protects minority owners
- Signals to investors that you have a serious business

Reading the signpost: Remember, building a business can become uncomfortable if the people in charge begin diverging and conflicting. If this were to happen, having clear, agreed-upon guidelines can be critical for business survival.

Shareholders agreement

Unlike a term sheet, which is a non-binding set of basic terms and conditions for a business agreement, a shareholders' agreement is entered into following the due diligence process and is a legally binding document. It should largely reflect the provisions of the term sheet, except where issues have arisen in the due diligence process which need to be dealt with specifically in the shareholders' agreement.

A shareholders' agreement will typically be entered into between an investor, the existing shareholders in the company (usually the founders), and the company itself. The document is neutral and should not favour any one party in particular. The agreement documents the relationship between each party and sets out the specifics of the investment in terms of the number and class of shares that the investor will receive or 'subscribe for', and the amount that they will pay for these shares.

Capitalisation table

A capitalisation table (or "cap table") provides investors with a clear picture of company ownership. Through the cap table, an investor will be able to determine equity distribution among founders, investors and employees. Each equity percentage reveals who ultimately has control over your startup. Considering that most startups require voting agreement among both common and preferred shares, the cap table provides valuable insight as to how important decisions will be made. Cap tables will become increasingly important to you as your company continues to grow, and equity dilutes. Keep in mind that creating your first cap table doesn't have to be complicated. A simple Excel spreadsheet with minimal data points will suffice.

Reading the signpost: This is mainly relevant for the startups who have raised funds in the past.

ESOP

Depending on where you are as a business, you may want to consider an employee share ownership plan (ESOP) as a way to incentivise your team to remain committed to your journey and benefit from your growth and fundraising. There are four different ESOP structures from direct shareholding to option-based shareholding, and trust-based to phantom schemes. They all work differently and the most common ESOP is a standard direct shareholding agreement. In many cases, an ESOP will be implemented throughout the fundraising journey of a company, but it will be good to be aware of it as you go through this process yourself, so you keep enough equity to offer it.

Reading the signpost: Not all countries allow for ESOP. For example, in Tunisia the law does not allow founders to put ESOP in place.

Board of directors and advisors

The board of directors is a group of individuals, typically a combination of executive members from the business and large shareholders. They are responsible for governance, overseeing management, and the strategic direction of the organisation. Unlike the advisory board, the board of directors have the ultimate say and formal liabilities on decisions made for the business. An advisory board is a structure of individuals that provide advice and assistance to the business. The members of an advisory board are typically highly experienced professionals from outside of the business that can offer insight on a broad range of topics, from sales and marketing to team management. While the advisory board can help support the growth of a company, their advice is not binding and they have no legal authority to make decisions on behalf of the management or company.

Checking the compass: Governance

- Understanding corporate governance
- Founder agreement template
- Shareholder agreement template
- Different types of ESOPs and key considerations
- Early stage founder cap table template by Founder Institute
- Cap tables explained (video)

What do you need to start preparing your data room?

If and when you are successful in attracting interest from funders, the next step is typically due diligence. During the due diligence process you will be asked by investors to share your company documents and other documents related to your business in order for them to proceed. A practical way to answer this request is by setting up a "data room" where you will centralise important documents in a secure online space, in order to ensure effective communication with potential investors. It is crucial to provide just enough information to spark interest and demonstrate expertise, but not to flood the data room with too many details. When deciding what documents to include, remember that the primary purpose of an investor data room is to simplify and speed up the fundraising process. An investor data room typically includes five categories of data, highlighted in the table, alongside examples of the minimum documents we recommend you include under each category.

Category	Documents
Financials	» Profit and loss statements » Financial projections » Audits (including accounts) » Cap table » All information about previous raises » Pro-forma statements for next year » Management accounts
Company documents	» Pitch deck » Voting agreements » Articles of incorporation (including amended and restated) » Investor rights agreements » Partnership agreements » First refusal and co-sale agreements » Customer contracts » Meeting minutes (the most important are the Board » meetings) » Board consents and actions » Board of directors' materials » Shareholder agreements » Market research » Competitive analysis » Sales process » Marketing materials » Business plan (preferably one page) » Branding guidelines » Office lease » Legal disputes
Intellectual property	» Patents (granted and filed) » IP strategy » Software licence details (and any open-source software that you use) » Domain name ownership
Employees	» All employee contracts, past and present, with titles, salaries and records » List of current employees, salaries and titles » All intern contracts, past and present » All consultant contracts, past and present
Technology	» System architecture diagram » API documentation » Product backlog export » Existing products (for safety, you can use screenshots) » Integrations

Reading the signpost: It is never too early to start setting up your data room. Preparing and organising your data room to be able to respond to requests from funders during your fundraising process is critical to increasing your likelihood of success, as well as managing the demands on the team during the fundraising period. It also helps to prepare for the due diligence stage if and when you begin the process of closing the deal with investors. These data rooms include sensitive material so it's important that you manage access and security settings so it's only accessible to those that should have their eyes on it.

Looking through the binoculars: Getting your financials in order with Tanko Food in Togo

Tanko Food is an agri-food company specialising in tomato processing. Founded in 2016 by Ismaël Mamadou-Tanko, the company offers a solution to shortages and soaring prices of tomatoes in dry seasons, and their wastage in rainy seasons. Unlike the majority of products on the market, Tanko Food products are additive-free. According to the founder, Ismaël, Togolese entrepreneurs are not yet aware of the importance of mastering the financial aspects of their business and keeping their accounts in a very rigorous and regular way, instead focusing on profitability and production/sales indicators. He highlights that profitability is the indicator that matters most for banks and investors. Thus, keeping accounts and financial statements on track and up-to-date from the start is crucial to accessing funding and growing your business in the future. Ismaël recommends monitoring financial metrics quarterly or even monthly, and reaching out to accountants and financial experts for support.

Checking the compass: What terms should you be aware of?

» How to run an investor data room for your startup

Starting to raise

Destination: Attracting the right funding for your startup.

Getting there: To give yourself the best chance of securing the right funding for your startup, you need to understand what funding options you have, what you're asking for, who you want to ask, and how best to pitch to them.

What are your funding options?

There are many funding options for startups beyond equity. Different types of funding are associated with different types of investors (see the investment types and investor types glossary for an overview) and often have different attributes that can inform what is the right type of funding for you. When considering funding options you should keep the following attributes in mind:

- **Availability:** Is this funding option available in your market?
- **Accessibility:** How easy is this funding option to access?
- **Cost of capital:** What do you have to give up to obtain this investment?
- **Flexibility:** Will your business be able to make consistent, scheduled payments?
- **Control:** Does this investment affect your ability to run your business?
- **Collateral/guarantees:** Can investors seize assets, or do you have to pay them back personally if the company can't repay them?
- **Dilution:** How much of your company will you have to give up for the investment?

In the forthcoming table, we map these attributes against the common funding options found across Africa and provide tips on how and when to pursue the different options.

Reading the signpost: Early stage founders should be aware of the options, but most importantly you should know you have options. It's at this stage where early stage founders need to think most about how to match their funding needs with the right type of investor and funding.

Checking the compass: What are my funding options?

- Investment types
- Investor types
- Learning about SAFEs (simple agreements for future equity

Option	Why use	Pros	Cons	Tips
Equity	» Investing in the team or product necessary to build revenues without needing to set aside funds for recurring payments. » Scaling up business through building out additional products or markets.	» **Availability:** Equity for startups in Africa has grown significantly over the last decade in most markets. » **Flexibility:** Equity often comes with giving up some ownership to shareholders who may have different incentives, such as maximising returns to investors. » **Guarantees:** Risks (and profits) are shared with the investor. Assets will not be seized and you won't have to repay if the company fails.	» **Cost of capital:** Equity requires you to give up ownership (and future profits) of your business. From pre-seed to seed, this is generally between 10% to 25%. » **Accessibility:** Equity oftens requires valuation which may be tricky for early stage companies that don't yet have predictable revenue streams or assets. » **Dilution:** As the company grows and raises multiple rounds of funding, the shares owned by the founding team dilutes. As a rule of thumb, each round of equity financing will dilute the company 10-20%.	» Equity should be reserved for when a founder is looking to trade long-term value for long-term investments. Many founders regret giving up equity too early. » At an early stage it is strategic to work with angels that provide friendly terms. » Consider convertible notes and blended finance as good alternative options to minimise the amount of equity that is given up. » Where available, SAFEs are emerging as an option for early stage founders as they do not require a valuation.
Debt	» Financing operational activities such as a new marketing campaign for your product. » Asset financing. » Can act to raise cash quickly to help hit milestones during equity rounds or until you're in a position to gain more favourable terms.	» **Accessibility / cost of capital:** Debt is cheaper than equity and is often quicker to access. The exception is revenue financing which can get costly if revenues grow quickly. » **Dilution / ownership:** No dilution is required with debt. Founders don't have to give ownership and funders can get a share in revenues of a good business, without having to worry about an exit strategy or the next fundraising stage. » **Flexibility:** In the case of revenue financing, repayment only happens if the business earns a profit. This feature can help companies survive periods of reduced revenue.	» **Availability:** Debt has often been out of reach for startups in Africa. This is changing through the introduction of options such as revenue financing, venture debt and government-sponsored debt initiatives. » **Flexibility:** Debt doesn't come with a change in ownership structure, but it does come with the requirement to be able to make recurring debt repayments. » **Guarantees:** Debt often requires you to have existing recurring revenues to evidence your ability to repay, or assets that the financing can be secured against.	» Debt is often a better option than equity for financing operational activities, such as a new marketing campaign for your product. » Many banks and government agencies offer a range of loans, credit, or debt programmes and initiatives to small and medium businesses as a more accessible form of financing. » Emerging trends like revenue financing and venture debt are an increasingly popular tool for startups.
Grants	» Building and testing a minimum viable product (MVP) before commercialisation. » Commercialisation of MVP.	» **Availability:** Many grant programmes in Africa targeting early stage startups. They are often distributed through accelerator programmes and competitions. » **Cost of capital:** Cheapest option for founders as they don't require loan repayments or to give up ownership. » **Dilution/ ownership:** Retain full ownership of the company. » **Guarantees:** Assets will not be seized and you will not have to repay if the company fails.	» **Accessibility:** Grant application process is difficult to navigate. » **Cost of capital:** Hidden costs associated with complex eligibility criteria and reporting requirements. » **Flexibility:** Eligibility and grant spending requirements may steer the company in an unexpected or unplanned direction.	» Grants are a great way for very early stage startups to build out their initial product offerings or test them in the market. » Be prepared to spend time reporting on the grants or investing in people who can.
Mezzanine	» Building and testing a minimum viable product (MVP) before commercialisation. » Commercialisation of MVP.	» **Cost of capital:** Mitigates risk for investors, meaning better funding terms than straight equity. Is less expensive than equity in terms of the overall cost of capital. » **Flexibility:** It offers considerably more flexibility to structure coupon, amortisation and covenants to accommodate the specific cash flow requirements of the business. » **Dilution / ownership:** For founders it is less diluting of the company's share value. For funders it increases the value of stock held by existing shareholders, even though they will not have as great an ownership stake.	» **Accessibility / cost of capital:** Can be overly complex and expensive to arrange, and often carries a higher interest rate than a bank loan. » **Dilution / ownership:** Lenders of mezzanine funds will have a vote on the company's board of directors and significant abilities to take decisive action if the company does not meet its financial projections. » **Flexibility:** Entrepreneurs may need to make regular payments to funders, meaning capital needs to be put aside. Further, entrepreneurs may be forced to accept restrictions on how they spend their money in certain areas.	» If you can confidently anticipate your startup will quickly grow in value, you can plan to restructure expensive mezzanine financing loans into one senior loan at a lower interest rate, saving on interest costs in the long term.

How do you value your business?

A startup valuation is what the startup is worth in the market. Before fundraising, it is important to value your business as it will help you decide the share of the company to give away to an investor in exchange for funding. The higher the valuation of your company, the less you will need to give to an investor in terms of shares and equity, or the more money your company is likely to receive.

A high startup valuation is based on the startup being able to show or possess the following parameters:

Parameter	Description
Business model	A clear understanding of the business model should include the company's primary source of revenue and how you plan to grow its market share.
Business strategy	The business strategy should identify how the company plans to achieve its goals and what actions you will take to reach them.
Unique selling proposition (USP)	The USP is what sets your startup apart from its competitors, and should be carefully evaluated in order for investors and customers to understand why they should choose your startup over a competitor's products or services.
Financial analysis	Financial analysis should provide an overview of your startup's current financial status and future prospects.
Market potential	Market potential can be assessed by looking at factors such as population size, economic conditions, customer needs and trends.
Competitive landscape	The competitive landscape can be analysed by identifying which companies currently dominate your particular market space and how your startup plans to compete against them.

Reading the signpost: The valuation of startups change in every funding round and whenever the startup achieves a milestone. Make sure you have a realistic valuation before approaching investors. If you overvalue your business, the funding won't happen. If you undervalue your startup, you will be giving up too much equity for too little funding, undervaluing what you have worked hard to build so far.

The valuation method you use depends on the stage and achievements of your startup.

To pick the method that is best suited to you, you first need to determine which stage you are in.

Here is a list of some of the valuation methods you can use:

1 **VC method (VCM):** Often used by pre-revenue startups.

The investor sets an anticipated exit valuation based on the current state and the projections, then sets a targeted ROI thus reaching a post-money valuation (post money valuation = exit value / ROI). The pre-money valuation can then be easily calculated: Pre-money valuation = post money valuation – invested capital

Example: An investor values your startup at a terminal value of $1 million and he wants a 20x return on his $10,000 investment. In this case, your post-money valuation would be: $1m / 20 = $50,000.
Thus, your pre-money valuation would be: $50,000 – $10,000 = $40,000

2 **Berkus method (scorecard):** This method is used to value pre-revenue startups because it doesn't rely on the revenue generated, but rather on five factors related to the business. This method was explicitly created to find a starting point without relying on the founder's financial forecasts and indicates a value from zero to $500,000 for each factor, adding up to a total potential value of $2.5 million.

Example: The Berkus method's five crucial factors of a startup are:

- **Sound idea:** Your company has an exciting and viable business idea = up to $500,000.
- **Quality management team:** Your company has assembled an excellent management team = up to $500,000.
- **Prototype:** Your company has a solid product or prototype that attracts customers = up to $500,000.
- **Strategic relationships:** Your company has powerful strategic alliances, partners and a burgeoning customer base = up to $500,000
- **Product rollout or sales:** Your company has signs of revenue growth and a pathway to profitability = up to $500,000.

The sum of all the values designated against each factor results in the pre-money valuation for the startup.

3 **Cost to duplicate approach:** This method can be applied to both pre-revenue and post-revenue startups, but requires some heavy due diligence. Its goal is to determine how much it would cost to duplicate your same business from scratch, including both tangible and intangible assets. The approach is realistic since it assesses the competitive advantages of a startup. If the cost of duplicating the startup is very low, then its value is low. In turn, if it is costly and complex to replicate the business model, then the value of the startup will increase as the difficulty increases.

4 **Comparables method:** Suitable for all startups, especially early stage pre-revenue startups, this valuation is reached through comparing the startup with other startups with similar business models, industry and stage.

> **Example:** A similar app to the one you've developed was recently valued by a venture capital firm at $5 million and the app had 100,000 active subscribers/users. This means that the company was valued at $50 per user. An investor could therefore use this benchmark to value your app with 3,000 users at $150,000.

5 **Discounted cash flow method (DCF):** Applicable to startups with historical cash flow, this method relies on estimating the future cash flow and applying a certain discount to obtain a present value. When using the DCF method, the valuation of your startup won't be affected by market trends and size as it purely relies on financial data based on assumptions.

> **Example:** What the DCF method in action in this video.

6 **Valuation by multiples method:** Applicable for post-revenue, profitable startups, this is one of the most widely employed methods. A powerful and simple valuation method for more mature startups, this takes into account the industry you are in, your competition, your management team, and other qualitative aspects.

> **Example:** Your startup is generating an EBITDA of $250,000. Depending on the industry you are in, your competition, your management team, and some other qualitative aspects, an investor could tell you that he's valuing your business at say 5x, 10x or 15x your current EBITDA.

Reading the signpost: The valuation of the startup also depends on geography. Startups in Silicon Valley, for example, are higher valued than startups in the rest of the world. Reasons include the requirement of higher costs to hire staff and develop a product. So when evaluating your startup, make sure you take your geography into account, and consider that the value of your startup can be lower or higher than the value of a startup offering a similar product or service operating from a different market.

Checking the compass: How do you value your business?

» Metrics used by VCs to evaluate startups (video)

Looking through the binoculars: Sweating the right stuff with SweepSouth in South Africa

SweepSouth is a cleaning service company operating in South Africa, Egypt, Kenya and Nigeria, that connects clients to on-demand domestic cleaners through an online booking platform. Established in 2014, SweepSouth has raised over $6 million disclosed funding since 2015 through seven rounds. Their first funding round was led by Newton Partners, a local seed fund established by Vinny Lingham and Llew Claasen, and included Pule Taukobong from African Angels Network (AAN) and Polo Leteka Radebe's Identity Development Fund (IDF).

Reflecting on their fundraising journey, founders Aisha R. Pandor and Alen Ribic in South Africa noted that valuations don't matter as much as you think at the pre-seed stage. It's more important to raise capital to start building a viable product and market fit and get investors that are willing to be part of your growth and development journey. What is really valuable at early stages is to work with investors who are entrepreneurs themselves and who have entrepreneurial mindsets. They also recommend founders don't raise too much too early, as it's more important that founders retain their ownership as much as possible.

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Defining the ask

You've considered your funding options, you've done your homework on the value of your business and now you are ready to start reaching out to potential funders. What should you ask for?

This often surprises founders who expect funders will dictate the terms of how much funding they offer, but in reality, funders are expecting you to define what you want and put it on the table upfront. The starting point to define your "ask" is your fundraising stage. Funders typically provide funding along different stages associated with the growth and maturity of a company. These stages are associated with different milestones and your "ask" should be aligned with how much funding you need to progress through these different milestones. Options include developing the product, building out the team, expanding to new markets and/or strengthening sales and marketing. These milestones are associated with certain revenue and profitability drivers. Founders will consider if you have also thought beyond the current funding round, your startup journey so far, and at which point you will need follow-on funding to continue to grow and mature. A high startup valuation is based on the startup being able to show or possess the following parameters:

Reading the signpost: Expect to define what you're asking for, and ensure you've carefully calculated funding to cover the costs of maturing or scaling operations to a planned level over a set time period.

Checking the compass: Defining the ask

» Calculating how much your startup needs to raise
» How to determine the amount to raise in your round

Finding and getting in front of the right investor

Finding the right investor

Fundraising is hard. One of the hardest parts is approaching and putting your "ask" in front of investors. To increase your chances of success and optimise your search, it's important you find investors that best match with what your startup has to offer. The investor catalogue in this guide provides you with more information on the most active investors in your market, including the fundraising rounds they invest in, the sectors they invest in, portfolio companies they have already invested in and their contact details and social media handles. This information is intended to help you narrow down your search to identify the best possible match. You should then do your own research to understand how this information matches with their funding hypothesis.

Reading the signpost: Most of this can be found online, but it's also helpful to reach out to existing investees of funders that you think match with your offer to get inside information on the investment hypothesis. Further, following investors on social media will give you a good sense of their portfolio, interests and activities within the space.

Looking through the binoculars: Investing in female founders and products with the Africa Trust Group in Southern Africa

Investors increasingly have an investment thesis that defines their investments. For example, global names like SoftBanks, Tiger Global and Andreessen Horowitz all hold the belief that software and technology is going to further disrupt everything from business to governance. They invest in companies with large disruptive potential. We also find that many investors anchor their investments in beliefs. For example, the Africa Trust Group is a group of investors focused on addressing the funding gap for female founders, and targets seed stages. They manage two funds focusing on female founders: The Enygma Ventures fund focuses on investing in early-stage majority women-owned businesses in Southern Africa; the second, Empress Fund, is an angel syndicate fund focused on innovation financing solutions for women-owned and women-enabling businesses in Southern Africa in the agri-processing, energy and climate sectors. Startups that can match this offer will stand a much better chance of engaging with them than those that don't.

Checking the compass: Finding and getting in front of the right investor

» Find examples of key investors in your country here.

Getting in front of the right investor

Getting in front of the right investor is getting harder, and easier. There is much more competition to get in front of the right investor, but also many more investors and ways to get in front of them. Options include direct virtual and in-person meetings, accelerator programmes, social media, networking events and competitions. In scoping out potential investors, think about:

- **Hubs and coworking spaces:** Hubs and coworkings spaces often host startup competitions and networking events, many of which are announced through press releases or through the organiser's social media platforms. Competitions provide a platform for you to showcase your startup. Networking events provide an opportunity for you to build relationships with investors and other funders.
- **Accelerator programmes:** Accelerator programmes are geared towards getting you "investor ready". This includes providing you with access to a network of investors or funders. In some cases these investors or funders may be sponsors of the programme.
- **Social media:** Many investors, ecosystem support organisations (ESOs) and startups are active on social media. Investors often use social media to raise awareness about a call for applications or newly opened funding rounds. ESOs use social media to promote events as well as other funding opportunities in the ecosystem. Startups can also use it to reach out directly to investors and other funders when looking to raise.
- **Connecting with other startups:** Many of the startup ecosystems in Africa have a pay-it-forward attitude to helping other startups. They often help by making connections with investors, offering mentorship and advice and, in some cases, making investments themselves. Building relationships with other startups can be a great way to leverage their networks and get in front of the right investors.

Reading the signpost: Investors don't always accept unsolicited applications and submissions, so building relationships, connections and networks are essential to get your foot in the door.

Looking through the binoculars: Using accelerators to get your pitch investor-ready with Wattnow in Tunisia

Wattnow stresses the importance of expanding your network and participating in entrepreneur support programmes, to not only optimise your business model, but also gain visibility, particularly with investors. Participating in key events where a startup can connect with investors is a very effective way to build relationships with potential investors. Wattnow founder, Issam Smaali, remembers that participating in the Founder Institute Tunisia programme allowed him to connect with his first business angel and secured his participation in the 1st cohort of Flat6Labs Tunis from where he received his first seed funding round and was able to connect with other VCs and business angels. Participating in investment-readiness programmes is also crucial. Wattnow has joined several programmes including Endeavor Catalyst, Plug&Play in Morocco and the Katapult Africa Accelerator.

What do you pitch?

You've chosen your funding option, valued your business, defined your "ask", found the right investors and you've secured an opportunity to get in front of them. Now the real work begins.

Pitching sessions or meetings are the conventional way to give investors a clear overview of your business idea. First impressions are important, and the presentation of your pitch should be visual, factual, targeted and to the point. Use your pitch to tell the story of how your business idea was born and get investors excited about it.

Clarity is key. Although each pitch deck is different, the convention tends to include a number of core slides:

- The problem you are addressing
- The solution you are offering
- The target market
- Competitors
- Traction
- Growth strategy
- Team
- Financials
- Impact
- Risks
- Funds needed and their use

We've unpacked these elements in a table for you, along with tips for preparing the right pitch to investors:

Elements	What to include	Tips for your pitch
The problem	» What problem are you addressing? » What is the need for your business solution?	» Introduce the pain points your potential customers are experiencing and why this has not been addressed yet.
The solution	» How does your business solve the problem you've identified? » Are you inventing something entirely new?	» Outline the key details of your solution in as few words as possible. Include what your solution adds that will make the product more accessible, affordable, efficient, or appealing.
The target market	» Who are you trying to reach with your solution? » Is the business targeting local, regional or international markets? » Are you building a product that can be scaled globally?	» Market sizing helps establish the potential market share your product could attain within the total market. Three key metrics related to the market sizing that you may want to include: TAM (total addressable market), SAM (serviceable available market), and SOM (serviceable obtainable market). Use data to showcase the potential market, and calculate the value of the available market if reached.
The competition	» Who are you competing with? » What is your unique selling proposition and competitive advantage?	» Do your homework on the competition. Emphasise your competitive advantage and what makes consumers choose your product over your competitors' products.
Your current growth and market traction	» Has the business gained traction and interest from customers? » If you have introduced a product into the market, what is the current take-up and churn rate? » Do you have existing channels (e.g. social media) where you can market your product?	» Demonstrate that you have a credible growth trajectory and clearly communicate what the growth levers of your business are, and importantly, how you can profitably scale them. » Show how well your product is doing and give investors a sense of how much interest the product could gain with additional support.
Your growth strategy	» How are you planning to reach new customers? » What is the pricing model? » How are you planning engage customers?	» Provide an overview of how you will scale up your sales process and partners to achieve your new revenue target. Be specific, investors want to see goals, KPIs, sales processes, pricing options, potential partners, amongst others.
Team	» How many people are in your team? » Who is shaping the concepts behind your product? Who is selling it? » Who is in management?	» Present the team behind the solution, their skill level and experience, and how the team will be structured to deliver on your milestones.

Elements	What to include	Tips for your pitch
Financials	» In what ways can you demonstrate the potential growth and revenues of the business? » If costs are high, how can these be reduced?	» Think of your financial model as evidence that your business is, or has the potential to become, profitable. Calculate your projected costs, acquisitions, sales, revenues and profit margins, and define your growth rates. The standard financial model is a three statement model (profit & loss statement, balance sheet and cash flow statement), capturing all the critical numbers in your business and enabling investors to review and benchmark them. The model is also useful to explain the use of funds and demonstrate financial growth.
Impact	» Does your solution offer more than financial returns for investors? » Can you align your solution around ESG or SDG trends?	» Increasingly, investors are integrating impact considerations into their mandate. Present the benefits of your solution including social, economic, and environmental impact, as well as generating financial returns.
Risks	» What can undermine the potential of your solution? » Are there any risks to the market you are operating in or targetting?	» Be upfront about any risks in your pitch. Some sectors and industries are considered higher risk, often due to things like price variability and external shocks, or the local context, including political stability and regulations.
Funds needed and their use	» What will you be using the funding for? » How long should resources last? What is the timeframe for your investment agenda? » When do you expect the investment to yield results?	» Present multiple scenarios and funding allocation alternatives to ensure the most robust plan for the investment. » Suggest a timeline for how long it will take to turn the funds invested into profits. » Consider and share when you might need follow-on funding to scale.

5 tips for nailing your pitch

Most investors complain about the quality of pitches that startups put forward. They want to see professional business plans and businesses with the right documentation, systems and processes that are ready for funding. Founders that can demonstrate these attributes therefore have an immediate advantage.

1 **Set yourself apart through the quality of your financial assumptions and projections.** Early stage founders need to put as much time into projections as their story, and leave time for potential investors to rigorously test assumptions in presentations and discussions. Later stage investors, such as venture capital firms, often want to see some level of product market fit for startups.

2 **The story is important.** Investors are looking for founders who have a connection to the problem they are trying to solve and who are obsessed with making sure their solution can solve it. Demonstrating you understand the market you are operating in and the customers you are trying to reach is critical. This is particularly relevant at the pre-seed stages. Building a business is hard and investors want to see you have a passion for it.

3 **Be clear on how the business will scale.** Many startups in Africa look to scale abroad. Being clear about this plan and how you will offshore your IP and business operations to overcome exchange controls in many countries across Africa, is critical to allay concerns for potential investors.

4 **Be professional.** This goes beyond a slick slide deck and includes how you engage investors. First impressions are critical in fundraising and it is important that startups do their homework on investors, accelerators and hubs. Further, basics like having a well-formatted and written business plan, having all the right legal documentation, like a tax clearance certificate, go a long way to inspiring confidence in investors.

5 **Be aware.** It's important founders are aware of their own limitations and constraints and build a team around them with the right expertise and experience. No one founder has everything, and in most cases founders fall into two buckets. A polished capital raiser who can speak eloquently and convincingly recall the numbers. These founders often think well on their feet and are well-received by funders. While they have lots of vision, they are often loose on the details and lack the focus of their counterparts, "operators". Operators are not always the best fundraisers. They can come across clumsy and do not have the corporate presenter's polish. But they know their business inside out and are obsessed with making it work for customers. Both profiles work. What's important is that you know where your strengths lie and you are confident you have the right partner to complement your strengths. Further, it is always good to have someone on your team or as an advisor, with previous experience in running a business or scaling up business operations. This is particularly important when investors are looking for experienced industry professionals within teams that can ensure teams can implement their plans.

Reading the signpost: Sharing the deck with investors after the pitch can also help them reflect on your idea before making a decision. Having an abridged deck (excluding sensitive information) in your arsenal is also a useful tool to help sell your products or service to potential clients.

Checking the compass: Nailing your pitch

» The most successful fundraising pitches you need to know

Getting to 'yes'

The stage between pitching and closing can be frustrating. More often than not, you're not going to be given detailed reasons for being turned down by investors, and in many cases you may not even hear back from investors at all. If you are unsuccessful with your fundraising efforts, talk to colleagues, other startups and investors to understand what you might be missing in your presentation, or what you could do to improve your pitch. If nothing else, feedback from presenting your business plan can provide you with new ideas to build a stronger business model. The fundraising process can take time and be a tedious process, so it's important to be patient. It can take a founder dozens, if not hundreds of conversations before attracting an investment.

Reading the signpost: Although patience is needed, avoid spending so much time on the fundraising that the rest of the business suffers. Structuring the team in a way that can accommodate the founder's absence in daily operations can be crucial to ensure the sustainability of the business.

Checking the compass: Getting to yes

» Critical steps to take after nailing your pitch

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Closing the deal

Destination: Closing the best deal for you and your investors.

Getting there: Closing the best deal is a mix of art and science. There are common instruments used to facilitate the process between investors and startups including due diligence and terms. Be transparent and open, and remember you are trying to find the best deal for both of you. You have the right to say no!

How should you negotiate with investors?

Great news. After a few pitches, some investors are expressing interest in your startup and are ready to join your funding round. Now it's time to negotiate. Negotiating is about creating a long-term business partnership between investors and entrepreneurs, and it can often reveal a lot about the way people approach business. Keep this list in mind as you negotiate with investors. It will help you understand what they're thinking.

- **Keep an open mind:** Being too firm on your terms can slow or stall negotiations. You don't need to fold on every issue, but you should be looking for opportunities to listen or reach a middle ground. If there's something you absolutely cannot budge on, consider why that's the case and if there's a way to get the same outcome in a more agreeable way.
- **Negotiation should come from a place of trust:** To negotiate well, you also have to establish trust. Your attitude towards your investor will affect the outcome of the negotiation. Be open about what you want and your reasons, and invite the same from your investor – you may be able to find solutions to each other's problems.
- **Get on the same page early and often:** At the end of a discussion, summarise the key terms negotiated and decisions made. Ask if you're aligned or if you misunderstood anything. Better to confirm you're on the same page from the beginning and consistently throughout the process than at the end, when misunderstandings could create obstacles.

Checking the compass: Negotiating with investors

» What percentage of your company should investors get

When do you say no?

If the specific investor or the conditions offered in the term sheet are not a good match, you might risk committing to giving up more control of the company than you originally planned. Raising funding is a two-sided deal, and you need to make sure that the people gaining a stake in the company understand and support your vision. If the idea is good and the business model is solid, your focus should be on finding the right investor for you, to help build the business, and not hinder its growth. This might mean that timelines are shifted, but it can be the best decision for your business in the long run.

Looking through the binoculars: Not accepting funds at all cost with Kaba Delivery in Togo

Kaba Delivery has been bootstrapping since its launch. From the start, the co-founders were committed to remaining self-sufficient and not opening the capital to external investors. Their goal was to understand their business model in depth and test its profitability. Despite being approached by investors interested in their business, the Kaba Delivery team opted to decline the offers until they had a full understanding of the profitability and the value of the company.

Co-founder and CEO, Ruphin Tiou Tagba Alit, highlights that it's important for an entrepreneur to position themselves into a win-win situation when speaking with investors and not accept funding at all costs.

She adds that it's important to understand the investor's vision and investment strategy since a US investor won't have the same investment approach as an Africa-focused investor. And it's prudent to only carry out due diligence with investors who are aligned with your vision.

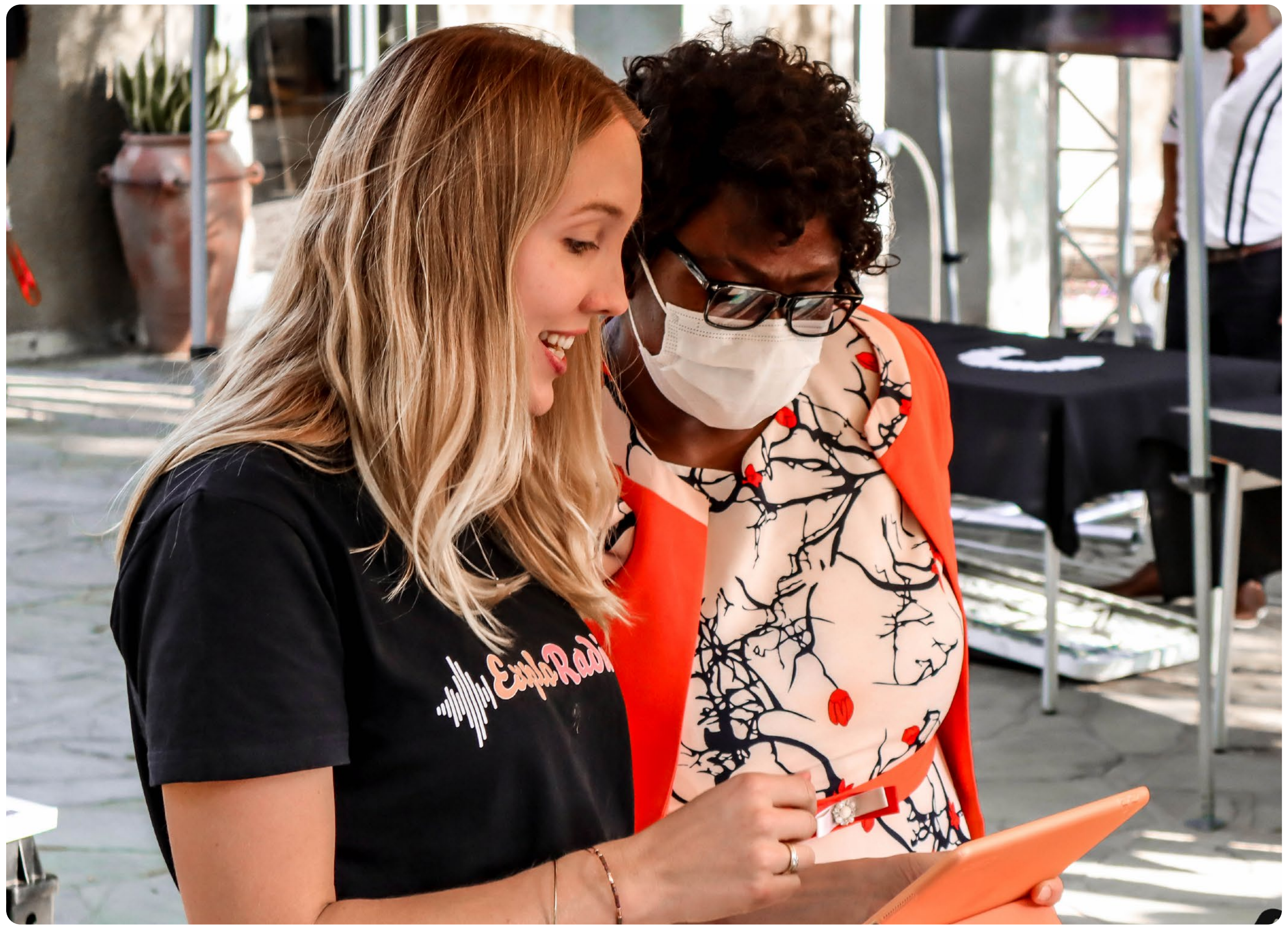
Agreeing on the term sheet

When you're closing the deal, you will need a term sheet. A term sheet is a nonbinding agreement that shows the basic terms and conditions of an investment. The intention of the term sheet is to facilitate discussions, negotiations and agreements in principle of key terms. If agreements are reached, the investors and entrepreneur formalise legally binding obligations through definitive agreements.

The term sheet lays the groundwork for ensuring that the parties involved in a business transaction agree on most major aspects. Some of the items spelled out in the term sheets include the company valuation, investment amount, percentage, voting rights, liquidation preferences, anti-dilution provisions and investor commitments.

Checking the compass: Agreeing on the term sheet

» How to read a startup term sheet
» Term sheet template from Corporate Finance Institute
» Standard Series A term sheet



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Moving to due diligence

After signing a term sheet, be prepared for due diligence. Due diligence is the process of reviewing all the different elements of the business. Investors carry out due diligence to ensure target companies are in order, their documentation organised, and current assets and liabilities are known. Knowing what the investors might ask for will help you prepare your documentation.

Financial due diligence
An assessment of the financial health of a company. It includes scrutinising a company's historical and current performance by reviewing financial statements, assets, debts, cash flow and projections.

Legal due diligence
A risk assessment to investigate any potential liability of the target company that could impact the transaction. It typically includes the examination of all the material contracts, including management and ownership of the business, partnership agreement, licensing agreement, guarantees, and loan financing information.

Operational due diligence
An assessment of a company's operational risks and opportunities. It includes investigating the business model and operations of their target to evaluate the operational processes and facilities in place.

IP due diligence
An assessment of the quantity and quality of a target company's intellectual property assets. While these assets are intangible, they are often an important contributor to the company's overall value and something that can set them apart from their competition.

Checking the compass: Moving to due diligence

» Due diligence checklist for startups

What do you do after you close?

Destination: Keeping your investors happy and preparing for your next round.

Getting there: You've closed the deal. It's time to focus on delivering the milestones you've raised for. It's important to keep your investors updated on how this is going and to avoid surprises. It's also time to start thinking about your next fundraising round and ensure you start planning early to avoid a last-minute rush.

Managing expectations

Although the importance of proper communication between investors and founders seems obvious, expectations are not always met, and the effects can hinder both parties. Whether you are a founder or an investor, it's critical that you maintain an honest and transparent relationship from the start. Communications should include:

- Regular discussions about the business in general. Investors don't want to be surprised. Even if there are no specific challenges the startup is currently facing, regular communication ensures that everyone is on the same page and that opportunities are seized. Share regular emails listing your current top priorities, current account balances, key points regarding your latest KPIs, and other updates in terms of challenges and press.
- Founders are expected to ask for help from investors, especially in early stages when dedicated teams are not defined and founders have to take care of aspects of the business such as accounting, human resources, operations, and admin, which may not be their natural strength. From pricing to product direction, market segmentation to customer acquisition, this is a critical period and it's an opportunity to crowd-in advice and support from your investors.

Investor relations

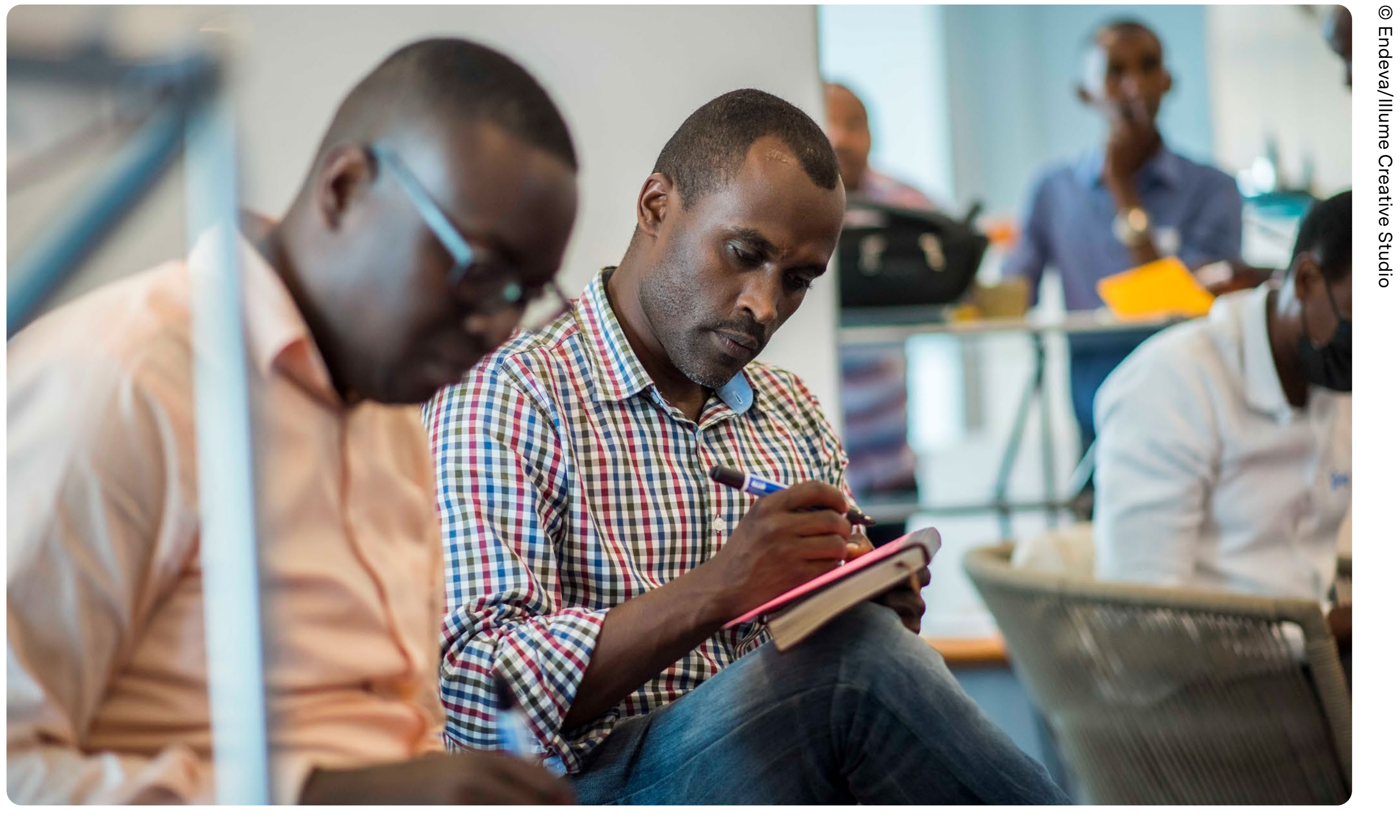
Regardless of company size, the importance of investor relations cannot be overstated. Even the youngest companies should communicate regularly with existing and potential stakeholders. Investors need to understand the performance, wins and challenges that your company is facing so that they can make sound decisions on whether to continue investing or supporting your company.

A detailed investor relations plan should build the confidence of current and potential investors, reassuring them that your business is both well-managed and confident about future success. It should also help establish a good working relationship with investors that you can rely on. Beyond the benefits for investors, effective investor relations publications can also reassure existing internal teams that they are working for a company that has growth potential.

Some of the information to include in an investor relation statement include:

- **Financial status:** Turnover, sales, profit and costs compared with the same period the previous year, plus investment secured since your last announcement. Include information such as the amount of cash or cash-equivalent funds available to you, which should demonstrate that you would be able to at least cover your liabilities should the worst happen.
- **Operational status:** Number of employees and employee growth, expansion of premises and projected growth.
- **New developments:** Recent customer orders and pipeline, relevant senior appointments, introduction of new products and significant partnerships.

Reading the signpost: There are certainly further best practices to master investor relations. Many experienced investors also have their own perspective on how to collaborate with founders. Some investors don't want to get involved as frequently as others. Above all, you should ask your investors for their expectations.



Looking through the binoculars: Managing investor relationships with Wattnow in Tunisia

Wattnow addresses companies' energy waste problem by providing them with a solution to optimise their consumption and/or their energy production. Wattnow's solution has a hardware component to capture data, and a software component to transform the collected data into actionable information. The solution targets companies operating in a wide range of sectors, it is cost-effective and easily deployable thanks to its "user experience". Throughout his fundraising journey, Issam Smaali, founder and CEO of Wattnow, has been able to raise more than $1.5 million through different rounds, from many investors. From his experience, maintaining a strong communication with investors is key and founders shouldn't neglect this aspect after receiving their money and insists on the importance of keeping your investors up-to-date on what you're building, your business metrics and milestone achivements. Issam regularly sends newsletters to his investors.

Checking the compass: Investor Relations

» How to maintain good investor relations

Getting prepared for your next round

You figured it out, it's a cycle! After closing a funding round, you're most likely to start preparing for the next one. You'll be following the same process, starting with answering the questions: Do you need to raise or not? If so, why and how much?

CHAPTER 2

Country Overview

2

5 things to know about doing business in Ethiopia

1 **Capital markets are constrained.**

» Despite enjoying rapid and sustained growth for almost a decade, the Ethiopian economy faces a chronic capital shortage. Much of the available capital is directed towards the public sector, somewhat crowding out the private sector, as seen in 2021, where only 26% of loans were directed towards the private sector[2]. Also, sustained foreign currency shortages have been prevalent for some years now, which puts another layer of pressure on capital supply in Ethiopia. However, the government and other stakeholders are currently working to establish a well-functioning capital market that can address some of these hurdles.

2 **Despite a mobile-driven change in the digital economy, there are critical gaps.**

» Despite visible progress, much work remains to be done to achieve digital infrastructure for the entire Ethiopian population. Ethiopia was ranked 92nd on the Inclusive Internet Index, which measures availability, affordability, relevance, and digitalisation readiness. With Ethio-Telecom only reaching approximately 24% of the population with internet services and the average mobile internet speed being around 13.76 Mbps, there is still a long way to go in terms of infrastructure. Despite the Ethiopian government's support for increasing digital literacy, Ethiopia has one of the lowest digital literacy rates in the world, ranking 96th out of 100 countries. But the recent entry of Safaricom and a possible entry by another firm could potentially address many of these issues in time.

3 **Ethiopian startups and financiers are mostly concentrated in the capital.**

» Virtually all digital and innovative startups, their supporting and enabling institutions, and key financiers are based out of Addis Ababa, which has limited startup activity across other parts of the country.

4 **Favourable regulatory reforms are budding.**

» The World Bank's ease of doing business ranking places Ethiopia amongst the lowest in the world, but the government has shown a commitment to changing that in recent years. A startup proclamation, which aims to establish institutional mechanisms to nurture startups and the innovation ecosystem, is underway, though it has yet to be ratified. The government has also set a goal of improving the business environment with amendments to the Investment and Commercial Law and the establishment of one-stop e-government platforms for services. In addition, the recent enabling of movable collateral has expanded the collateral base in the country for lending purposes.

5 **There is a stark rural-urban divide in infrastructure.**

» Ethiopia's road coverage reached 120,000 kilometres in 2021, with an electricity rate of 51.1% in 2020. However, there is a large divide in electricity access between rural and urban areas, with 93% of urban areas having access to electricity compared to only 40% of rural areas with access. Only 10% of the population has access to electricity daily in rural areas. The Ethiopian government is investigating off-grid solar appliances to achieve the SDG goal of universal electrification.

Get to know the ecosystem

Ethiopia's ecosystem journey

Pre-2011
The beginning

This era marked a concerted effort to build up entrepreneurs and support the liberalisation of business practices by universities in tandem with the government.

2011-2018:
Enabling environment creation

In these years, critical components of the ecosystem started to emerge starting with Iceaddis, the first incubator in the country. An SME strategy document by the government, and subsequent incubators and accelerators were setup

2018-2020:
A watershed

Following a policy shift, including allowing financial service providers into the mobile money business, several new investments have been made in the sector. Also, one of the biggest investments on a single startup, $10m, was made by EIB and DEG.

2020-present
Momentum is building

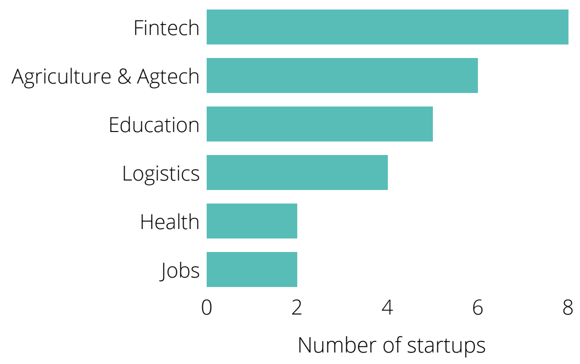
The Ethiopian startup act was published in 2020, along with a digital strategy for the country with a view to establish an innovation fund. Angel investor groups, more enabler support and growing interest from local investors is being observed.

Ecosystem overview

45+ startups
33 sectors
65 products

$14m+ in disclosed funding between 2015-2022

Top Sectors

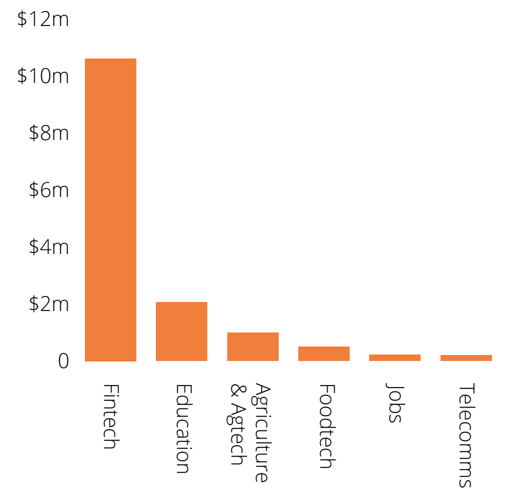


Top Funded

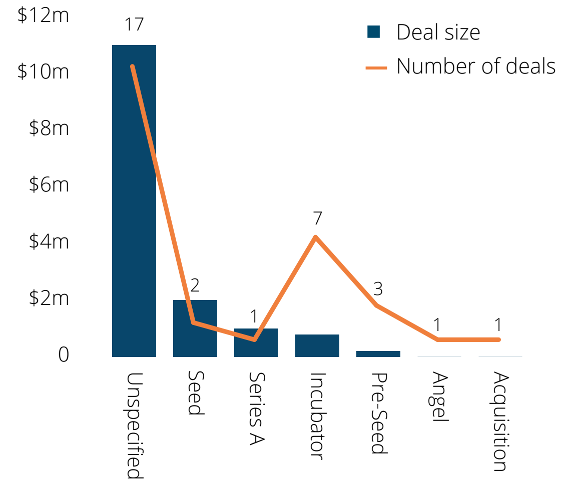
M-BIRR
Arifpay
GEBEYA
iCog Labs
GREENPATH
beU delivery
taskmoby

Investment trends

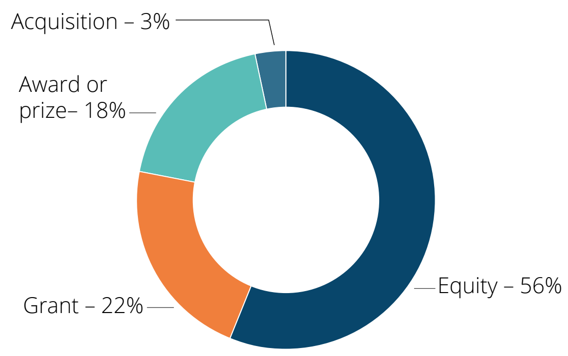
Funding by Sector



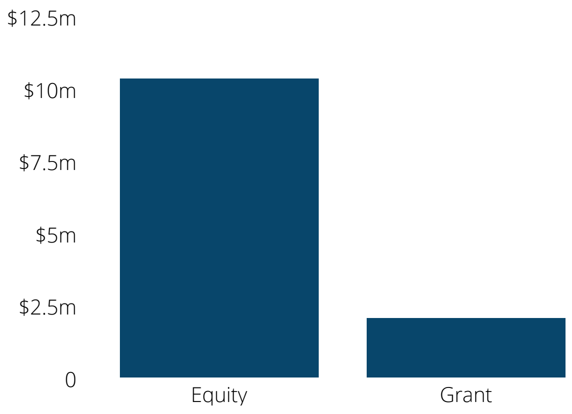
Funding by Deal Stage



Share of Deals by Deal Type



Funding by Deal Type



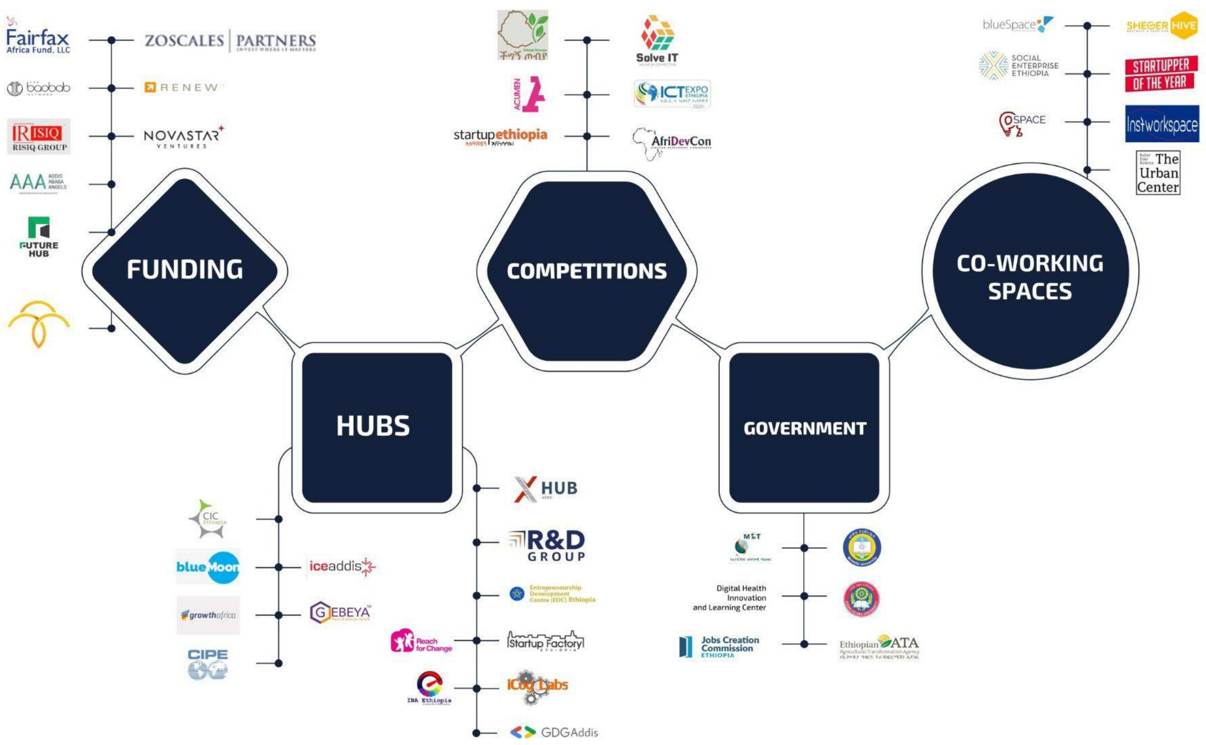
These figures leverage Briter Intelligence data, which tracks the startup ecosystem and deals in the space. Please see "notes about the data" for more information.

What ecosystem support is available to you?

Below we provide an overview of the different types of support ecosystems, what they offer, what startup founders use them for and notable examples to help you on your fundraising journey.

Type	Description	Use case	Examples
Hubs	Support institutions that offer the ideal environment for entrepreneurs to thrive and speed up the expansion of their businesses by offering a space that startups and programmes supporting them can use.	» Access co-working spaces. » Get exposure to the industry. » Plug into local events.	Ethiopia Climate Innovation Centre, Center for International Private Enterprise (CIPE), Creative Hub, iCog Labs
Incubators and accelerators	An organisation that provides programmes to support start-ups in their different growth phases, particularly to scale up and attract funding.	» Participate in fixed programmes. » Access advisors. » Receive investment	Reach for Change, iceaddis, xHub, GrowthAfrica, Startup Factory Ethiopia, Orbit Innovation Hub
Nonprofits and associations	There are several nonprofits and associations in Ethiopia supporting various aspects of the entrepreneurs' journey and the ecosystem, either through advocacy, convenings or direct support to startups.	» Participate in ecosystem-wide initiatives. » Connect with other ecosystem organisations. » Participate in free training. » Access free resources.	British Council, Entrepreneurship Development Center, DOT Ethiopia, ICT-ET, Couriers Association, Ethiopians in Tech, Ethiopian Fintech Associations
Universities	Several universities promote an innovative and entrepreneurial culture on campus and are plugged into the ecosystem, looking to support startups directly and commercialise IP generated within universities.	» Commercialising IP generated in Universities	Addis Ababa University, Bahir Dar University, Adama Science and Technology University
Law firms / legal companies	There are several law firms and legal companies that focus specifically on helping startups navigate the complex legal and regulatory environment in Ethiopia.	» Advice on setup and registration. » Navigating the regulatory framework. » Advice on offshoring IP.	Aman & Partners Legal Service LLP, M. Tekie and Associates, Mesfin Tafesse and Associates
Government	Several government agencies are providing non-financial support to startups.	» Access incubation support. » Address red tape like visas, IP, sector specific regulations, etc.	Ministry of Labour and Skills, Ministry of Innovation and Technology
Donors	Various nonprofits seek to help the innovation ecosystem grow by collaborating with ecosystem enablers and innovators, and funding them.	» Access interest-free capital. » Access networking opportunities » Get technical support	Visa Foundation, Mastercard Foundation, FSD Africa, GIZ, FCDO, IMF

More specifically, the ecosystem looks like:



Hubs

Hubs offer networking opportunities and working spaces, and often host events aimed at building relationships for startups and giving them publicity. The first hub launched in Ethiopia was iceaddis in 2011 in Addis Ababa. Since then, at least 19 hubs have been established, mainly concentrated in the capital. The most recently launched hubs include Creative Hub, CIPE and iCog Labs.

Accelerators and incubators

Several programmes and organisations are providing scale-up support to startups in Ethiopia. Accelerators support startups by providing them with the support they need to grow their business. While incubators are more focused on providing physical coworking spaces and access to their networks for very early-stage startups, some incubators also provide funding for startups in the incubation programme. Accelerators and incubators typically have a selective application process, and startups need to prove themselves to be granted access. Only after reviewing the startup's concept, projections and the quality of the team do they give admission.

Organisation	Description	Link
Local accelerator programmes		
blueMoon	A youth-focused initiative to discover, nurture and fund exceptional agribusiness ideas that are innovative, scalable, and have huge transformational potential.	
Startup Factory Ethiopia	A venture builder which works to overcome the challenge of building a successful, scalable and sustainable business within a challenging business environment and a nascent entrepreneurial ecosystem.	
Global accelerator programmes		
Founders Institute	The world's largest pre-seed startup accelerator, with chapters in over 200 cities worldwide. The Founder Institute chapter in Ethiopia provides startups with structure and mentor support as well as networking opportunities.	
FasterCapital	FasterCapital is an online incubator operating in Ethiopi, helping startups through their Tech Cofounder, Grow Your Startup, and Idea to Product programmes.	
Jumpstart Accelerator	Jumpstart Accelerator supports engineering and digital startups and provides them with advice, contacts and finance.	

Universities

Some universities in Ethiopia have innovation and business incubation centres. Although these centres are not currently providing full support to entrepreneurs, they are a crucial stepping-stone to building a cohesive ecosystem. Notably, Bahir Dar University has a business incubation and techno-entrepreneurship centre which offers technical support and working space, and Adama Science and Technology hosts the Entrepreneurship Development Centre of ASTU.

Nonprofits and associations

Several nonprofits are trying to effect positive change in the sector. In recent years, many associations, such as fintech and entrepreneurs' associations, have been founded along with other organisations, specifically focusing on gender and other societal concerns within the sector. Some of these bodies, particularly the fintech association, have been engaging the government on policy change and other vital issues concerning the sector.

Government

The Ministry of Innovation and Technology is the primary governmental support arm for startups in Ethiopia. It provides working spaces and even funding in some cases. But it mostly supports start-ups that are innovating in the ICT sector.

Organisation	Description	Link
Government support		
Ministry of Innovation and Technology	Provides a working space and occasional funding for ICT startups.	
Ministry of Labour and Skills	Helps technology startups in conjunction with nonprofit development organisations	

Donors

One unique aspect of the Ethiopian startup scene is that it is driven as much by donor support as it is by investor capital. The Mastercard Foundation, for example, has made a significant impact on the ecosystem by regularly contributing capital, either directly to startups or through programmes designed to facilitate and enable their operations. Additionally, these donors are behind technical support efforts for founders and startups such as the Dereja Academy, supported by the Mastercard Foundation, GIZ, and others, which offers training and career guidance to young people.

Legal services

Legal firms are starting to specialise in the digital and technology ecosystem and focus on working with startups. Firms like Aman & Partners Legal Service LLP have begun to build their capacity for supporting the sector and are shifting their focus toward institutions in it. They are particularly focused on helping startups set up their businesses and navigate market entry.

What funding options are available to you?

The starting point to determining what funding options are available to you is to determine which stage of fundraising you are at. Below we provide a breakdown of the stages of funding, the key characteristics of startups in these phases in Ethiopia, the deal range, notable startups, instruments and funders. Armed with this information you can then assess the instrument and appropriate funders.

Stage	Key characteristics	Deal range	Notable startups	Instrument	Funder
Pre-seed	Proof of concept	$15k - $300k	Chapa, EPhone, Garri Logistics	Grants, equity, debt, and crowdfunding	Accelerators and angels
Seed	MVP testing	$500k - $1m	RIDE, Arifpay, ZayRide,	Equity	Venture capital and angels
Series A	Expansion to new markets	$1m - $5m	M-BIRR, HelloCash, Kifiya	Equity	Venture capital
Unspecified		$100k - $5m		Equity, debt	Agnostic
Merger & acquisition	Expansion to new markets	$30m - $100m	Apposit	Equity, debt	Companies, corporates, start-ups

Instruments

1 Equity

Equity is the largest contributor to the Ethiopian investment landscape. Equity funding accounted for 68% of the disclosed funding raised by start-ups since 2016. Aside from venture capital firms, angel investors and local businessmen also get involved. After the success of RIDE, local businesspeople are increasingly becoming amenable to the idea of equity investment in tech companies. The nature of equity deals is as follows:

- The median transaction size per deal is $5 million.
- The average deal processing time is nine months.
- The average exit time for equity investors in Ethiopia is about seven years.
- Strategic sales and management buyouts are the two most common approaches to exit among equity investors in Ethiopia.
- The average acceptance rate is around one in 10; where 10 firms are considered for every successfully closed deal.

Looking through the binoculars: RIDE, a game changer in Ethiopia.

RIDE is Ethiopia’s most successful ride-hailing app and call service, started by an Addis-based software company called Hybrid Designs. RIDE managed to capture the largest market share soon after its establishment by starting with SMS and quickly moving on to an app to call your "ride" on top of calls. RIDE has become the undisputed market leader, with more than 50,000 drivers and millions of dollars a day in revenue.

Despite only raising one round and securing a few hundred thousand dollars from angel investors, the company has gone on to become wildly financially successful. Its success has signalled the potential of digital/tech startups to investors in Ethiopia. As a result, they have become more amenable to investments in tech or digital startups, and the market has seen a tangible uptake in interest by some local investors.

2 Debt

Debt financing is primarily provided by microfinance institutions and banks in Ethiopia. Since it is collateral intensive, where double to triple the amount financed is expected in collateral, it is difficult for startups to get financing this way, especially before becoming firmly established. Furthermore, they only provide individual or group term loans. Some of the main microfinance financiers in Ethiopia are Nisir, OMO and AdCSI. The debt financing instrument provided by banks and microfinance institutionss in Ethiopia, which is relevant to startups, is term loans. Term loans are credit facilities with structured repayment plans that must be completed within a specific timeframe. They can be short-term, medium-term, or long-term, and their repayment can be monthly, quarterly, semi-annually, annually, or in a lump sum.

3 Grants

Because of the nascent ecosystem, there are many grant providers and opportunities in Ethiopia, particularly for tech startups. Several donors provide grants to promising companies, including Mastercard Foundation, UNCDF and AFDB. Below is an overview of the funding provided and notable examples for reference.

Type	Examples	Number of deals	Total amount raised[3]
Incubator or accelerators	Villgro Africa, GSMA Ecosystem Accelerator, Google for Startups	4	$100k
Foundations	Mastercard Foundation	1	$40k

Funders

Accelerators

Accelerators sometimes offer pre-seed grants to startups through impact-centred accelerator programmes. In partnership with development partners or corporate companies' startup founders, they are provided with funding after an innovation challenge or accelerator programme. Some of the accelerators and entrepreneurship support organisationss offering seed funds include blueMoon and Orbit Innovation Hub.

Banks

Banks in Ethiopia don't usually recognise startups as a separate category. The closest thing they have is SMEs. They offer SMEs 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. They use it to analyse the business' creditworthiness, 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 startups and require significant collateral. Make sure you calculate how much you will need to pay every month and consider carefully whether it's something your company can afford.

Angels

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, who 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. The most notable is the Addis Ababa Angels (AAA). Foreign angels also operate in Ethiopia, but to a much lesser degree as they are significantly hampered by regulation from taking equity.

Venture capital firms

There are several VC funds in Ethiopia, namely Pharo Ventures, Kudu Ventures, and Cepheus Capital. VCs tend to invest in early-stage startups that have the potential to grow rapidly and earn investors 10 to 30 times their capital over a fairly short period. Typically, three to seven years. In Ethiopia and many other developing countries, that time horizon is often closer to seven to 10 years. Typically, VCs look to invest in companies within sectors that can tap into economies of scale and expand rapidly, often backing IT and software companies as a result. As the percentage of companies that can 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.

In addition to providing capital, VCs provide several other services. They play an important role in guiding the company through the later rounds of raising capital, can help 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.

Government

The Ministry of Innovation and Technology provides limited funding for companies it deems innovative in collaboration with several donors. However, the startup must exclusively be focused on ICT and related products to be funded.

What funding options specifically target female founders?

Women entrepreneurs in Ethiopia are especially disadvantaged in accessing financing, primarily because they have less access to collateral. There is currently one programme targeting female founders in Ethiopia.

The Women Entrepreneurship Development Project (WEDP)

WEDP is a World Bank programme that provides finance and business support for growth-oriented women entrepreneurs in Ethiopia. In 2013, WEDP created the first ever women-entrepreneur focused line of credit in Africa. After fully disbursing its International Development Association (IDA) commitment in two years, the project was expanded through co-financing from Japan, Italy, Canada, and the European Investment Bank. The WEDP line of credit is currently disbursing roughly $3 million in loans and training roughly 600 entrepreneurs every month.

What can you learn from other startups?

BeBlocky

Founded by Nathan Damtew in 2018, BeBlocky is a gamified learning mobile app that uses animated programming lessons and augmented reality to tutor children aged 7 to 14 about the fundamentals of computer programming. As of July 2022, the company had more than 30,000 downloads in Ethiopia.

Fundraising journey

BeBlocky first raised funds after applying for and winning a grant from the Reach for Change Accelerator in 2017. Since then, BeBlocky has raised funds via grants twice in 2018 from Reach for Change and the Tony Elumelu Foundation. BeBlocky also joined the incubator programme at Reach for Change while raising funds. BeBlocky entered the accelerator programme of The Baobab Network, a venture capital company focused on accelerating African tech startups and got a pre-seed fund of $25,000 in exchange for company equity. Below is an overview of their fundraising journey:

Amount	Deal Date	Stage	Type	Investors
$1.6k	2017	Pre-seed	Grant	Reach for Change Accelerator
$14k	2018	Pre-seed	Grant	Reach for Change Accelerator
$5k	2018	Pre-seed	Grant	Tony Elumelu Foundation
$25k	2019	Pre-seed	Equity	The Baobab Network
Undisclosed	2020	Unspecified	Award or prize	AppsAfrica.com Innovation Award

Lessons learned

- Having co-founders or advisors to handle business development and fundraising is a critical component of success.
- A proper monetisation strategy for products is a key aspect of raising funds.
- Being incorporated abroad helps in terms of securing funds.
- Reaching out to the outside world and networking there is a key step toward raising funds.

EPhone

Nohe Fekade and Haileyesus Shitalem launched Ethiopian startup EPhone in Addis Ababa in late 2019. EPhone is a dialer app that manages your calls and SMSes, and provides direct services from multiple telecom providers.

Fundraising journey

EPhone initially chose to fund its initial operators and growth from its product revenue, known as bootstrapping. This is common in Ethiopia, where there is a lack of financing options for early-stage startups. They then attempted to raise funding from local angel investors and VCs but were unsuccessful. After numerous unsuccessful attempts to obtain funds from Ethiopian angel investors and venture capitalists, EPhone began looking for foreign investors.

To identify potential investors, Nohe and Haileyesus used LinkedIn, Crunchbase and AngelList. They eventually achieved success in 2021, when they received interest from two angel investors. One of the angel investors, Amadou Daffe, is the founder of Ethiopian startup Gebeya. The other, Ahmed Al Alola, is an angel investor from the Middle East.

The angels wanted to use a SAFE contract, which led them to register in Delaware in the United States, as Ethiopia currently prohibits SAFE contracts. Furthermore, they had to raise more than they initially wanted, $200,000 in total, to match the minimum capital requirement for foreign investment into Ethiopian companies. This is higher than the initial funding that goes towards pre-seed rounds of $80,000.

EPhone plans on expanding its market to Africa and has already successfully conducted a pilot in Kenya. The company is also planning to test its product in Rwanda and Senegal. EPhone believes that the allowance of different telecom service providers in Ethiopia will help expand the use of its product in Ethiopia, as EPhone can provide direct services from multiple telecom providers in one application. As of June 2022, EPhone had around 207,000 downloads.

Below is overview of EPhone's fundraising journey:

Amount	Deal Date	Stage	Type	Investors
$200k	2021	Pre-seed	Equity	Angel investors

Lessons learned

- Despite challenges, the investment closed by EPhone is a testament to the growing Ethiopian startup ecosystem for three key reasons.
    - It's not often that you see international investors backing Ethiopian technology start-ups. But the few that do tend to be institutional investors rather than angels. This deal shows the possibility of international angel investors investing in Ethiopian companies and providing a wider funding alternative for early-stage startups that need smaller checks.
    - The investment reflects the increasing trend of what is usually called smart capital, a more mature startup founder investing in another early-stage startup. One of the angel investors, Amadou Daffe, is the founder of the Ethiopian startup Gebeya.
    - The $200,000 pre-seed deal amount is relatively large for the average Ethiopian or African startup. Digest Africa deal data shows that the average deal size of African startups who raised a pre-seed round is $80,000.
- Nohe, co-founder and CEO of EPhone described the process of raising investment in an Ethiopian startup as "very time consuming."

Chapa

Chapa is a financial service and software as a service (SaaS) company that supports Ethiopian businesses in receiving online payments from international and domestic customers in foreign currency and Ethiopian Birr through its payment processing software and application programming interfaces (APIs). The product offers payment gateways and bill aggregator solutions. In 2020, Nael Hailemariam and Israel Goytom established Chapa, and in May 2022, they got a licence for the operation of Payment Gateway from the National Bank of Ethiopia.

Fundraising journey

Chapa secured a pre-seed equity fund from angel investors, but it has not disclosed the amount or the investors involved in the funding process. They did, however, follow the process of preparing a pitch-deck, presented to potential investors and thus secured the funding.

The company has also finalised their list of board members and advisors, who assist in the areas of finance, business and engineering.

Chapa plans on expanding to African countries in its long-term plan. The word “chapa” comes from the Swahili for money and is also used as youth-slang for money in Ethiopia. The main challenge for Ethiopian startups in the payment sector is the lack of funding from foreign investors, as it is barred by law.

Below is an overview of Chapa’s fundraising journey:

Amount	Deal Date	Stage	Type	Investors
Undisclosed	2021	Pre-seed	Equity	Undisclosed
Undisclosed	2022	Unspecified	Award or prize	Migration Entrepreneur Prize

Lessons learned

- Raising funds for Ethiopian investors is hard, especially when it’s for digital products. Thus, reaching out to the outside world must be kept in the back of a founder's mind.
- Grant funding is a great option for startups in Ethiopia, and an avenue Chapa didn’t pursue, which may have been a mistake. You should explore every avenue when working in Ethiopia.
- Connecting with the local investor network and attending events in the ecosystem are central to making the necessary connections with the key players in the ecosystem.

What regulations impact you as a startup?

How do you register your startup?

The business registration process in Ethiopia starts by providing three options for your company's name and physical address to the authorities. The requirement to present an official physical address for the business has been an obstacle for startups, particularly digital ones that do not need any physical location to operate, by requiring additional costs to acquire a working space. Unless a startup is registered legally as a business, it can't commence operations and almost no government services (and other services such as telecoms) can be rendered to it. However, the upcoming Startup Act includes a pre-registration certificate that is valid for two years, which will allow startups to operate for two years without formally registering. This has the added benefit of being tax-exempt for the duration of those two years.

Checking the compass: Registering a business in Ethiopia

The Ethiopian national business portal is a one-stop portal for e-government services that improve the ease of doing business in Ethiopia through the automation of essential government services leveraging information and communication technologies. It is designed to provide a common platform and generic tools for online transactional services. The portal's role as a platform is the provision of centralised information about government services such as procedures, times and cost. In addition, it facilitates customers' journeys to government services, tracks the status of service requests and provides important alerts. This platform was launched to make government services more accessible online, lowering transaction costs, and improving turnaround time for citizens, non-citizens, businesses, and governmental and non-governmental organisations. Access it here.

Are there tax incentives for startups?

The tax holidays, which are part of a new investment incentive regulation that extends special rights for specific sectors to promote private sector investment, were selected by the Ministry of Innovation and Technology (MiNT) as needing a boost. As a result, any domestic or foreign investor who establishes a new business in (1) software development; (2) data centre and cloud services; (3) business outsourcing processes; (4) startup development services; and (5) research, innovation, enrichment and development, will be tax-free for four years.

The exemption, which includes business income tax and employment tax, is further extended to five years if the investment is outside Addis Ababa and its surrounding areas. In addition, new businesses engaged in these sectors can also import duty-free capital goods and construction materials necessary for establishing a new enterprise or expanding. Businesses established before the regulation are also entitled to some exemptions. However, the type and amount of the incentives have not been covered in the new law, and the Ministry of Finance is expected to come up with a directive covering incentives for existing businesses.

Are there any regulations or policies you should keep track of?

The Startup Act movement in Ethiopia

Through the Startup Act, published in 2020 and to be ratified soon, the government has committed to establishing an innovation fund to support the ecosystem. In particular, the proclamation in its current draft form contains:

- The establishment of institutional mechanisms to support startups and the innovation ecosystem, such as a National Startup Council, a policy body that supports startups, innovators and entrepreneurs by mobilising resources and creating an enabling environment with a fund it can use to support startups. In addition, a Technical Advisory Board with members appointed from the private and public sectors will provide advice on how the fund should be used.
- The eligibility requirement to obtain the startup and innovative business label, which allows registration as a startup and the associated benefits as outlined by the upcoming Startup Act.
- Regulatory changes including a pre-registration certificate applicable for two years, allowing foreign investors to invest in areas otherwise restricted to foreign investors, and lifting the obligation to be issued with a business licence to commence operation.
- Ecosystem support such as tax breaks for ecosystem supporters and funding for startup incubators, covering infrastructure fees for startups, and strengthening incubators to better provide accounting and administrative services to labelled startups.
- Also included for investors are capital gains tax breaks, enablement of loss carryforward, expatriation of profit for foreign investors, allowing debt investment, and other incentives.

CHAPTER 3

Investor Catalogue

This catalogue presents some of the notable investors investing in startups in Ethiopia. Note that it is not an exhaustive list. The investors included are based on known investments in the selected countries. Similarly, the stages reflect deals investors have disclosed as well as the stages of interest noted on the investor website.

500

500 Global is an early-stage venture fund and seed accelerator.

Founding date	2010
Headquarter	United States of America
Investors type	Venture Capital
Sector Focus	Big Data & Analytics, BioTech, Cyber Security, E-commerce, Education, Entertainment, Events, FinTech & DFS, FoodTech, Health, Internet of Things, Jobs, Logistics, Manufacturing, Marketing, Mobility, On-Demand Services, PropTech, Real Estate, Sport, Telecommunications, Travel
Stages	Pre-seed, Pre-Series A, Seed,Incubator or Accelerator

Contact

@500Startups
@500-startups
500.co

Global investor

Future Africa

FUND FOR AFRICA'S FUTURE

Future Africa is a platform that provides capital and coaching to African's innovators.

Founding date	2019
Headquarter	Nigeria
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, Health, Insurance, Internet, Jobs, LegalTech, Logistics, Marketing, Media, Mobility, On-Demand Services, PropTech, Real Estate, Software
Stages	Pre-Seed, Seed, Pre-Series A, Series A

Contact

@anafricanfuture
@anafricanfuture
hello@future.africa
www.future.africa

Global investor

Chandaria Capital

Chandaria Capital is a Nairobi-based Venture Capital Fund, it is the professional investment vehicle for the Chandaria Group, one of the largest privately owned business groups in Africa.

Founding date	2016
Headquarter	Kenya
investors type	Venture Capital
Sector Focus	Big Data & Analytics, E-commerce, Education, Entertainment, FinTech & DFS, Food & Beverage, FoodTech, Health, Logistics, Software, Travel, Utilities
Stages	Series A, Pre-Seed, Seed, Pre-Series A

Contact

@ChandCapitalKE
@chandaria-capital
info@chandariacapital.com
chandariacapital.com

Global investor

GLOBAL INNOVATION FUND

The **Global Innovation Fund** invests in social innovations that aim to improve the lives and opportunities of millions of people in the developing world.

Founding date	2014
Headquarter	United Kingdom
investors type	Impact
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Logistics, Mobility, Sanitation, Telecommunications, Utilities, Waste Management
Stages	Series B, Series A

Contact

@globalinnovfund
@global-innovation-fund
hello@anstriconfuture.com
www.globalinnovation.fund

Global investor

Endeavor Catalyst

Endeavor Catalyst is an innovative co-investment vehicle that operates globally, designed by Endeavor Entrepreneurs to contribute to his long-term sustainability.

Founding date	1997
Headquarter	United States of America
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Health, Logistics, Mobility, Software, Waste Management
Stages	Series A, Series C, Series B

Contact

@endeavor_global
@endeavor_2
contact@endeavor.org
www.endeavor.org

Global investor

Google for Startups

Google for Startups Accelerator Africa is a three-month accelerator program for Seed to Series A technology startups across the African continent.

Founding date	2011
Headquarter	United States of America
investors type	Accelerator
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, E-commerce, Education, Entertainment, Events, FinTech & DFS, Green Economy, Health, HR Tech, Insurance, Logistics, Mobility, On-Demand Services, Professional Services, Software, Travel, Waste Management
Stages	Series B, Series A

Contact

@googlestartups
startup.google.com/accelerator/africa/

Global investor

Kepple African Ventures is an early stage venture capital fund that invests across Africa.

Founding date	2019
Headquarter	Japan
investors type	Corporate Venture Arm
Sector Focus	Agriculture & AgTech, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Health, HR Tech, Jobs, Logistics, Manufacturing, Marketing, Professional Services, PropTech, Real Estate, Sanitation, Software, Utilities, Waste Management
Stages	Pre-seed, Seed, Pre-Series A, Pre-Seed, Series B, Series A

Contact

- @keppleafrica
- admin@kepple-fund.org
- kepple-africa-ventures.com

Global investor

Launch Africa Ventures is a Pan-African niche Seed Fund investing specifically in B2B and B2B2C driven early-stage tech startups.

Founding date	2019
Headquarter	Mauritius
investors type	Venture Capital
Sector Focus	AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, Health, HR Tech, Insurance, Internet of Things, Jobs, Logistics, Marketing, Media, Mobility, On-Demand Services, Professional Services, Renewables, Software, Utilities
Stages	Pre-seed, Pre-Series A, Seed, Series A

Contact

- @ycombinator
- @launch-africa
- info@launchafrica.vc
- www.launchafrica.vc

Global investor

Microtraction is a venture fund that invests in Africa's most in early stage growth-driven technology startups.

Founding date	2016
Headquarter	Nigeria
investors type	Venture Capital
Sector Focus	Big Data & Analytics, E-commerce, Education, FinTech & DFS, FoodTech, LegalTech, Marketing, Mobility, Software
Stages	Pre-seed, Pre-Series A, Seed, Series A

Contact

- @microtraction
- @microtraction
- www.microtraction.com

Global investor

Village Capital supports impact-driven, seed-stage startups.

Founding date	2009
Headquarter	United States of America
investors type	Private Equity
Sector Focus	Agriculture & AgTech, CleanTech, Digital Financial Services, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, HR Tech, Jobs, Logistics, Media, On-Demand Services, Professional Services
Stages	Incubator or Accelerator, Seed

Contact

- @villagecapital
- @village-capital
- dahler.battle@vilcap.com
- vilcap.com

Global investor

Y Combinator is an American seed money startup accelerator operating globally.

Founding date	2005
Headquarter	United States of America
investors type	Accelerator, Venture Capital
Sector Focus	Agriculture & AgTech, BioTech, CleanTech, Cyber Security, E-commerce, Education, Fashion, FinTech & DFS, FMCG, FoodTech, Health, HR Tech, Insurance, Internet, Logistics, Manufacturing, Marketing, Media, Mobility, PropTech, Real Estate, Renewables, Software
Stages	Incubator or Accelerator, Seed

Contact

- @ycombinator
- yclegal@ycombinator.com
- www.ycombinator.com

Global investor

Addis Ababa Angels Network is a group of individual investors whose aim is to promote economic development and sustainability in Ethiopia.

Founding date	2020
Headquarter	Ethiopia
investors type	Angel
Sector Focus	Agnostic
Stages	Angel Round

Contact

- @AAAngels
- @addis-ababa-angels
- info@addisababaangels.com
- addisababaangels.com

Local investor

African Renaissance Partners is a closed-end investment vehicle that invests in seed-stage startups in the Horn of Africa, including Ethiopia, Sudan, S. Sudan, Somalia, and EAC. The fund backs overlooked entrepreneurs in payments and fintech, renewable energy, agribusiness, and logistics with the opportunity for disproportionate returns and social impact.

Founding date	2022
Headquarter	Washington, DC – Khartoum - Addis Ababa
investors type	Venture Capital
Sector Focus	Payments/Fintech, Renewable Energy, Agribusiness and Logistics
Stages	Pre-seed, Seed

Local investor

Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives focusing on developing countries to improve people's health and giving them the chance to lift themselves out of hunger and extreme poverty.

Founding date	2000
Headquarter	United States of America
investors type	Impact
Sector Focus	Agriculture & AgTech, CleanTech, Digital Financial Services, FinTech & DFS, Health, Logistics, Renewables, Sanitation, Waste Management
Stages	Incubator or Accelerator, Series A

Contact

@gatesfoundation
@bill-&-melinda-gates-foundation
media@gatesfoundation.org
www.gatesfoundation.org

Local investor

Consonance Investment Managers is focused on making investments in high quality early stage and growing businesses across sub-Saharan Africa.

Founding date	2017
Headquarter	Nigeria
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Education, FinTech & DFS, Food & Beverage, FoodTech, Health, HR Tech, Insurance, Jobs, LegalTech, Logistics, On-Demand Services, Professional Services, Software
Stages	Pre-Seed, Seed

Contact

@consonanceinv
@consonance-investment
info@consonanceinvest.com
www.consonanceinvest.com

Local investor

Iceaddis is an innovation hub and tech incubator, facilitating creative projects and providing support to startups.

Founding date	2011
Headquarter	Ethiopia
investors type	Accelerator, Incubator
Sector Focus	Agnostic
Stages	Incubator or Accelerator

Contact

@iceaddis
@iceaddis
contact@iceaddis.com
www.iceaddis.com

Local investor

Kazana Fund is a community driven venture fund that invests in early-stage startups of African founders, with a focus in East Africa.

Founding date	2022
Headquarter	US/ soon Ethiopia
investors type	Venture Capital
Sector Focus	Agnostic
Stages	Pre-seed, Seed

Contact

@kazana-fund
kazanafund.com

Local investor

Novastar is a venture capital manager dedicated to finding and supporting the next generation of exceptional entrepreneurs designing and executing innovative business models to profitably serve Africa's mass markets.

Founding date	2008
Headquarter	Kenya
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, Digital Economy, E-commerce, Fashion, FinTech & DFS, Food & Beverage, Health, Insurance, Internet, Jobs, Logistics, Mobility, On-Demand Services, Renewables, Sanitation, Waste Management
Stages	Seed, Series C, Series B, Series A

Contact

@novastar-ventures
info@novastarventures.com
www.novastarventures.com

Local investor

Orange Digital Ventures

Orange Digital Ventures is the strategic Corporate Venture Fund of the Orange Group.

Founding date	2015
Headquarter	France
investors type	Corporate Venture Arm
Sector Focus	Agnostic
Stages	Seed, Pre-Series A, Acquisition, Series A, Series C

Contact

@CF_BFA
@orange-ventures1
contact.ventures@orange.com
digitalventures.orange.com
Local investor

AgriHack

Pitch AgriHack supports technological innovation and entrepreneurship in agriculture across Africa.

Founding date	2017
Headquarter	
investors type	Competition
Sector Focus	Agriculture & Agtech
Stages	Pre-Seed, Seed

Contact

pitch-agrihack.info

Local investor

RENEW CAPITAL

RENEW is an impact investment firm that manages and serves the Impact Angel Network, a global network of investors that seeks to realize both social impact and financial returns on their investments in small and medium enterprises (SMEs) in Africa.

Founding date	2005
Headquarter	United States of America
investors type	Private Equity
Sector Focus	Agriculture & AgTech, Health, Manufacturing
Stages	Angel Round, Seed,

Contact

@RenewLLC
renew@renewstrategies.com
www.renewstrategies.com

Local investor

villgro kenya

Villgro Africa is an early-stage social enterprise incubator that supports innovative businesses in the healthcare and life sciences sector.

Founding date	2015
Headquarter	Kenya
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, FinTech & DFS, Health, Insurance, Manufacturing
Stages	Incubator or Accelerator, Seed

Contact

@villgroafrica
@villgroafrica
admin@villgroafrica.org
villgroafrica.org
Local investor

partech

Partech is a global VC firm investing at the seed, venture, and growth stages.

Founding date	1982
Headquarter	United States of America
investors type	Venture Capital
Sector Focus	E-commerce, Education, FinTech & DFS, Health, Insurance, Logistics, Mobility, Software
Stages	Seed, Series B, Pre-Series B, Series A, Series C

Contact

@partechpartners
@partech
media@partechventures.com
partechpartners.com

Local investor

CHAPTER 4

Resources

4

Resource list: Ethiopia

Local accelerator programmes

- Startup Factory Ethiopia
- Iceaddis
- Xhub
- Reach for Change
- UNDP
- Orbit Innovation Hub
- Orange Digital Center

Global accelerator programmes

- Founder institute
- FasterCapital
- Jumpstart Accelerator
- Growth Africa
- Jasiri Talent Investor Program

Government support

- The Women Entrepreneurship Development Project (WEDP)
- Entrepreneurship Development Center funded by UNDP

Registering your business in Ethiopia

- The Ethiopian National Business Portal

Other resources:

- Addis Insights
- Cepheus
- Enkopa
- Shega

Glossary

Investor lingo

Investors tend to have their own lingo when it comes to describing operations and opportunities. This cheat sheet equips you with the basics, so you'll know the lingo when you start interacting with investors:

Average Customer Value (ACV)	How much revenue the average customer brings to the business over a set time.
Annual Recurring Revenue (ARR)	Refers to revenue that a company expects to receive from its customers for providing them with products or services. The measure is primarily used by businesses operating on a subscription-based model. $\text{Annual recurring Revenue} = \text{Monthly recurring revenue} \times 12$
Bottom line	The net income of a company, including earnings, profits and earnings per share (EPS). It's called the bottom line as it references the last line of a financial statement, showing net profit or loss over a period of time.
Burn rate	The rate at which a company spends its cash over time, also known as negative cash flow. The cash can come from both revenue and investments and indicates the period of time when spending on operations exceeds cash coming in. $\text{Burn rate} = \frac{\text{Start cash balance} - \text{End cash balance}}{\text{Number of months}}$
Cap table	A spreadsheet that breaks down who owns what percentage of equity in a startup.
Carried Interest	The percentage of profits that will be paid to the manager or general partner as compensation for managing a fund.
Cash flow	The money coming in and out of a business.
Churn rate	The rate at which individuals depart from the collective group. This can also be the rate at which customers stop buying or cancel subscriptions of products or services. $\text{Churn rate} = \frac{\text{Lost customers}}{\text{Total customers at the start}} \times 100$

Common Business models	The core operations, business structure and framework of a company, including how it delivers and captures value.

Business-to-Consumer (B2C)	Businesses that sell products and services directly to consumers. Example: E-commerce platform Jumia, sells products online to customers across Africa
Business-to-Business (B2B)	Businesses that sell products and services to other businesses. Example: Fintech company Paystack provides businesses with various payments solutions to pay and get paid.
Business-to-Business-to-Consumer (B2B2C)	A combination of the B2B and B2C model, where a business provides products to another business, such as an e-commerce website, who in turn sells these products to consumers. Example: Online marketplace Famunera connects suppliers and farmers of agricultural products and inputs to customers and farmers.
B2B B2C (Business-to-Business and Business-to-Consumer)	A company that sells products and services to both businesses and consumers. Example: Solar energy company Lumos Solar provides solar homes systems and clean power solutions to individuals and businesses.
B2G (Business to Government)	A business selling products and services to government,federal agencies and ministries. Example: UrbanLogiq integrates and visualises data to provide fast insights for governments.
C2C (Consumer-to-Consumer)	A model where consumers trade and transact with each other using a third-party platform, such as a digital marketplace for the sale and purchase of household items. Example: Online platform AirGiftr connects shoppers to travellers to buy and send purchases.

Cliff	The vesting schedule of employee stock options, or the minimum amount of time an employee is required to work at a company to earn the right to buy shares.
Customer Acquisition Cost (CAC)	The cost associated with acquiring a new customer, including sales and marketing, amongst other expenses.
Customer Lifetime Value (CLV)	An estimation of the total revenue generated from a single customer, from first to last purchase. CLV is also used in the calculation of net profit contributed.
Deck	A deck is a collection of slides which showcases key information about the company, including an overview of core operations, the products and services, past clients and credentials, and team structure.
Dilution	The decrease in share of ownership, when a company issues new shares, or employees exercise their stock options, which decreases the ownership share of existing stocks.
Dividends	The sum of money paid to a company's shareholders out of its reserves or profits. All stakeholders that have ownership in a company are entitled to receive a share of the company's profits.
Exit strategy	An investor or founder's plan to sell their shares of (or exit) a company.
Founder's agreement	A contract between the founders of the company that outlines the roles, responsibilities, obligations and structure of the company.
Key Performance Indicator (KPI)	A set of measurable objectives that help businesses and individuals set targets, track progress and gain insights into productive and non-productive activities.
Liquidation	The point at which a business is closed, and the assets and inventory are sold.
Management Fee	A payment made to an individual or business for managing a fund. The fee usually ranges from 2% to 2.5% of committed capital and is typically charged every year the fund is in operation.
Monthly Recurring Revenue (MRR)	All of your recurring revenue normalised to a monthly amount. This is a metric typically used by subscription and SaaS companies. $\text{Monthly recurring revenue} = \text{Total number of active customers} \times \text{Average billed amount}$
Minimum Viable Product (MVP)	A stage of product development where the product has the basic features needed to be introduced into the market, but is subject to alterations and modifications to improve it at a later stage.
Net dollar retention (NDR)	A calculation of how much revenue has grown or diminished over time. It's a metric often used to measure performance over time, including both new and recurring customers. $\text{Net dollar retention} = \dfrac{\text{Starting MRR} + \text{Expansion MRR} - \text{Contraction MRR} - \text{Churn MRR}}{\text{Starting MRR}} \times 100$
Payback period	The time taken for an investor to recoup the cost of an investment, also known as the breakeven point.
Patient Capital	An investment offering a longer period of time before expecting financial returns or profits, often with the expectation of larger returns in the future.
Profit Margin	A measure of the relative profitability of a company, accounting for the costs of all business activities. $\text{Profit margin} = \dfrac{\text{Sales} - \text{Expenses}}{\text{Revenue}}$
Proof of Concept	A demonstration that a business idea or concept is feasible, based on testing and verification.
Priced round	An equity investment that has been based on an agreed valuation and the price per share.
Pivot	A change in direction, business model or strategy.
Portfolio	A collection of investments made by an investor.
Product-market fit	The extent to which a product is meeting market needs and demand.
Term sheet	A nonbinding agreement that shows the basic terms and conditions of an investment.

Traction	This indicates that a company, industry, or geographical area is gaining interest and attention from local and/or international stakeholders, including investors, customers and media.
Revenue Run Rate (Annualised Run Rate)	A method used to make projections about the financial performance and revenues of a company for the year or period ahead. $\text{Revenue run rate} = \dfrac{\text{Revenue in a period} \times \text{Days in a year}}{\text{Days in a period}}$
Round	This refers to each time a company raises funding. A round can also be described through the use of stages, such as Series A.
Return on Investment (ROI)	A measure of the performance and profitability of an investment. $\text{Return on investment} = \dfrac{\text{Gains from investment} - \text{Cost of investment}}{\text{Cost of investment}} \times 100$
Runway	Refers to the amount of time (typically measured in months) a company is solvent and can keep operating without the injection of additional funds, either from revenue or investments.
Unicorn	A startup that has surpassed a $1 billion valuation.
Unique selling proposition (USP)	The element of your product or service that gives you an advantage over your competitors to meet market needs and demand.
Valuation	A quantitative assessment of a company's total worth, including considerations for all aspects of the business, such as revenues and customer base. $\text{Pre-money valuation} = \dfrac{\text{Investment sum}}{\text{\% equity taken}} - \text{Investment sum}$ $\text{Post-money valuation} = \dfrac{\text{Investment sum}}{\text{\% Equity taken}}$
Vested interest	A special concern or interest in something, typically used to rationalise a personal reason for undertaking a role or making an investment.
Virtual data room	A software, platform or repository that is used to securely store and distribute important documents, and is often used to facilitate investments and transactions during the due diligence process.

Investment stages

The fundraising process is typically structured to correspond more or less to the defined 'investment stages', which refer to the development of the startup and a set of associated milestones (e.g. having a business plan, a product, being revenue generating, scaling to new markets, structuring for a merger or an acquisition, etc.). These milestones are particularly relevant for venture capital.

It might be useful to think of the investment stages as levels, where you need to complete one level before you can 'unlock' the next. Investment stages are not necessarily associated with specific funding amounts, but can provide you with signposts on where you are on your growth journey based on a range of expected milestones. Each stage has different requirements and expectations for the amounts of capital to be injected, so it's important to understand where your business stands and what type of financing you are looking for. Due to the underlying assumption that startups will need a capital injection at numerous points of its journey, these 'disbursements' are referred to as 'funding rounds'.

The following table provides an overview of some of the most commonly used terminology for investment stages:

Angel	A round where the business receives funding in return for equity from individuals unrelated to structured funds.
Accelerator/ Incubator	Early stage round often accompanied with trained, mentorship, in-kind support, and small tickets of grant or equity funding.
Pre-seed	One of the very first rounds of fundraising for a business, sometimes even before there is anything more than an idea in place.
Seed	Refers to one of the first injections of capital to help your startup grow. It is often the first equity funding raised and provides capital to develop a product or prototype, carry out market research, and onboard or ensure financial sustainability of the early startup team.
Series A	This funding stage is somewhere in between early and growth stage funding. Companies look to raise a Series A round once they have gained initial traction and are reaching certain performance indicators, such as building a customer base or generating revenue.
Series B-F+	After Series A, the subsequent Series B, C and beyond is associated with the growth of a company, such as growing your product suite or expanding your team or offices to new markets.
Acquisition	When one company acquires the majority or all of the shares of another company. An acquired company might be merged with the acquirer, or dissolved to remove them as a player in the market, with the assets, products and customers transferred to the acquirer.
Merger	Two or more companies coming together to form one company, thus enabling the new merger to offer better products and/or increase their market share.
Initial Public Offering (IPO)	A process where a company becomes publicly listed, offering shares or stocks of the company available for purchase to the public.
Undisclosed	If you're following startup and tech media, you might notice that a lot of the press releases don't mention the stage of funding. This is referred to as an 'undisclosed' round, meaning that the involved stakeholders (company and investor) do not wish to share the details of the investment. There are many possible reasons for this, such as not wanting to divulge financial information or existing investors with competitors.

There are also rounds that can happen in between the different stages identified above. For example, you may have a pre-Series A, B or C, or a bridge round, which are interim rounds of funding. Given the vast range of deal sizes in these different stages, they are often referred to in much broader terms associated with different phases of the company's growth:

Ideation stage	At the ideation stage, the company exists primarily as an idea or a concept, with the plan for the product still being developed. At the ideation stage, the business model is still subject to change, and it involves a process of defining and refining what the business will be and how it will work.
Early stage	An early stage company is still developing the different elements of the business, from the product to the team, and the strategies of the business model. The company is just starting to gain traction, is in the process of building a user base, and is starting to generate revenue.
Growth stage	The growth stage is when a company has finished the primary development of the product, has an established customer base. It has raised at least a Series A round, and/or is generating revenue.
Scale stage	The scaling stage is the point where a company is hoping to expand different elements of the business. For example, looking to introduce new products, enter new markets and/or further grow the team.
Maturity stage	The maturity stage typically refers to when a company has reached a level of growth and scale, and is no longer considered a startup. This may also be the point at which they are considering going public through an IPO.

Investment types

Investors leverage a range of investment types or vehicles. Depending on your business model and plans, you may have a preference for one type or another.

Acquisition	The purchase or sale of most or all of a company's shares and/or assets by another.
Blended Finance	An approach to structuring investments that allows multiple stakeholders to co-invest, even if their underlying objectives are different.
Bootstrapping	A business that is funded without external sources injecting capital. There are typically two ways to avoid resorting to external investment: 1) using personal funds to finance operations; or 2) generating enough revenue from sales to sustain the cost of running the business.
Convertible Note	A type of short-term debt that can be converted into equity at a later date.
Crowdfunding	A fundraising practice, usually based on the presence of a digital platform, that allows individuals and businesses to source capital from many individuals who can contribute their preferred amount.
Debt	The capital raised through the sale of a debt instrument or a fixed income item. A key difference with equity funding lies in the fact that debt needs to be paid back and counts as a liability on the company's balance sheet.
Equity	Funds that are invested into a company in exchange for a share of the company.
Grant	A sum of money, often awarded for a particular purpose, that does not need to be repaid.
Guarantee	A formal assurance that a loan will be repaid to the lender, even if the borrowing party defaults.
Leveraged buyout	This occurs when one company acquires a controlling share in another, publicly-traded company. Leveraged buyouts are typically financed with high levels of debt and borrowed money.
Merger	The combination of two or more companies. A merger can occur through an acquisition and the two terms are often referred to together as mergers and acquisitions (M&A).
Mezzanine Finance	An investment vehicle that sits between debt and equity. Lenders of mezzanine finance can convert debt to equity.
Non-Equity Assistance	Refers to support that is provided without requiring equity in return.
SAFE	An agreement between an investor and a company that allows an investment to take place without the price of the share in advance and instead ensures that the investor has the rights to equity in the company in future funding rounds or in the event of liquidation.
Securities	A fungible and tradeable financial asset, including equity, debt, or a combination of the two, as well as derivatives, which can be bought, sold, and traded.
Trade Finance	Any form of transaction domestically or internationally that provides financing for trade flows, including both imports and exports.
Venture Capital	A type of loan provided to venture-backed firms experiencing fast growth, typically raised from specialised banks.
Venture Debt	A type of loan provided to venture-backed firms experiencing fast growth, typically raised from specialised banks.

Investor types

Funding can come from a wide range of sources. Understanding the type and stage of funding you're looking for can help you decide which investor type is best suited to you.

Angel	An individual that provides early stage funding for startups through personal funds, typically in return for equity or, in the case of non-priced rounds, convertible notes or SAFEs. Angels sometimes work within syndicates or rolling funds to distribute funds, meaning that they collaborate or partner with a network of angel investors to find interesting opportunities.
Bank	A financial institution that offers a breadth of financial services, such as loans, deposits, wealth management, banking and currency exchange. Banks are often considered a traditional form of company financing, though it can be difficult to access funds as banks often require some sort of collateral for receiving a loan. Banks are not necessarily structured to lend to high risk targets, but several banks have in recent years set up corporate venture arms to support startups.
Corporate Venture Arm	A branch of a corporation that provides venture capital to businesses in exchange for equity.
Debt Providers	Any form of financial institution that commits to providing capital in return for set payments that are repaid through agreed-upon terms.
Development Finance Institution (DFI)	An institute, typically owned by national governments or representing regional and international banks, that provides patient and risk capital for public and private sector projects with overarching social, economic and environmental objectives, which are prioritised over financial returns.
Donor	A person, institution or organisation that donates capital to an individual, company, project or government. Donor funding can be particularly important for development-focused projects and initiatives that have large impact potential, and where traditional financing would not be accessible due to low financial returns and viability.
Family Office	A private firm that manages the wealth and assets of a high-net-worth individual or family.
Friends & Family	Gifts, equity finance and loans provided through close relationships in the very early stages of funding to get a business up and running.
Fund	A pool of collective investments that are managed and invested by a firm.
Impact Investor/ Fund	Investment firms and individuals that target high-impact sectors and industries, with positive and measurable social, economic and environmental development objectives alongside financial returns.
Micro VC	Similar to a traditional venture capital firm, but that focuses on smaller investments.
Pension fund	A scheme that provides pension payments to individuals when they retire. Pension funds typically invest money to increase the pool of money in the fund.
Private Equity	A company where accredited and institutional investors and funds join forces to invest directly into companies or engage in acquisitions.
Venture Capital (VC) Firm	An investor organisation that provides funding to high-potential and high-growth companies, typically in return for equity.

Endnotes

1 https://about.crunchbase.com/blog/when-to-raise-money-startup

2 Cepheus analytics (2022), Ethiopia Macroeconomic Handbook 2022

3 Only includes disclosed funding

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