Master Thesis

How Funding Works in Ethiopia

How do Expert Entrepreneurs and Funding Partners Engage in Practices of Funding?

MSc Entrepreneurship Joint Degree

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Preface

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Abstract

This thesis finds that context, funding partners, and entrepreneurs influence each other and how funding is achieved within Ethiopia. Overall, this thesis sheds light on different funding practices that entrepreneurs and funding partners use within the Ethiopian context: The thesis finds that local entrepreneurs build strong relationships with investors as early-stage funding is often based on trust, that investors and entrepreneurs are active in building political connections to overcome institutional voids and further that entrepreneurs are incorporating their business abroad, as a practice to attract foreign investors. Overall, it can be noted that there is a funding gap within the Ethiopian ecosystem, and only a few entrepreneurs can grow their businesses sufficiently to be attractive for the few investors operating within Ethiopia.

Introduction and Research Gap

It is essential for entrepreneurs, governments, and funding organizations that aim to support entrepreneurship to understand how funding works. For Ethiopia to economically prosper and to support its development to a middle-income country, it is beneficial to understand how funding is allocated to foster the creation of businesses that can be a vehicle for economic development and job creation (Cassar, 2004; Megginson, 2004). Although it is known that funding partners and entrepreneurs face common challenges such as insufficient financial and human capital as well as institutional and market voids, practices of how entrepreneurs and funding partners engage with each other and overcome challenges within the Ethiopian context are less researched (Azmat, 2013; Bellavitis et al., 2017; Brixiova, 2013; Eijdenberg et al., 2019; Naudé, 2010).

Existing literature addresses the question of how entrepreneurs gain funding under the premise that entrepreneurs or funding partners are at the focal point of the analysis (Armanios et al., 2017; Hallen, 2008; Hallen & Eisenhardt, 2012; Hallen & Pahnke, 2016; Jonsson & Lindbergh, 2013). In this regard, Hallen and Eisenhardt (2012) point to two scenarios that help entrepreneurs in gaining investment, namely benefiting from existing strong ties to investors or forming new ties. Entrepreneurs that do not have the advantage of having a strong existing connection to investors can engage in so-called *catalyzing strategies* (Hallen & Eisenhardt, 2012). According to Hallen and Eisenhardt (2012), funding can be catalyzed by a so-called casual dating approach, a network-building strategy entrepreneurs can use to strengthen connections with casual meetups for advice-seeking purposes and when a sufficient relationship exists to raise the topic of funding. Further, entrepreneurs can communicate strategic achievements of their venture to create strong signals for VCs to invest in them, according to Hallen and Eisenhardt (2012). Hence, the chances of gaining funding can be improved by timing investments by communicating strategic business achievements, while timing around resource needs could be counterproductive in achieving investment (Hallen & Eisenhardt, 2012). Besides, entrepreneurs can improve their investment odds by discriminating against investors with a low chance of investing while focusing on building ties with investors more likely to invest (Hallen, 2008; Hallen & Eisenhardt, 2012). Zhang et al. (2010) add that weak ties to funding partners can be utilized for investment with a higher likelihood of acquiring funding, not by referrals, but rather if investors possess prior knowledge about the venture's technology or about the sector the entrepreneur is operating in, as this supports both sides to minimize information asymmetry.

Entrepreneurs using moderately positive framed investment proposals with moderate levels of innovation and high levels of conformity while discounting competition have higher chances of gaining investment (Parhankangas & Ehrlich, 2014). Furthering how entrepreneurs can influence their funding success, Uparna and Bingham (2022) and Milovac and Sanchez-Burks (2014) state that entrepreneurs' negatively worded pitches are funded faster, with higher amounts, and with lower interest rates than more positively framed pitches. In addition, Chen et al. (2009) mention that not passion but the perceived preparedness of the entrepreneur's business plan presentation to VCs increases the chances of gaining funding. Balen et al. (2019) research reveals that entrepreneurs who focus their communication on the highly disruptive vision of their startup can increase their chances of gaining funding in the first round but overall decrease their chances of gaining funding. Martens et al. (2007) research suggests that the narrative and the stories entrepreneurs use to familiarize investors with the unfamiliar can be, besides factual information, an important mechanism to influence funding partners' investment decisions.

Baron and Markman (2003) research suggests the higher social competence of the entrepreneur, measured as a behavioral skill to read and persuade others, helps entrepreneurs increase their odds of gaining funding when interacting face-to-face with investors.

Zott and Huy (2007) find that entrepreneurs who use multiple symbols such as educational degrees or how they dress to signal to investors their investment worthiness gain more funding than entrepreneurs who use fewer symbols. In this line of research, Ko and McKelvie (2018) propose that in the first round of investment, the signal of an educational degree and prior founding experience of the entrepreneur enhances the chances of gaining funding, and further in the second funding round, the signal of investor's prestige from the previous funding round and the entrepreneur's educational background increases the likelihood of funding. This is also supported by Plummer et al. (2016) research suggesting that the signal of a third-party investor can increase the odds for entrepreneurs to achieve funding.

Sudek (2006) sheds light on the investors' decision-making side and finds that the top four influencers for investors to invest in startups are trustworthiness, the management team's skills, the eagerness of the lead entrepreneur, and venture exit opportunities. Also, Bernstein et al. (2017) state that most experienced and successful investors focus on the strength of the founding team, not only as a signal to invest in the startup but also as an indicator of the operational strength of the venture. Further, Huang and Pearce (2015) find that the decision-making processes of angel investors to invest in entrepreneurs depend more on their expertise-based intuition than analysis when it is impossible to gain sufficient information about unknowable risks. As A. L. Maxwell and Lévesque (2014) point out in their research, business angels evaluate intuitively if they deem entrepreneurs trustworthy based on signals of the entrepreneurs' behavior to decide if they are going to invest in the venture. Dimov and Clercq (2006) reveal in their longitudinal study in the US that venture capital firms have more successful investments or fewer failures in their portfolios when they follow an approach specializing in their investment expertise rather than investing in cooperation with other VCs as investor syndicates. This show cases the importance for investors to develop in-depth expertise while investment syndicates can reduce the effectiveness of investors' decision-making due to a reduced commitment or free-rider behavior (Dimov & Clercq, 2006). On the other hand Dalimunthe (2019) discloses, that more investor board members or advisors in a startup can help to reduce the asymmetry between entrepreneur and funding partners and with that increase the chances of funding.

Overall, among others, the existing literature focuses on how network and tie formation, language and narratives, signals, human capital, as well as the investor's decision-making processes influence the chances of funding. However, the existing research often elucidates the funding behavior and strategies of either the entrepreneur or the investor but often overlooks how they engage with each other and the role of the context they are embedded in. Existing literature focuses mostly on the success factors of funding but little on the process and how it is influenced by the ensemble of the entrepreneur, the funding partner, and the context of a developing country. The economic, cultural, and social contexts suggest that entrepreneurs' practices in the global south to gain funding will differ from the global north. Given that the Ethiopian entrepreneurial ecosystem is based on a different economic setting, it can be justified that major differences in the context of a developing country lead to different funding practices for entrepreneurs and funding partners.

Hence, this research intents to illustrate two sides of the same coin: on the one side, it supports funding partners in understanding how to engage and find the right entrepreneurs, and on the other side it helps entrepreneurs understand practices for how to gain investment. With that, this research supports the notion that the practice of funding is a social phenomenon happening through the mediation and collaboration of funders (funding partners) and fundees (the entrepreneur). Hence, this research highlights the processual practice of funding happening between entrepreneurs and funding partners to reach a collective goal of funding (Reckwitz, 2002; Schatzki et al., 2001). Therefore, this research is not aiming to develop new concepts with the individual at the focal point of its analysis but rather explains the social fabric of practices that funding partners and entrepreneurs interactively engage in to make funding possible (Janssens & Steyaert, 2019). With that, this practice-based study is moving beyond the well-researched concept of startup funding from the perspective of the entrepreneur or investor but follows a different ontology; focusing on the social fabric of practices that emerge through the interplay of both sides located in the realm within funders and fundees (Hjorth et al., 2015; Thompson et al., 2020).

Previous research has focused on which strategies entrepreneurs and funding partners use, assuming that both sides are separable entities that follow an individual course of action (Chen et al., 2009; Hallen & Eisenhardt, 2012; Parhankangas & Ehrlich, 2014; Sudek, 2006; Uparna & Bingham, 2022). However, there is only limited research in the field of entrepreneurship-as-practice, assuming the interconnectedness of the social and the individual, about how practices between entrepreneurs and investors influence the funding process in developing countries. Further, the literature is largely focused on specific financing strategies, e.g., bricolage, bootstrapping, venture capital, and grant financing, but does not consider financing as practices that enfold in a complex relationship between the entrepreneur and funding partner (Bellavitis et al., 2017).

Hence, following an entrepreneurship-as-practice approach allows reevaluating how funders and fundees reach an agreement about the potential (future) value of opportunities, inseparable from the context they are entangled with (Chia & Holt, 2006). Therefore, this thesis aims to contribute to closing the research gap about funding from the practitioner's perspective in a developing country.

Formulation of the Research Question

To understand the different ways entrepreneurs and funders practice funding, this thesis aims to research how funding from incubators/accelerators and from angel/VC, as well as private equity firms works within the Ethiopian context. Ethiopia's startup ecosystem has existed for around one decade. Even more so, its private business ecosystem is not older than three decades. These facts create the unique opportunity to analyze the interplay of entrepreneurs and funding partners within an early-stage ecosystem that has not been well researched (Marcus & Crummey, 2022).[1] Therefore, the research question for this thesis is constellated as follows:

How do expert entrepreneurs and funding partners engage in practices of funding?

Hence, in other words, this research focuses on what kind of funding practices entrepreneurs and funding partners use within the context of Ethiopia.

Key Concepts

For the purpose of this master thesis, the key concepts that make up the research question are defined in this section. First, the concept of practices will be defined as an overarching framework. Further, fundees, also termed expert entrepreneurs, funding, and funders, also described as funding partners, will be defined. Finally, the notion of the context that is the broader research setting will be explained.

[1] Ethiopia was between 1974 and 1991 a communist regime, and during this area, it was illegal to own a business – Marcus and Crummey (2022)

Defining Practices

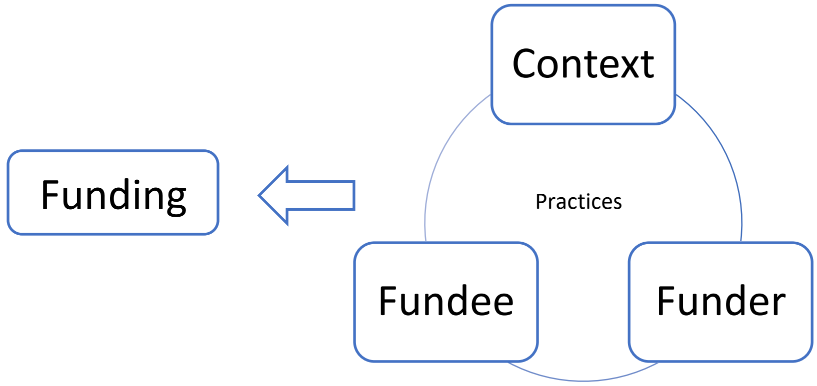
For this research, funding can be defined as practices that funders and fundees use in a given context to increase their chances of gaining or allocating funding. A practice can be defined as the nexus of sequentially ordered activities that happen in a given context between entrepreneurs and funding partners with the shared goal of receiving or distributing financial resources (Jones & Holt, 2008; Keating et al., 2014; Schatzki, 2002). Hence, practices can be seen as social phenomena which are embodied in the interplay between context, funders, and fundees (Schatzki, 2005). Both sides could use nuance practices such as socializing, personal appeals, exchanges, and consultations to increase their funding opportunities (Feser, 2016; Kanze, Dana et al., 2017).

In sum, practices can be seen as the aggregate of elements that make up the system of funding that fundees and funders engage in. Not necessarily those practices which are optimal for the funders or fundees exist, but those which are optimal for the system replicate, and others cease to persist. For example, for an entrepreneur, it could be the easiest to be transparent about some achievements in his or her company in order to attract funding. However, in an environment in which personal relationships are highly valued and where companies might avoid being fully transparent to maneuver institutional and market voids, practices to gain funding are not only influenced by what would be good for the entrepreneur or funding partner, but also by the context of which they are part of. This research aims to unravel the interconnectedness of context, funders and fundees, to highlight practices that emerge from this interplay.

Hence, funding practices can be conceptualized as follows:

$$funding = \overbrace{context \cdot \overbrace{funder \cdot fundee}}^{practices}$$

While funding is influenced by the practices that emerge from relationships between entrepreneur and funder, as well as the broader context in which they come to an agreement about the plausible (future) value of an opportunity.



Defining Expert Entrepreneurs

To research expert entrepreneurs in Ethiopia, also called fundees in this thesis, it is essential to define expert entrepreneurs. However, there is no commonly agreed definition of what expert entrepreneurs in the context of Ethiopia are. As the Ethiopian entrepreneurial ecosystem is nascent, and as entrepreneurs in Ethiopia maneuver in an environment where the default is a lack of funding, expert entrepreneurs can be defined for the Ethiopian context as founders who were able to achieve funding or who were able to sustain their business for more than two years.

Defining Funding Partners

Further, to shed light on the interplay between startups and funding partners, also called funders in this thesis, funding partners are defined as organizations or individuals that provide financial resources to startups. These can be angel investors, investors, NGOs, GOs, VCs, or support mechanisms such as incubators or accelerators that provide early-stage funding.

Defining Funding

For this research, funding can be defined as a financial resource that entrepreneurs, investors, or funding partners use to invest in businesses and startups. There can be multiple funding sources, such as bootstrapping, grants, VC investments, bank loans, family and friends, and many more. However, this thesis focuses on three sources that can help launch startups at the early stage, as well as sources that enable ventures to scale: that is, incubator/accelerator, angel/VC, and private equity firm funding. With that, this research aims to understand an essential part of venture funding that helps entrepreneurs launch their startups and further scale them.

Defining Context

The context of Addis Ababa, Ethiopia, can be defined as the broader environment that influences the funding practices. Funders and fundees are influenced by circumstances, such as a resource-deprived environment, institutional and market voids, a collectivistic-oriented society, and a diverse cultural setting with more than 80 different ethnic groups and languages (Aalen, 2006; Bellavitis et al., 2017; Hofstede Insights, 2021; World Bank, 2021a). Further, entrepreneurs and funding partners maneuver within one of the most closed economies on the continent. With an ecosystem in its infancy, the usual funding cycle from business angels to VC and, finally, IPOs or exits has not fully materialized, meaning that the mechanism to match startups and funding opportunities is less developed (Bellavitis et al., 2017; Zelalem, 2021). In order to cope with this context, entrepreneurs and funding partners engage in different practices to make funding possible.

Context Background and Research Setting

Ethiopia, a landlocked country in East Africa with an estimated 121.5 million inhabitants in 2022, is after Nigeria, the second most populated country in the continent (World Data Lab, 2022). Between 2000 and 2021, the country has achieved, in global comparison, relatively high growth rates with average annual GDP growth of 8.8 % (IMF, 2022). However, despite high economic growth, recently, the country has been experiencing political power struggles, among others, the ongoing Tigray war in the country's northern region that increase institutional and market voids for entrepreneurs to gain funding (BBC, 2021; Bellavitis et al., 2017; Müller, 2022). Historically, the economy's growth was primarily initiated by government-led projects, also due to the fact that the private sector did not have sufficient resources to pursue large-scale investments (Clapham, 2018; World Bank, 2021b). However, since 2018, due to a change in the government's leading party, the country increased its focus on market liberalization, and with that, privatization and growth were initiated by private companies and startups (Badwaza & Temin, 2018).

Still, Ethiopia is one of the most closed economies in Africa, with a managed floating exchange system (Reuters, 2019). The banking system regulates the exchange of the local currency into foreign currencies and can block currency exchange requests of entrepreneurs that are not in line with the allocation priorities of the central bank of Ethiopia. This limits entrepreneurial activities as entrepreneurs and investors are restricted from exchanging local currency profits (National Bank of Ethiopia, 2021). Further, the government's foreign investment policy requires a minimum investment of USD 150,000 for joint investment projects and a minimum of USD 200,000 for solely foreign-financed projects (Ethiopian Investment Commission, 2017). This limits foreign early-stage investors from entering the ecosystem to invest in startups and businesses that require lower investments. Although with a new startup proclamation, it seems that Ethiopia is moving toward the direction of easing this limitation. However, the regulation has not been lifted yet (Zewde, 2020).[2]

Despite these obstacles for entrepreneurs and investors, the government aims to grow the economy within the next decade to a middle-income country, which also aims to support the development of the entrepreneurial ecosystem (Jobs Creation Commission Ethiopia, 2019). Hence, understanding how expert entrepreneurs and funding partners maneuver obstacles to achieve funding can support the government's mission to create a vibrant ecosystem.

Methodology

The following sections give an overview of how the research subject for this master thesis is approached, which steps will be taken to systematically answer the research question, exploring novel insights about the interplay of expert entrepreneurs and funding partners in Ethiopia.

Interpretivism Research Philosophy

Overall, the methodology of this master thesis follows an interpretative philosophy to evaluate intersubjective viewpoints of how entrepreneurs and investors gain and allocate funding. The practices entrepreneurs use to gain funding can be understood as interrelated behaviorshappening between entrepreneurs and partners that provide funding resources. It can be assumed that practices to gain funding are dependable on the specific context and the broader startup ecosystem in Addis Ababa, the capital of Ethiopia. Hence, how entrepreneurs in Ethiopia engage in funding practices is not generically defined separately from the context, and with that, the object of this research is open for interpretation. For that reason, to evaluate the complexity of how entrepreneurs use funding practices engaging with funding partners, an interpretive approach is followed.

[2] Article 36, paragraph 3 in the startup proclamation: “The Ethiopian Investment Commission in conjunction with the Investment Board may reduce with regard to start-ups the minimum investment capital set for foreign direct investment” – Zewde (2020).

This approach aims to explore a nuanced view, to understand the subjective experience, and varieties of practices that entrepreneurs and funding partners might use. Hence, the findings of this research cannot be generalized but show individual practices of expert entrepreneurs and funding partners.

Methods and Research Design

The following sections provide an overview of the methods used to collect and assess data. The methods are divided into five sections; the overall approach, which is qualitative research, sampling of the interviewees, data collection (semi-structured interview to the double approach), and finally, the approach for data analysis (first and secondary coding) (Sheridan et al., 2018).

Overall Approach and Qualitative Research

As there is limited research on how funders and fundees engage in funding practices in developing countries, this thesis aims to address the research gap by conducting qualitative interviews to generate in-depth information about funding practices in resource-deprived environments.

The qualitative methodology for this thesis is motivated by the particularity of the research subject; understanding funding practices of startups in developing countries (van Burg et al., 2020). Correspondingly, a qualitative approach is chosen for reasons of heterogeneity; while quantitative studies try to regress to the mean, aiming to compare cases that do not deviate too much from each other to explain a trend, this master thesis aims to illustrate unknown funding practices (van Burg et al., 2020). Further, a process-research method is beneficial for explaining how funding practices of startups influence the chances of gaining funding over time. Hence, a qualitative research method is justified to understand volatile processes that unfold through time and impact the chances of gaining funding

Sampling

As it is the goal of this master thesis to explore new insights about funding practices of funders and fundees in Ethiopia, the sample for this research is defined as follows:

Sample	Explanation
Population	On the one side, expert entrepreneurs/startups in Ethiopia that gained funding or are more than two years operational and in the process of looking for funding, and on

	the other side, funding partners, such as incubators, accelerators, private equity firms, angel investors, and VCs, that provide funding for entrepreneurs.
Unit of Analysis	The interrelated practices that happen between funders and fundees. That is, what kind of practices do entrepreneurs, founders, co-founders, and funding partners, use to receive or allocate funding.
Sampling Frame	Interviewees were sourced via prior existing contacts, LinkedIn, referrals, and a website from the Ethiopian Jobs Creation Commission listing startups and their investment (FDRE Jobs Creation Commission, 2021). Further, to attract more interviewees, a website has been set up: https://www.startups-africa.com/
Type of Sample	This research samples comparable expert entrepreneurs and funding partners that have achieved early and later stages of funding to shed light on different funding practices. To overcome biases, interviews were conducted in-person in Ethiopia. Overall, 17 interviews were conducted in-person, while two interviews were conducted via Zoom.
Sample Size & Reach	For this research, 19 interviews with 21 people were conducted. Nine interviewees fit the scheme for this research as funding partners, 12 fit the scheme as entrepreneurs, and four interviewees fit both categories.

Data Collection

Following an ethnographic approach, the data collected for this master thesis is based on semi-structured interviews taking the perception of expert entrepreneurs and funding partners into account. To be aligned with entrepreneurship-as-practice, an interview to the double method is followed. That is, in the interview, it is assumed that the interviewer becomes the double of the interviewee, traveling back in time to learn about the actions of the interviewee in order to hypothetically be able to replace the role of the funder or fundee (Sheridan et al., 2018). This approach can generate detailed information about the practices the interviewee was engaging in, which supports the consistency with entrepreneurship-as-practice research.

Further, channels to gain information, like reviewing existing interviews, podcasts, news, and social media posts, are not as developed. Ethiopia's startup ecosystem is very young and has not achieved the stage of maturity as this is the case in the developed ecosystems with data-rich environments. Given the limited information and channels about entrepreneurs' behavior within the Ethiopian startup ecosystem, the method of semi-structured interviews can be beneficial for discovering unknown practices or tools that might have had a substantial impact on how expert entrepreneurs and funding partners engage in funding.

Interviews were conducted in-person in Ethiopia, with one or two interviewees, whenever possible, to increase the chances of exploring nuanced insights to capture the complexity of funding practices. Further, this research follows an inductive approach; interviews were initiated by directly asking the research question to the subjects while leaving the rest of the discussion open to understand each interview on a case-by-case basis to explore the meaning from the perspectives of the entrepreneur. With that, follow-up questions were asked to understand details about practices that were or were not successful, to understand which course of action the entrepreneur and funding partner perceived as the most effective practice, and, in this regard, to understand their experience and interpretation of the process.

Data Analysis

Following an ethnographic interpretive design, this research aims to analyze the subjective narrative of interviews to understand emergent meaning from the perspective and experience of entrepreneurs and funding partners. Each interview was transcribed using a verbatim approach and encoded.[3] This research followed an open coding approach without pre-defined concepts to systematically understand interviewees' responses and capture the nuances in their answers. Further, axial and process coding was used to develop themes and categories to answer the research question. Axial coding was used to understand applied funding practices and the related intersubjective behaviors of entrepreneurs and funding partners. Further, process coding was used to understand how funding practices unfold over time. With these coding approaches, the most common funding practices were identified to highlight which practices have been successfully used.

[3] Verbatim transcription: word for word including researcher questions (minus ums, ohs, pauses).

How Funding Works in Ethiopia

The following section reviews the Ethiopian context, following what kind of funding practices entrepreneurs and funding partners engage in. The section about the Ethiopian context highlights the challenges entrepreneurs and funding partners face. Further, after providing an overview of funding sources, early-stage, angel, VC, and private equity funding practices will be highlighted. All findings presented in the following sections are based on 19 interviews with 21 people, which have been anonymized to protect the privacy of entrepreneurs and funding partners. Finally, in the discussion part, all findings are synthesized. The thesis concludes with a conclusion and a note on research limitations and potential further research opportunities.

Ethiopian Funding Context

There is a huge gap in funding in Ethiopia: As for its history, unlike Nigeria or Kenya, Ethiopia had a communist regime between 1974 and 1991 and during this area, it was illegal to own a business (Interview 15, 2022; Interview 18, 2022; Marcus & Crummey, 2022). Most businesses came into existence after 1991 and started with their own, family or friends' funds as traders importing goods from China. Then these entrepreneurs invested their wealth into real estate and manufacturing (Interview 18, 2022; Interview 2, 2022; Interview 8, 2022). Still, the private sector in Ethiopia is not very developed; many family-owned businesses are, up until now, owned by the first generation or just passed over to the second generation (Interview 15, 2022). Hence, most businesses are young, and as one angel investor framed it, ‘’we're all startups at the end of the day’’ (Interview 18, 2022).

As the Ethiopian ecosystem did not have the time to achieve maturity, there are only very few large-scale businesses that would be attractive for VCs looking to invest above three million USD. Further, these few well-run businesses do not lack finance, as they are among the few that can access the collateralized funding scheme of banks (Interview 18, 2022). For a country with a population of 121.5 million, according to one investor, only 300,000 individuals got access to collateralized bank loans (Interview 18, 2022; World Data Lab, 2022). Hence, bank loans play only a minimal role for startups to fund their ventures, as most tech and service-oriented ventures do not have access to the required collateral. Therefore, as one investor pointed out; unless the government comes up with a scheme that supports funding startups and businesses, the country faces a system where only very few would end up owning a large part of the economy as they have access to the resource acquiring mechanisms, which are blocked for most entrepreneurs (Interview 18, 2022). To paraphrase one early-stage investor, in a nutshell, in other countries, entrepreneurial ideas are valued and funded; in Ethiopia, only collateral is (Interview 18, 2022).

Several entrepreneurs mentioned in the interviews that a similar business like theirs in another country like Kenya would have scaled much faster than it is the case within the Ethiopian context. As in Ethiopia, these entrepreneurs are still struggling to receive funding and to connect with partners that could enable them to roll out their services to the entire country (Interview 4, 2022; Interview 6, 2022; Interview 7, 2022). Ethiopia's closed economy challenges foreign investors to invest in Ethiopian startups, as they often cannot realize their profits because of regulations blocking the transaction of the local currency to foreign currencies. As a result, it is harder for entrepreneurs to scale their venture then it might be the case in neighboring countries (Interview 7, 2022).

According to one founder running a business with more than 80 employees and being already active as an entrepreneur for several years, the few investors that are in Ethiopia do not have deep pockets to make substantial investments. Hence, "you have to be […] an outlier to actually get funding" (Interview 7, 2022). Entrepreneurs not only compete with other entrepreneurs but also with any other possible investment, such as real estate or commodities that also have a high return within the Ethiopian context (Interview 7, 2022). The angel investor community is not well developed. Therefore some angel investors, at times, behave like VCs, trying to gain a too high share for their investment and not being able to provide essential advice to the startups (Interview 4, 2022; Interview 7, 2022). On the other hand, VCs and some investment partners mitigate their risks by requesting entrepreneurs to see their revenue from the last two years, and only very few startups have this track record (Interview 15, 2022; Interview 4, 2022).

As one funding partner mentioned, the bridge that connects investors and entrepreneurs is broken within the Ethiopian context; the nation’s economy has been closed for so many years, many entrepreneurs lack exposure to investors that could familiarize them about what investors want; and therefore, many firms in Ethiopia do not have proper business financials. Hence, part of the funding gap materializes in a business skill gap that hinders entrepreneurs from harnessing the available investments (Interview 19, 2022). According to two funding partners, the other part of the funding gap is due to a lack of support systems. There is some small support for entrepreneurs coming from accelerators, incubators, and angel investors for amounts of up to 30,000 USD. However, after that entrepreneurs struggle to gain funding, and only when their businesses are ready to attract larger investments from 300,000 USD onwards they do have a better chance of acquiring financial resources (Interview 13, 2022; Interview 19, 2022).

Finally, the legal and policy framework "doesn't provide for startups to act like startups" the startup needs to operate "either [as] a share company, a PLC, or a general partnership" (Interview 4, 2022). This is an unnecessary financial and administrative burden, as startups need to obtain licenses to operate, pay rent for a physical office needed to incorporate, gain a cash register machine and pay taxes (Interview 4, 2022). Further, regulations or a lack of understanding of regulators can block businesses from operating, as startups might not be able to obtain the licenses or rights to operate (Interview 17, 2022; Interview 4, 2022).

Practices to Maneuver Institutional Voids

Even though the Ethiopian government has implemented regulations to improve the investment ecosystem, sometimes these regulations are not implemented on the ground. For example, as stated by one private equity firm, the Ethiopian Investment Commission still blocks specific sectors. However, they are not among the prohibited listed investment areas, arguing that some foreign investments could be against national interest (Interview 19, 2022). Due to such red tape or bureaucracy, it can be challenging for investors to obtain the necessary investment permits from the Ethiopian Investment Commission (Interview 19, 2022).

As this shows, entrepreneurs or investors can face legal regulation or bureaucracy issues that block the venture's operation (Interview 17, 2022). According to one entrepreneur, ''their reasoning is always, there is no standard'' (Interview 17, 2022): For example, in regards to digitizing certain aspects of the public healthcare system or in regards to FinTech or investment policies, these business areas have regulatory gaps, and hence government officials can argue they do not know how to regulate it and therefore block the business – which is a way for government officials trying to obtain bribes from entrepreneurs or investors (Interview 17, 2022; Interview 19, 2022; Interview 2, 2022; Interview 4, 2022). As one founder framed it, ''you cannot pay everyone to gain their trust'' (Interview 17, 2022). Therefore, to overcome such institutional voids, many of the entrepreneurs and investors interviewed engage in lobbying work with the government, because even if funding is achieved, if the goodwill of government officials does not protect entrepreneurs and investors, ventures face the risk of being blocked by bureaucracy (Interview 17, 2022; Interview 4, 2022). Overall, the following approaches can be noted to maneuver institutional voids:

- Influencing and lobbying the government to create specific standards to close regulatory gaps (Interview 17, 2022). One entrepreneur noted that influencing the government can help, ‘’whenever they want to put a new law that affects us, they call us for discussions‘’ (Interview 11, 2022).
- Educating (not fighting) government officials, e.g., when it comes to FinTech regulations showcasing to the National Bank of Ethiopia the laws other countries have implemented to address certain challenges (Interview 18, 2022).
- Address government bodies not as an individual but as an association, e.g., the FinTech Association, to speak with a voice rather than as an individual (Interview 18, 2022).
- Creating sufficient political will to support the venture (Interview 17, 2022). Political will can be realized with supportive connections to certain individuals within ministries that can back the course of the business in case some lower bureaucrats hinder the venture's progress (Interview 17, 2022).
- Avoiding regulatory gaps by involving lawyers that can pinpoint which business activities should be avoided or to know standards and regulatory guidelines (Interview 17, 2022).
- In addition, one angel investor mentioned that he tries to influence the public and media narrative about entrepreneurial ventures to channel more public resources into fostering entrepreneurship (Interview 18, 2022).

Positive Funding Outlook

Although there are institutional voids within the Ethiopian context, most entrepreneurs and investors interviewed have a positive outlook for the country. As one investor framed it, regimes come and go, but opportunities and challenges remain (Interview 18, 2022). Entrepreneurs and investors interviewed see Ethiopia as one of the most untapped markets within the continent: As the young population, with an average age of 18, will create high demand for goods and services in the coming decades, as the government opens up the economy, the banking and other sectors, enabling non-collateralized lending, and preparing to launch a Stock Exchange, which will provide companies with a platform to raise funds, increase visibility, transparency, and improved governance

(Interview 15, 2022; Interview 16, 2022; Interview 17, 2022; Interview 18, 2022; Interview 4, 2022; Interview 7, 2022).

Funding Sources

Overall, from 19 interviews with 21 people, this research has identified the following funding sources entrepreneurs use within the Ethiopian context:

Inter-view	**Incuba-tor/Accel-erator**	Friends Family	Bootstrap-ping	Grants	Tenders	**VC/Angel Funding**	Firm partners	Bank	Govern-ment Partners	**Funding Partner**	**Entre-preneur**
1										x	
2			x		x	x	x				x
3			x			x					x
4*	xx		xx	x		(x)					xx
5	x					(x)					x
6	x		x			(x)					x
7		x	x			x	x	x			x
8										x	
9	x		x								x
10*			x			(x)				x	x
11		x	x			(x)		x			x
12	x			x		x					x
13									x	x	x
14			x	(x)		(x)	x	x			
15										x	
16			x						x	x	x
17			x	x						x	x
18										x	
19										x	

*with one interview, two entrepreneurs were interviewed. While x=the interviewee gained funding from a certain source. (x)=the interviewee is trying to gain funding from a certain source. The x in the two right columns indicates if the interviewee was an entrepreneur, funding partner, or both.

As the table shows, entrepreneurs often use a mix of these sources to support their endeavors (Interview 7, 2022). However, the following section aims to shed light on how entrepreneurs engage in early-stage and later angel and VC stage funding and how angel investors, and private equity firms engage in funding practices. With that, the following sections aim to cover an important part of venture funding that helps entrepreneurs initiate their startup and further scale it.

Entrepreneurs Engaging in Early-Stage Funding Practices

For this research, four interviews with five participants were conducted about entrepreneurs that participated in incubation and acceleration programs to gain initial funding. Overall, in the entire country, less than 15 incubators, accelerators, or other similar support programs exist. Although they call themselves sometimes accelerators, incubators, or boot camps, they all provide a similar amount of funding, between 200,000 and 250,000 Birr, hence, they can be seen as early-stage funding mechanisms for entrepreneurs regardless if they are at ideation, MVP or market entry stage.

In sum, the experience with these support programs is mixed; while some entrepreneurs view these programs as very critical, others find these programs beneficial (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022). The process of how entrepreneurs and these early-stage funding organizations engage is shown in the following table:

Stage	Description
Pre-contact and initial connection	• Building the MVP, conducting initial research about the marketplace, and preparing pitch decks (Interview 5, 2022). • Finding information via social media, Telegram, or others who participated in the program, to apply and to run background checks on several hubs (Interview 5, 2022; Interview 9, 2022). As one entrepreneur stated, he found one incubator that was a good option for him, while he heard from other startups some of the other incubators are ‘’terrible’’ (Interview 5, 2022; Interview 9, 2022). • Connecting with the hub manager outside of the incubator (Interview 6, 2022). • Two entrepreneurs started working at one of the incubators and received application links from their network to apply for any incubation/acceleration program that are potentially suitable for their startup (Interview 5, 2022; Interview 6, 2022).
Application process	• One entrepreneur applied by registering onto a platform and uploading information and an image about his startup for the program. According to the entrepreneur, due to the ongoing conflicts within Ethiopia, it took four to five months before they were contacted via email and phone and accepted into the program (Interview 9, 2022).

	• Most programs had a simple online application form. Typically the entrepreneur applied by filling out a google form and connected with the hub via email (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022). • One entrepreneur prepared himself by pitching his startup to friends who asked critical questions simulating the pitch (Interview 5, 2022). He checked online how to prepare a pitch deck and ensured all the graphics were needly arranged (Interview 5, 2022). • Then entrepreneurs had to pitch their business in some cases via Zoom; as it was during covid, entrepreneurs had to share their pitch deck, and if successful, they were accepted into the program (Interview 4, 2022; Interview 5, 2022) • The application was approximately open for one month, and the application process took around two weeks (Interview 4, 2022; Interview 5, 2022) • For one incubation program, the criteria to be accepted was to create jobs, and startups had to use the funding to hire employees (Interview 5, 2022).
Program / training	• Weekly the incubators provided training about business model development, financial modeling, developing a business plan, a financial model, pitching and pitch deck, advertising, goal setting, design thinking, people management, and finding a co-founder (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022). • One founder went to a city southeast of the capital of Ethiopia, where they were provided with accommodation and food and participated in an intense two-week training (Interview 9, 2022). • Further, the incubators provided the startups with legal advice, for example, on how to register their startup, supported the entrepreneurs with tracking their analytics marketing, and connected startups with developers, if necessary, to check their website (Interview 4, 2022; Interview 5, 2022). • In addition, the incubator program matched the entrepreneur with mentors and investors they could pitch their startup to (Interview 5, 2022).

	• The different incubation programs ended with an online or in-person demo day, where entrepreneurs had to pitch their startup (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022).
Fund-ing	• All fundings ranged from 225,000 to 250,000 Birr, while one interviewee did not receive the full amount promised (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022).[4] • Two of the incubators invested 225,000 or 250,000 Birr for 10% and 15% stock (Interview 4, 2022). • Some entrepreneurs got the funding in the middle of the program, while others got it at the end (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022). • In some programs, the amount of the funding was fully transferred to the entrepreneur, in other programs, entrepreneurs needed to collect the funding by reimbursing their expenditures (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022; Interview 9, 2022). • One incubatee interviewed did not receive the full investment: The incubator did not follow through with the full investment of 225,000 Birr, and only invested 50,000 Birr. As the founder framed it, "this is obviously [a] non-performance of a contract, and we will void this contract at the earliest opportunity" (Interview 4, 2022). This shows that there can be disputes between incubators and incubatees and that incubators do not always follow through with the funding promised (Interview 4, 2022; Interview 5, 2022; Interview 9, 2022). • One entrepreneur needed to transfer his funding illegally with the black market rate, as it is not easily possible to exchange the local currency to USD via banks to run social media campaigns that needed to be paid in USD. The entrepreneur partnered with a friend who had access to a foreign credit card to post adds on

[4] 250,000 Birr amounts to approximately 8,132 USD in 2018 when one of the first incubatees was funded – Exchange Rates UK (2022). In relation to the GDP per capita this is a relatively large amount, as their investment was more than ten times larger than the average capita per person in Ethiopia in 2018 – World Bank Group (2022). As one of the founders in the interview noted, the seed funding from the incubators is enough to sustain herself for a year – Interview 4 (2022).

	social media. The friend then wrote an invoice in Birr, and with that, the founders could reimburse their expenditures from the incubator (Interview 6, 2022). • Some incubatees started working for one incubator. With that, they could keep using the incubator space and had an additional source of funding (Interview 5, 2022; Interview 6, 2022).

Although the application process to gain access to an incubation or acceleration program is formalized, according to one founder, "previous connection[s] go[~~es~~] a long way" as "success rates have a lot to do with networking and face-to-face informal measures" (Interview 4, 2022). Nevertheless, while some individuals got into the incubation program benefiting from previous connections, some had no prior connections and also managed to participate in the program (Interview 4, 2022; Interview 5, 2022; Interview 6, 2022). For entrepreneurs who have already participated in an incubation or acceleration program, it is usually harder to enter into a different incubation program from another incubator, while participating in a second program of the same incubator was possible for some entrepreneurs (Interview 4, 2022; Interview 6, 2022; Interview 9, 2022). As one entrepreneur pointed out, he went through three or four accelerator programs to gain funding for his startup, two trainings were right on the spot and supported him with what he needed, but the others were not very supportive, he just joined them to gain the funding (Interview 12, 2022).

One entrepreneur commented on the training of an incubation program, she "felt" like being in "school" (Interview 4, 2022). The program was not individualized; they gave a curriculum to follow, for example, a course about marketing, but the course was not relevant to her business, and the material was very generic "you could [… also] find this on Wikipedia" (Interview 4, 2022). According to the entrepreneur, it seemed like "a marketer who just graduated from university could give us the same lecture here" (Interview 4, 2022).

This shows a structural problem that some incubators face; It seems that incubators' success depends not on their investments but on how successfully they build connections with the government and donner organizations (Interview 13, 2022; Interview 4, 2022). One challenge incubators and accelerators face is that there is no exit market for their startups. Hence their business model is not focused on making a profit with the equity they invest into the startup (Interview 8, 2022). Further, as it is difficult for incubatees to scale their business, given the small investments they receive from incubators, and the overall challenging ecosystem, some incubators that do not have the capacity or the will to deliver expert training, might as well be realistic about what their early-stage training can do and decide to allocate grant resources elsewhere (Interview 4, 2022).

As the entrepreneur stated, the incubator communicated, "miss one session, and we are not gonna give you anything" (Interview 4, 2022). As the founder framed it talking about incubators: "you gonna give me money and in turn, I'm going to be in your program so that you could get a grant" (Interview 4, 2022). Hence, as they were participating in the program, they realized that the program was purely "transactional" for the incubator to receive its grant but not for the entrepreneur to excel (Interview 4, 2022). Hence, participating in the training was merely a means to access the funding (Interview 4, 2022).

This shows that there is a variety in the quality of the service of incubators and accelerators that exist in the Ethiopian entrepreneurship ecosystem. While some entrepreneurs participated in excellent programs, others criticized the quality of the incubation training (Interview 4, 2022; Interview 5, 2022). Hence, those entrepreneurs who can afford to choose between the approximately 15 incubators/accelerators that exist nationwide are advised to do a background check connecting to previous program participants and reviewing the online activities of the hubs (Interview 4, 2022; Interview 5, 2022; Interview 7, 2022).

Nonetheless, despite the criticism about incubators and accelerators, they are one of the only funding sources available for early-stage entrepreneurs. The seed funding from the incubators can be beneficial for entrepreneurs with a lean business model to sustain themselves for a year without having the necessity to work as an employee, giving them the freedom to fully focus on their business (Interview 4, 2022). On the other side, for founders that need to invest in machinery or to build a more costly MVP, the seed funding of the existing incubators and accelerators might not be enough (Interview 9, 2022). Entrepreneurs see seed funding as a mechanism that can help to sustain their business until they find further investments. They are aware of investors' expectations; hence, they aim to use the little funding available to build a strong business case to make themselves investment ready for further funding (Interview 15, 2022; Interview 4, 2022; Interview 6, 2022).

This shows that entrepreneurs understand what is needed to gain investment within the Ethiopian context (Interview 15, 2022; Interview 19, 2022; Interview 4, 2022; Interview 6, 2022). Although incubators and accelerators provide a launch pad for early-stage ventures, for those entrepreneurs that are not lucky to gain angel investment, it will be very challenging to overcome the funding gap. That is, to accelerate their business from a 5000 USD investment to a business that can gain the next investment starting from 300,000 USD (Interview 19, 2022).

Entrepreneurs Engaging in VC and Angel Funding Practices

This section sheds light on the funding practices of entrepreneurs who gained VC angel investment funding:

Practices Entrepreneur's Engage in to Gain VC and Angel Funding	
Investment readiness	• Multiple entrepreneurs stated that before the startup can gain funding, it is essential to build a track record that can signal to investors the investment readiness of the venture (Interview 10, 2022; Interview 15, 2022; Interview 19, 2022; Interview 3, 2022; Interview 4, 2022; Interview 7, 2022). • That includes having a prototype ready, having a pitch deck organized, and the business financials prepared (Interview 19, 2022; Interview 3, 2022). • As it is challenging for foreign investors to retrieve their investment if they have invested in a company that is head quartered in Ethiopia, as the exchange from Birr to USD is mostly blocked, one entrepreneur aims to become a pan-African company before raising capital to solve the forex challenge, to lower the risk for investors (Interview 10, 2022). • Also, by having an office abroad, the entrepreneur can find certain skills, which are sometimes difficult to find within the Ethiopian context, and so be more attractive for investors (Interview 10, 2022).
Connecting Practices	• As stated by two entrepreneurs, it can be difficult to know who is an investor initially, as many angel investors or VCs are not known and do not call themselves investors (Interview 3, 2022; Interview 7, 2022). As one investor framed it, the community of investors has not really crystalized, as many investors are unsure if what they are doing is legal or illegal and therefore prefer to stay silent and remain hidden (Interview 13, 2022).

	• For these reasons, it is important to first identify VCs, investors, or wealthy individuals that could potentially invest (Interview 3, 2022; Interview 7, 2022).
	  ○ Sourcing contact information via social media and via friends, as well as engaging with startups via networking events to learn how they successfully gained funding (Interview 2, 2022; Interview 3, 2022; Interview 7, 2022).
	  ○ One founder posted on social media that he was looking for the contact details of specific investors in order to reach out to them via phone or email (Interview 7, 2022).
	  ○ Sourcing investors from networking events/ technology fairs abroad (Interview 11, 2022)
	• Further, directly connecting to VC via online pitching sessions, panel discussions, referrals, directly going to their office, calling or emailing them, or going potentially to restaurants where investors have lunch (Interview 10, 2022; Interview 12, 2022; Interview 18, 2022; Interview 7, 2022).
	• One startup benefitted from a high social media popularity; hence, they were in the position that investors reached out to them via LinkedIn, events, referrals, or common friends or family members (Interview 10, 2022).

Communication Practices	• Several entrepreneurs use to engage with funding partners without raising the topic of funding as a means to build a relationship with investors and to understand the risk level investors would be willing to take (Interview 10, 2022; Interview 7, 2022). As one entrepreneur framed it, "if you go for money, you get advice. If you go for advice, you will get money" (Interview 7, 2022). • One entrepreneur tried a formal and informal approach for one year to gain advice: ○ The entrepreneur formed a formal advisory group with three people to gain monthly input. This form of advice was difficult to coordinate and infrequent (Interview 7, 2022).

	◦ He organized an informal one-on-one meetings with VCs at their office or over coffee to gain advice. This form of advice was more successful than the formal approach (Interview 7, 2022). • Two different entrepreneurs followed a very transparent and honest communication practice, communicating their strengths and shortcomings, which helped them to build a trustworthy relationship (Interview 3, 2022; Interview 7, 2022).
Selection	• To select matching investors, two entrepreneurs that were interviewed used questions such as; is the investor capable of raising multiple rounds to elevate the startup, what kind of contribution can she bring, does the investor has the experience and a large network, is the investor passionate about the startup and believes in the solution and is the character suitable for working together (Interview 10, 2022). • Several entrepreneurs mentioned that it is important to select an investor who can take the risk to invest in a digital venture and who understands the business and the sector (Interview 10, 2022; Interview 12, 2022; Interview 3, 2022). As one founder stated, it is important to be selective with funding sources to avoid non-compatible VCs and prioritize healthier investment decisions for the long run (Interview 7, 2022). • Further, some founders run background checks on investors to understand their investment deals with other entrepreneurs (Interview 14, 2022; Interview 7, 2022).
Funding Practices	• As some entrepreneurs noted, the negotiating process can take three to twelve months (Interview 12, 2022; Interview 19, 2022; Interview 3, 2022; Interview 7, 2022). • Several entrepreneurs mentioned that before they could gain investment, their business needed to be several years operational (Interview 10, 2022; Interview 11, 2022; Interview 14, 2022; Interview 17, 2022; Interview 18, 2022; Interview 7, 2022). As for one entrepreneur, after three years in business and a year of gaining advice from investors, the entrepreneur was eventually invited to pitch and sign an NDA (Interview 7, 2022).

	• The pitch deck was reviewed, and the VCs probed the entrepreneur with questions about business financials, pricing, customer acquisition costs, and future outlook (Interview 3, 2022; Interview 7, 2022). • After the VCs have signaled further interest and, depending on the stage of the business; founders gave access to pitch decks, their financial models, proposals, demos, their data room showing business plans, financial and legal insights, and lists of customers (Interview 4, 2022; Interview 7, 2022). • Further, the process continued with a discussion about the value of the business, using matrices such as asset valuation, market-based valuation, as well as discounted cash flow, and the price of recent investment valuation. This helped to evaluate the business and to determine how much equity and investment would be exchanged (Interview 2, 2022; Interview 7, 2022). • In parallel, some founders do their own due diligence on the investors: They check the reputation and references of other investments, the decision-making process, and logic of how the VCs evaluate their company, and the level of transparency if VCs accommodate some of their needs (Interview 15, 2022; Interview 7, 2022). • Some founders take the negotiation as a chance to educate angel investors by transparently and directly telling them what equity size they can take (Interview 15, 2022; Interview 7, 2022). • Finally, according to one entrepreneur interviewed, the deal term with the investors reveals who they are: Do they do convertible notes, investment type notes, take interest (e.g., 15%), and how do they calculate it? (Interview 7, 2022). • The founder and the VCs agree on the company's value and sign a contract (Interview 7, 2022). But, as the entrepreneur noted, rejections are also a part of the process, and he tries to achieve rejections earlier than later to save time in the negotiation process (Interview 7, 2022).

	• Depending on the investor, the agreement might be more based on trust, especially if the contract was not written by legal experts, which was the case for one entrepreneur interviewed (Interview 3, 2022). • After the investment and shares were transferred, both sides engaged in regular meetings with a varying frequency between two weeks or three months, depending on the entrepreneur and investor (Interview 3, 2022; Interview 7, 2022).

As these practices for angel and VC funding from the perspective of the entrepreneur show, before entrepreneurs gain VC funding, they often have to prove the strength of their business – in one case, by being operational for three years and having achieved product-market fit, before investors were willing to invest (Interview 7, 2022). For early-stage businesses, it is very challenging to gain funding from an early-stage VC environment, as funding partners often look for investment opportunities that were previously able to develop the company significantly (Interview 14, 2022; Interview 15, 2022; Interview 16, 2022; Interview 7, 2022). Overall, entrepreneurs have to maneuver their business into the spotlight, ensuring that challenges are fixed to make it attractive for the few investors available within the Ethiopian context (Interview 7, 2022).

Angel Investor Funding Practices

The angel investment ecosystem is very small within the Ethiopian context (Interview 13, 2022; Interview 16, 2022). However, the angel investors interviewed engage in the following funding practices:

Connecting with Entrepreneurs

- As one angel investor mentioned, due to his good reputation within Ethiopia, he is being approached by many entrepreneurs who are seeking funding (Interview 18, 2022).
- Further, the investment team of the angel investor is actively searching for businesses, for example, FMCG businesses that produce 100% locally without depending on forex (Interview 18, 2022).
- In addition, the investor is aiming to launch a training institute providing executive training as many entrepreneurs need training to be investment-ready (Interview 1, 2022; Interview 18, 2022; Interview 19, 2022).

Selection

- Entrepreneurs approaching the angel investor are first screened by the investor's advisory team that evaluates the pitch of the entrepreneur. If the team decides the startup is interesting, they will connect the startup with the lead angel investor for them to pitch their business (Interview 18, 2022).
- One investor interviewed uses a decision-making heuristic simplifying his selection processes to find startups to invest in (Interview 18, 2022; A. Maxwell et al., 2011): As he pointed out; ‘’the good thing about Ethiopia is we're starting late with everything’’ (Interview 18, 2022). For that reason, he ‘’invest[s] in ideas that have already been proven somewhere else,’’ assuming that what worked elsewhere also has a good chance to work in Ethiopia (Interview 18, 2022).
- Further, the investor is looking at general trends, such as businesses in FMCGs that do not require forex and are expected to grow or sectors that are opening up, such as the banking sector in Ethiopia (Interview 18, 2022). As the investor framed it; ‘’Ethiopia is like watching a movie again. You've already seen that movie Kenya so what happened there is gonna happen here’’ (Interview 18, 2022).
- Another angel investor is looking at potential large-scale businesses that can impact the masses and market innovations that can potentially create new ecosystems, such as entrepreneurs in FinTech (Interview 13, 2022).
- Further, the investor checks the psyche of the founder and potentially also checks with other people that know the founder (Interview 13, 2022). If not, the entire team shows up for the first meeting, or if there are some cues that the bond between the co-founders is not strong, these are already details for the investor not to invest (Interview 13, 2022; Interview 15, 2022).
- Further, some investors check businesses with experts to assess the entrepreneur's knowledge (Interview 12, 2022).
- Besides identifying promising business cases, the angel investor looks at the personality of the entrepreneur; are they tenacious, energetic, do they give up easily, are they innovative, do they think outside of the box (Interview 18, 2022). According to two investors, a lot of the decisions to invest in someone are based on gut feeling (Interview 13, 2022; Interview 18, 2022).

- As one investor mentioned, one of the ways he is testing founders is by actually ignoring their calls and texts. If entrepreneurs keep texting and calling, as well as coming to the office, that means they are not going to give up; they are not shy, an important indicator for the investor to see that they keep pushing when encountering challenges (Interview 18, 2022).

Funding and Advisory

- The funding cycle for the investor is around 48 months: The angel investor would invest in early-stage ventures with amounts like 5000 or 10000 USD (or up to one million Birr) for a minority stake and then supports them in their development and connects them with other investors to raise seed rounds of 300,000 USD (Interview 18, 2022).
- The most important part of the investment process is the due diligence, the mentorship, and the support that comes with it. The angel investor meets at least with every founder he has invested in every two weeks, potentially over lunch or coffee to have a conversation (Interview 18, 2022). The angel investor uses these meetings to steer the entrepreneur in the right direction, give them a booster, and provide them with some understanding for their challenges (Interview 18, 2022).

Maneuvering Institutional and Market Voids

- The angel investor advises all his startups to register in Delaware, making it easier to gain investments for the second round (Interview 18, 2022). The Delaware company is a holding for the IPs of the Ethiopian company. This is a mechanism to bypass Ethiopian investment regulations that usually require a minimum investment of 150,000 USD for foreign investments and hence, to enable smaller investments, usually of a ticket size between 10,000 to 50,000 USD (Ethiopian Investment Commission, 2017; Interview 10, 2022; Interview 18, 2022).
- Further, this arrangement helps companies to claim patten rights with international recognition, which otherwise would be very difficult as Ethiopia is not part of the WIPO program, the World Intellectual Property Organization (Interview 10, 2022). In addition, this opens up the opportunity to have legal proceedings outside of Ethiopia, which lowers the risks for foreign investors (Interview 10, 2022).

- Even though registering businesses outside of Ethiopia helps to maneuver around legal challenges regarding foreign ownerships of companies, investors are still faced with a forex challenge that local profits cannot be directly exchanged into foreign currencies (Interview 13, 2022; Interview 19, 2022). To overcome the forex challenge, investors hope for a secondary market, where investors buy out investors, and for the Ethiopian Stock Exchange, which will provide investors with a platform to sell their stocks (Interview 13, 2022; Interview 15, 2022; Interview 18, 2022). Further, one workaround for investors to repatriate their foreign currency is reinvesting their local profits into export-oriented businesses, which can then generate profits in forex (Interview 8, 2022).
- From starting registering in Delaware, the investor expects that it will be another 5 to 10 years for these entrepreneurs to keep raising funds before they will be profitable or make an IPO (Interview 18, 2022).
- Further, to have the business also registered outside of Ethiopia and, if possible, operating in multiple countries within Africa is a way of diversifying the risk, as Ethiopia is currently politically unstable (Interview 10, 2022; Interview 16, 2022; Interview 17, 2022).

Even though if entrepreneurs achieve angel investment, for a number of reasons, it is challenging for them to achieve further rounds of investments: There are only very few investors available within Ethiopia, and unlike other countries in Africa like Kenya or Nigeria, almost no money is invested into tech startups due to the forex issue, as investors assume Ethiopia is closed for outside businesses, and most businesses are not registered outside of Ethiopia and hence struggle to attract outside investment (Interview 18, 2022).

Private Equity Firm Funding Practices

Despite the challenges within the Ethiopian investment ecosystem, multiple private equity firms are aiming to invest, while on the other side, multiple entrepreneurs are looking for funding, but the mechanism that connects both sides is not functional within the Ethiopian context (Interview 15, 2022; Interview 16, 2022; Interview 19, 2022).

According to one firm, the ecosystem lacks companies that fit the criteria of what most investors are looking for (Interview 15, 2022). As the private equity firm pointed out, there are not "a lot of companies with big tickets, with […] big revenues and, you know, positive EBITDA and a positive net profit" (Interview 15, 2022). Those companies doing well are often not interested in sourcing capital by giving out shares, as they do not sufficiently understand the concept of equity and prefer debt capital instead (Interview 1, 2022; Interview 15, 2022). Hence, many companies in Ethiopia do not understand what PE firms do and are often not investment-ready (Interview 1, 2022; Interview 19, 2022). As one funding company mentioned, one of the core reasons they exist is to bridge the information gap needed to connect funders and fundees (Interview 15, 2022). This shows that although players exist on both sides, it is difficult for investors and entrepreneurs to connect because they do not have sufficient information about each other.

Therefore, PE firms try to close the gap by operating on the ground; sourcing insights for entrepreneurs and investors to enable funding (Interview 15, 2022; Interview 16, 2022; Interview 19, 2022). They serve as an intermediate between investors and entrepreneurs to bridge the information gap between both sides, handling the screening for funding partners and matching investors with suitable businesses, and, for that engage in the following funding practices:

Identification of Entrepreneurs

- As a means to connect to entrepreneurs that PE firms could invest in and as most businesses are family-owned and do not sufficiently understand private equity, two PE firms provide half-day trainings about how private equity works (Interview 1, 2022; Interview 19, 2022). One PE firm mentioned they have monthly trainings, with 40 to 50 entrepreneurs (Interview 1, 2022). These trainings are a mechanism to engage with entrepreneurs to identify potential investment opportunities and to make entrepreneurs investment-ready (Interview 1, 2022; Interview 19, 2022).
- PE firms use LinkedIn, their own website, further, they receive leads from banks and referrals to find potential investment-worthy entrepreneurs (Interview 1, 2022; Interview 15, 2022; Interview 19, 2022).
- Two PE firms mentioned they reduce the information asymmetries between funders and fundees by analyzing entire sectors and identifying industry leaders to build a pipeline of companies that they can connect with investors (Interview 15, 2022; Interview 19, 2022).
    - They track back the value chain to understand how many grocery stores sell specific products; they conduct interviews with all the major manufacturers within one sector and try to make an educated guess about their production value and their market share (Interview 15, 2022).

    - They try to analyze available market data, financial statements, operating margins, and balance sheets to understand the sector leaders (Interview 15, 2022; Interview 19, 2022).

Selection Process

- In the first meeting with the entrepreneur, the PE firm sets the expectation about the process; how long it will take so the entrepreneur's short-term financial needs do not depend on the PE firm. At this point some entrepreneurs realize they are not suited for the process and stop engaging with the PE firm (Interview 1, 2022).
- As the funding partner stated, most investors are looking to invest in leading companies in Ethiopia with a minimum of two years of audited financial statements and at least two years of being operational, having achieved product-market fit and a proven track record (Interview 15, 2022). Hence, within the first meeting, PE firms check if the entrepreneur's firm fulfills these requirements (Interview 1, 2022; Interview 16, 2022).
- Some PE firms serve foreign investors and hence invest in export-oriented companies that are able to make profits in a foreign currency and hence can repatriate the forex which was invested (Interview 16, 2022). Further, other PE firms do not invest in import-oriented companies as these companies face the risk of having a shortage in forex (Interview 1, 2022; Interview 19, 2022).
- One PE firm interviewed invests on behalf of its investors to achieve a social impact such as job creation, and hence they select companies that have the potential to create several jobs (Interview 1, 2022).
- To check if the relationship can work long-term, the PE firms assess if they have vision alignment, if the company is scalable and if the founder is trainable. If this is not the case, the PE firm will not invest in the company (Interview 1, 2022). Coming to an extreme, the PE firm wants to know; ''is the person happy to sit in a board and fire himself from […] being the general manager of the company saying he's not performing well'' (Interview 1, 2022).
    - During the due diligence process, the PE firm can sufficiently engage with the person and determine if the entrepreneur is a great fit, if the entrepreneur is transparent about documents, not hiding anything, and if ''the person delays in responding to

emails’’ or as the interviewee noted “if a person is late to the […] date, like, you know, during marriage, he's not going to show up at all’’ (Interview 1, 2022).

Business Assessment

- After the PE firm has identified a potential company, the process starts with estimating if the business model makes sense and if it is big enough to attract investors (Interview 19, 2022).
- Further, PE firms conduct legal checks, such as if the business is registered as a private limited company, to enable investors to invest in shares in the company (Interview 1, 2022; Interview 19, 2022).
- If a firm has potential, PE firms will start their engagement by assessing their investment need and supporting the entrepreneur in preparing a pitch deck (Interview 19, 2022)
- Often the valuation breaks the relationship between investors and entrepreneurs; hence PE firms engage in educating entrepreneurs about the value of their company (Interview 19, 2022).
- In addition, PE firms assess what other resources the entrepreneur needs to be investment-ready, e.g. ‘’strategic alliances, […] strategy partners or management expertise’’ (Interview 19, 2022).
- Moreover, one PE firm conducts the risks assessment together with the National Bank of Ethiopia, as the forex investment can also influence the country's credit rating (Interview 16, 2022).
- The process of accessing the needs of the company usually only takes a few weeks, but the entire investment process can take between four months to one year (Interview 1, 2022; Interview 19, 2022).

Matching with Investors

- Some PE firms organize, as part of their due diligence process, a delegation for foreign investors to visit their shortlisted companies (Interview 16, 2022).
- After having identified and selected a company that fits the PE’s investment criteria, they sign an NDA and start a ‘’light’’ due diligence process – a challenge they often face here is that firms do not have their documents ready; hence this process can take four to six months (Interview 1, 2022).

- Depending on if the PE firm has already a pool of investors or is still looking to build the pool, the PE firm will engage in connecting the company with a potential investor that fits the criteria of the company or directly invest in the entrepreneur's business (Interview 1, 2022; Interview 19, 2022).
- According to one PE firm that aims to partner with donor organizations, the founder aims to invest below 300,000 USD, as there is a missing gap of entrepreneurs that can't find funding for this ticket size (Interview 19, 2022).
- Other PE firms interviewed start investing from 300,000 USD and above (Interview 1, 2022; Interview 15, 2022; Interview 16, 2022).

As one entrepreneur framed it, within the Ethiopian context; ''if you're asking for 250k or 500k, there is a milestone you need to hit, you need to find product-market fit, or at least be in a closer position to that point'' (Interview 12, 2022). This points at a funding gap; although early-stage investment, and for a few entrepreneurs, angel investment exists, it becomes very challenging for entrepreneurs to gain investment above 250,000 USD as they often first have to prove their product-market fit, which is in some cases not possible without funding. Hence, it can be constellated that the Ethiopian entrepreneurship ecosystem often limits entrepreneurship, as many of the entrepreneurs are not able to achieve the product-market fit with minimal investment and, therefore, will not be able to grow their business, even if they have a sound business case (Interview 12, 2022; Interview 15, 2022; Interview 18, 2022; Interview 19, 2022). Further, as not many companies have raised higher rounds of investments, entrepreneurs lack the opportunity to learn from entrepreneurs who raised successfully; ergo, the ecosystem lacks a narrative of how successful fundraising is done; no unicorn has come out of it that could constellate as a strong example of how funding works in Ethiopia (Interview 12, 2022; Interview 19, 2022).

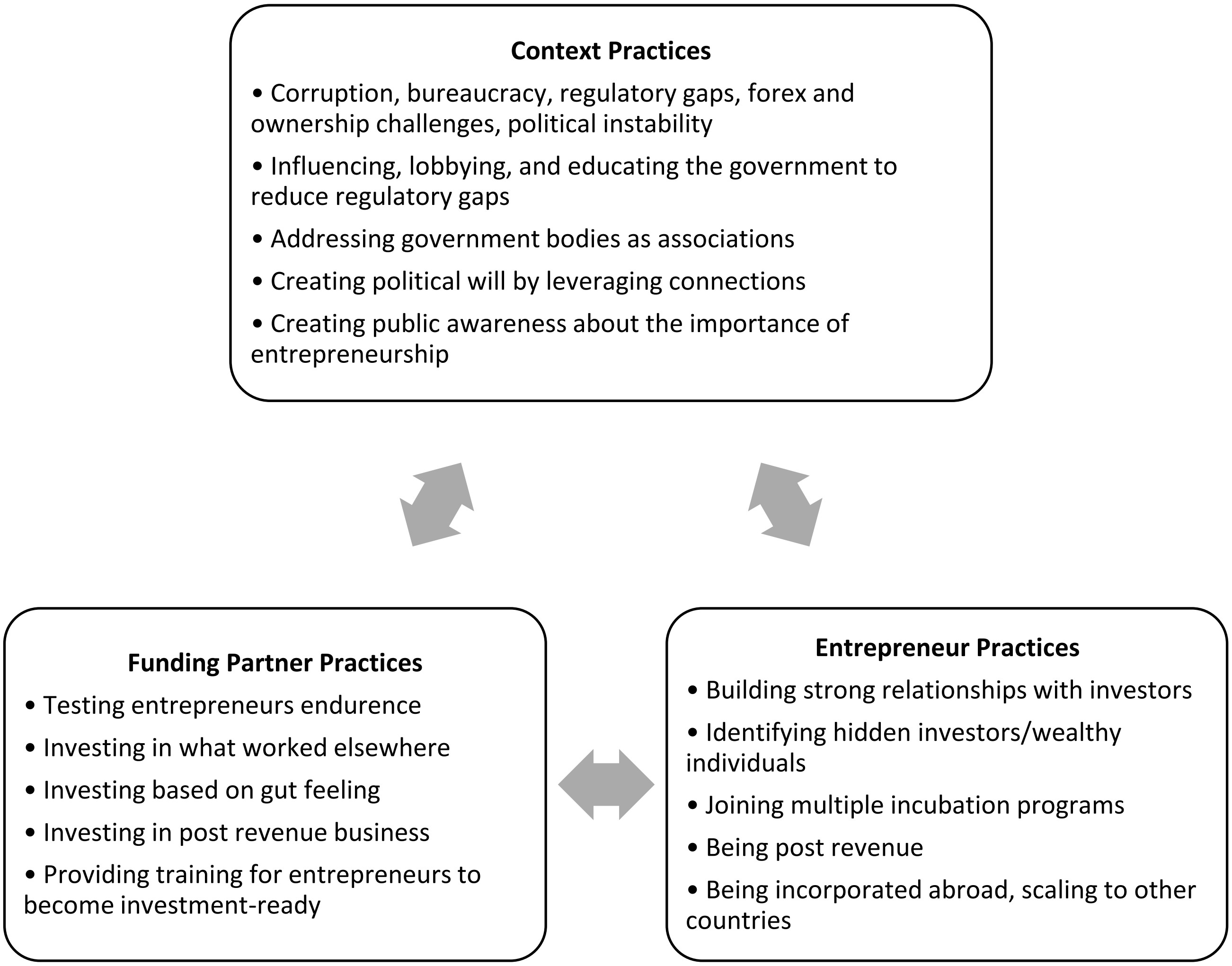
Discussion

This research shows how entrepreneurs and funding partners engage in funding practices within the Ethiopian context, and that adds to the existing literature that mostly focuses on the behavior of the entrepreneur or the investor but neglects the interconnectedness of the funder, fundee, and context (Hallen, 2008; Hallen & Eisenhardt, 2012; Hallen & Pahnke, 2016; Ko & McKelvie, 2018; A. Maxwell et al., 2011; Milovac & Sanchez-Burks, 2014; Sudek, 2006; Uparna & Bingham, 2022; Zott & Huy, 2007).

Overall, it was the goal of this research to answer the question; how do expert entrepreneurs and funding partners engage in practices of funding?

In line with existing research from Hallen and Eisenhardt (2012), this thesis finds that funding can be catalyzed with so-called casual dating, an approach where entrepreneurs strengthen their relationships with investors before engaging in funding negotiations. Furthermore, in line with Sudek (2006), this research also finds that trust is an important factor in the Ethiopian context to maneuver institutional voids and to make funding possible (Interview 3, 2022). However, part of the findings also contradicts Sudek (2006) research; venture exit opportunities are not among the top influencers for investors as the exit market for startups in Ethiopia has not yet materialized(Interview 8, 2022). In line with Bernstein et al. (2017), that found that most experienced and successful investors focus on the strength of the founding team to identify the operational strength of the venture, this research also found in several interviews that investors focus their assessment on the founder and the team as a signal if the relationship will work out (Interview 1, 2022; Interview 13, 2022; Interview 18, 2022; Interview 19, 2022). Further, as Huang and Pearce (2015) found; also the investors interviewed for this research focused their decision-making processes on their expertise-based intuition when it is impossible to gain sufficient information about unknowable risks (Interview 1, 2022; Interview 13, 2022; Interview 18, 2022).

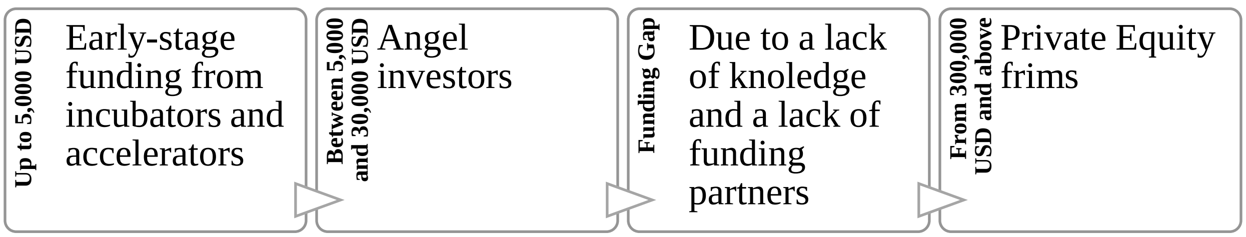
However, this research added not only to what entrepreneurs and funding partners do to engage in funding, but also how the interplay between these two within the Ethiopian context influences the funding process. Overall, the findings of this research can be synthesized as follows:



(Interview 1, 2022; Interview 10, 2022; Interview 11, 2022; Interview 13, 2022; Interview 17, 2022; Interview 18, 2022; Interview 3, 2022; Interview 7, 2022; Interview 8, 2022)

Due to the regulatory gaps, political instability, and forex shortages in Ethiopia, only a few investment opportunities are available for entrepreneurs (Interview 13, 2022; Interview 17, 2022; Interview 19, 2022). The investor ecosystem has not crystalized, as many investors are unsure if what they are doing is legal or illegal and therefore prefer to stay silent and remain hidden (Interview 13, 2022). Therefore, local entrepreneurs build strong relationships with investors as early-stage funding is more based on trust (Interview 3, 2022; Interview 7, 2022). Further, entrepreneurs have to engage in practices such as incorporating a separate legal entity abroad to attract foreign investment, but many entrepreneurs are unaware of this practice (Interview 18, 2022). Moreover, investors and entrepreneurs are active in building connections to government ministries that can help them to overcome corruption or bureaucratic hurdles (Interview 11, 2022; Interview 13, 2022; Interview 16, 2022; Interview 18, 2022).

Overall, it can be noted that there is a funding gap within the Ethiopian ecosystem, and only a few entrepreneurs are able to grow their business sufficiently until they reach the next milestone, that is, being able to attract PE funding (Interview 11, 2022; Interview 14, 2022). To close part of the funding gap that materializes as a knowledge gap, funding partners provide training for entrepreneurs that can help them be investment-ready (Interview 1, 2022; Interview 17, 2022; Interview 18, 2022; Interview 19, 2022).



(Interview 16, 2022; Interview 17, 2022; Interview 19, 2022)

To sum up, entrepreneurs and funding partners operate in a high-risk early-stage untapped market that provides them with many opportunities but also challenges that they have to maneuver. In order to achieve funding within this environment, it is essential for entrepreneurs and investors to consider the context they are part of.

Conclusion

This thesis finds that context, funding partners, and entrepreneurs are entangled within the practices they use and how funding is achieved. Overall, this thesis sheds light on different funding practices that entrepreneurs and funding partners use within the Ethiopian context.

The thesis is divided into five main sections. The first section reviews the existing literature and develops the research question; in the second section key concepts for this research are defined, such as practices, funding partners, and expert entrepreneurs, as well as the context. Further, in the methodology section, the interpretative research approach and techniques for data collection and evaluation are explained. Finally, in the last main section, the thesis aims to shed light on entrepreneurs' and funding partners' funding practices, given the Ethiopian context. The thesis closes with the research limitations and an outlook for potential future research topics.

Overall, this thesis can be of value for startups, funding partners, governments, and other organizations that aim to support entrepreneurship and seek to understand how funding practices work within Ethiopia.

Research Limitations

One limitation of this research is that it aimed to uncover funding practices, but practices of entrepreneurs and investors were not directly observed but, in hindsight, constructed from interviews. Therefore, the practices presented in this thesis only touch upon what the entrepreneurs and funding partners remembered and mentioned in the interviews. Further, although 19 interviews with 21 people were conducted, saturation was not reached, as entrepreneurs and investors' funding practices are so diverse. As several funding practices were discovered, this thesis limits its focus on early-stage, angel, VC, and PE firm funding practices. Bootstrapping, friends and family, tenders, bank loans, and company and government partners were also mentioned as funding practices. However, there were not part of this research, as it only focused on selected practices that help entrepreneurs to launch and scale their ventures.

Although all interviewees were informed that the interview data is anonymized, for scholarly purposes only and is kept confidential, biases could occur. Interviewees might only reveal information that makes them look good while holding back sensitive information or information that could make them appear less beneficial.

Despite the fact that only expert entrepreneurs and funding partners that managed to survive and grow in challenging environments were interviewed, this research is limited by the findings of these interviews and cannot be generalized.

Future Research

As per the limitations of this research, future research could look into other funding practices, such as grants or bootstrapping, that entrepreneurs and funding partners use to achieve funding within Ethiopia. Further, as insights were collected using semi structured interviews, a more nuanced data collection approach, such as shadowing, could help understand funding practices directly within the moment and context they unfold. It could be beneficial to uncover how successful incubators or other funding channels support entrepreneurship in Ethiopia and, if there is a variance, to understand why some are more and some are less successful. Further, as there is a funding gap within the Ethiopian ecosystem, it could be researched in what kind of practices entrepreneurs engage in when they do not have access to funding.

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Glossary

EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
FMCG	Fast Moving Consumer Goods
GO	Government Organization
IP	Intellectual Property
IPO	Initial Public Offering
MFI	Microfinance Institution
MVP	Minimum Viable Product
NDA	Non-Disclosure Agreement
NGO	Non-Government Organization
PE	Private Equity
PLC	Private Limited Company
VC	Venture Capital
WIPO	World Intellectual Property Organization