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DETERMINANTS OF EQUITY-BASED INVESTMENT DECISIONS: EVIDENCE FROM PE AND VC FIRMS OPERATING IN ETHIOPIA

A Research Project Submitted in Partial Fulfillment of the Requirements for the Award of Master of Business Administration (MBA)

BY: KIDIST DEMESACHEW

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Addis Ababa, Ethiopia

Declaration

I, Kidist Demesachew, hereby declare that the thesis work entitled " *Determinants of equity-based decisions in Ethiopia: Evidence from PEs and VCs operating in Ethiopia"* submitted by me for the award of the degree of Masters Business Administration in Finance of Addis Ababa University, is my original work and it has never been presented in any university. All sources and materials used for this thesis have been duly acknowledged.

Name **Kidist Demesachew** Advisor's Name **YITBAREK TAKELE (PhD, MBA, MA Econ)**

Signature:_____________________ Signature: ________________

Certification

This is to certify that the thesis prepared by, Kidist Demesachew entitled: **Determinants of equity-based investment decisions in Ethiopia: Evidence from Pes and VCs** and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Advisor______________________ Signature_____________________Date ______________

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Table of Contents

LIST OF TABLES

LIST OF ACCRONYMS AND ABBREVIATION

Abbreviation	Description
EIC:	Ethiopian Investment Commission
ETB:	Ethiopian Birr
GDP:	Gross Domestic Product
IPO:	Initial Public Offering
MOTI:	Ministry of Trade & Industry
NBE:	National Bank of Ethiopia
PE:	Private Equity
SME:	Small & Micro Enterprise
USD:	United States Dollar
VC:	Venture Capital

ABSTRACT

The study aimed to explore the determinants of venture capital investment decisions in Ethiopia using a qualitative dominant mixed approach. The study used a thematic and descriptive designs, a narrative and multiple case study methods, and interview as a data collection instrument. Ten venture capital (VCs) and private equity (PE) firms that actively operate in the sector were identified. Of the ten investment firms, only 6 of them were willing to participate in the study. The study results signpost 83.3% of VCs and PE firms invest in growth-stage firms with an average investment of 213,900,000 ETB per venture. It takes VCs and PE firms a minimum of 6 months to cover the investment decision cycle starting with pitching and ending with funding. The high inflation in the economy coupled with the high-risk nature of the ventures has triggered the investment firms to seek a higher IRR. The study also identified seven determinant factors that affect the investment decision of VCs and PE firms in Ethiopia: network capital, entrepreneurs' character, quality of business plan, entrepreneurs team composition, proposal novelty & game-changing potential, entrepreneurs wolf pack mentality, and business risk.

Keywords: Venture capital, Private equity, Investment decision, and Ethiopia

CHAPTER ONE: INTRODUCTION

This chapter begins with discussing background of the study that gives some insight on the issues of venture capital investments in Ethiopia. After giving some insight on the issues of entrepreneurs, statement of the problem part that shows the direction of the study, justifies the reason to carry out this study. Following this, objective, significance of the study and limitation of the study are presented.

1.1. BACKGROUND OF THE STUDY

Finance is a key input of production. It is a prerequisite for accelerating the process of industrial development. Financial resources are essential for business, but requirements change as an enterprise grows. Obtaining those resources in the amount needed and at the time when they are needed can be difficult for entrepreneurial ventures because they are generally considered more risky than established enterprises.

There are many different sources of finance—each with its own requirements and investment goals. They fall into two main categories: debt financing, which essentially means you borrow money and repay it with interest; and equity financing, where money is invested in your business in exchange for part ownership (Sherman, 2015).

Businesses can obtain debt financing from several different sources. Private sources of debt financing include friends and relatives, banks, credit unions, consumer finance companies, commercial finance companies, trade credit, insurance companies, factor companies, and leasing companies. Public sources of debt financing include several loan programs provided by the state and federal governments to support small businesses (Burk, James E., 2004).

Equity financing on the other hand involves raising money by offering portions of a company, called shares (equity), to investors. When a business owner uses equity financing, they are selling part of their ownership interest in their business.

Several types of equity financing exist for starting or growing business. There are Business angels (Angel investors), Venture capitals, Private equities, Crowd funding, Institutional Investors, Corporate Investors and Retained Earnings. (Chand, 2015) The main concern of this paper is equity-based financing specifically Venture Capitals and Private equities.

Venture capital has developed as an important intermediary in financial markets, providing capital to firms that might otherwise have difficulty attracting financing. These firms are typically small and young, plagued by high levels of uncertainty and large differences between what entrepreneurs and investors know. Moreover, these firms typically possess few tangible assets and operate in markets that change very rapidly. Venture capital organizations finance these high-risk, potentially high-reward projects, purchasing equity or equity-linked stakes while the firms are still privately held. The venture capital industry has developed a variety of mechanisms to overcome the problems that emerge at each stage of the investment process. At the same time, the venture capital process is also subject to various pathologies from time to time, which can create problems for investors or entrepreneurs (Lerner, 2001).

The first true venture capital firm was American Research and Development (ARD), established in 1946 by MIT President Karl Compton, General Georges F. Doriot, who was a professor at Harvard Business School, and local business leaders. This small group made high-risk investments in emerging companies that were based on technology developed for World War II. The success of the investments ranged widely: almost half of ARD's profits during its 26-year existence as an independent entity came from its $70,000 investment in Digital Equipment Company in 1957, which grew in value to $355 million. ARD was structured as a publicly traded closed-end fund. A closed-end fund is a mutual fund whose shares trade from investor to investor on an exchange like an individual stock. These funds raise capital up front by selling shares to investors. If investors no longer desire to hold the investment, they can sell the shares on a public exchange to other investors. This provision allowed the fund to invest in illiquid assets, secure in the knowledge that they would not need to return investors' capital in an uncertain time frame. Because it was a liquid investment that could be freely bought or sold, Security and Exchange Commission regulations did not preclude any class of investors from holding the shares.

Institutional investors showed little interest in these shares, citing the risks associated with such an unproven new style of investing. As a result, shares in ARD were marketed mostly to individuals (Liles,1977). The few other venture organizations begun in the decade after ARD's formation was also structured as closed-end funds. The publicly traded structure, however, was soon found to have some significant drawbacks. In a number of cases, brokers sold the funds to inappropriate investors: for example, to elderly investors who had a need for high current income rather than long-term capital gains. When the immediate profits promised by unscrupulous brokers did not materialize, these investors vented their frustration at the venture capitalists. In fact, much of General Doriot's time during the mid-1950s was spent addressing investors who had lost substantial sums on their shares of American Research and Development during these years. (Lerner, 2001)

Venture capital firms have been active in Africa since, starting with the Capital Development Corporation's (formerly the Colonial and then the Commonwealth Development Corporation, or CDC) first investment in Chilanga Cement Plant in Zambia, which was Northern Rhodesia at that time (CDC, 2010). In 2007, these firms supported a total of 1,708 investees on the continent.

Private equity on the other hand is the investment of equity capital in private companies. In a typical private equity deal, an investor buys a stake in a private company with the hope of ultimately realizing an increase in the value of that stake. (Snow, 2016)

In Ethiopia, increased attention is being directed to promote innovation and entrepreneurial firms to promote economic conditions. Several proactive policies and programs are now in place to facilitate registering, establishing and development of new firms. Although the size of venture capital investments in Ethiopian startups is increasing, little is known about how VCs and Pes make investment decisions and what characteristics do they look for in a new venture.

1.2. STATEMENT OF THE PROBLEM

For entrepreneurs looking to raise capital for their start-up businesses, early-stage investors such as venture capitalist investors and private equities can be awfully hard to find, and when entrepreneurs do find them, it's even tougher to get investment funds out of them.

But venture capitalists and private equities are taking on serious risk. New ventures frequently have little to no sales; the founders may have only the faintest real-life management experience, and the business plan may be based on nothing more than a concept or a simple prototype. There are plenty of good reasons why VCs and PEs are tight with their investment funds.

Still, despite facing enormous risks, VCs and PEs do fork-out millions of dollars to tiny, untested ventures with the hope that they will eventually transform into the next big thing. So, what things prompt VCs to pull out their checkbooks?

Traditionally, investment decisions are made based on quantitative numbers such as revenue growth, addressable market, and profitability. However, by the very nature that highly innovative startups are also considered high risk and are venturing into unknown territory, quantitative factors are not sufficient measures for the future success of a company and therefore necessitate the investment of venture capital and private equities. This is to mean venture capitalists and private equities have to base their investment decisions mainly on qualitative factors. The question is what these qualitative factors are and to what extent can the entrepreneur influence these? Does a common set of favorable factors exist?

Previous studies have mostly used a quantitative approach to test or confirm theories and assumptions about how venture capitals and private equities to establish generalized facts. As the idea is recent to developing countries specifically Ethiopia it is found important to study the subject matter to gather in-depth insights on the topic that is not well understood initially. This will help future researchers develop a quantitative questionnaire development regarding factors affecting VCs and PEs investment decision in Ethiopia.

1.3. RESEARCH QUESTION

What are the determinants that impact venture capitalists’ and private equities’ investment decisions in Ethiopia?

1.4. OBJECTIVE OF THE STUDY

1.4.1. GENERAL OBJECTIVE

The motivation for this paper comes mainly from the fact that there is hardly any study in Ethiopia capturing the knowledge and understanding of Venture Capital and high growth investing in their entirety. Therefore, it will attempt to identify the determinants that impact venture capitalists and private equities investment decisions.

1.4.2. SPECIFIC OBJECTIVE

The specific objectives of this study are:

- Identify factors affecting venture capital investment decisions.
- Capture the language and imagery investors use to describe and relate to investment decisions.
- Understand the feelings, values and perceptions that underlie and influence venture capital investment decisions.
- Develop hypotheses for further testing and for quantitative questionnaire development regarding factors affecting venture capital investment decisions in Ethiopia

1.5. SIGNIFICANCE OF THE STUDY

Venture capitals are important because they promote Entrepreneurs, promote products, encourage customers, brings out latent talent, promote exports, catalysts to improve financial and managerial talents, create employment opportunities, bring financial viability, help technological growth, help sick companies, develop backward areas and finally for the growth of Economy.

Gompers [2015] explored the importance of VC financing as a major contributor in the economic growth of the United States and found that increases in the flow of VC investments can be attributed to various regulatory changes.

1.6. SCOPE OF THE STUDY

Due to lack and confidential nature of the data, this research's focus will be only the qualitative aspect of investment decisions that cannot be easily captured with a quantitative questionnaire with predetermined responses or empirical processes.
Location wise, this research is studies venture capitals and private equity firms that are in Addis Ababa, Ethiopia.

1.7. LIMITATION OF THE STUDY

There is no systematic data collection or storage in Ethiopia about Venture capitals and Private equities by any entity therefore the researcher is forced to rely upon sources of data collection such as; reports from investors, news from business journals, personal connections and network.

The major limitation faced by the researcher is the global pandemic that happened right when data collection was about to be started. The government had announced a lockdown and many firms were closed. Therefore, the researcher wasn't able to move freely.

Another challenge in such a study is finding relevant and representative participants who are willing to talk off-record and share personal experiences without revealing insider secrets.

CHAPTER TWO: LITERATURE REVIEW

This chapter will be presenting literature review on venture capital investment. The chapter presents the theoretical review of related venture capital investment with the empirical studies.

2.1. THEORETICAL LITERATURE REVIEW

2.1.1. VENTURE CAPITAL

Venture capital firms are defined by the National Venture Capital Association (NVCA) as “professional, institutional managers of risk capital that enable and support the most innovative and promising companies” (Buyouts Insider 2016). Among companies once backed by venture capitalists are Apple, Amazon, Facebook and Dell. Venture capitalists make deals at all stages of a start-up but are more often investing during the development and growth stages of a company, when large amounts are needed to keep up with new hires and production (Pitchbook Data 2017). Venture capitalists spend a great deal of time and effort in the companies they back, and each new deal requires their ongoing participation in different ways.

Venture Capital firms are commonly funded through limited partnerships, where the venture capitalist firm is the general partner and limited partners are capital sources such as public pensions, corporate pension funds, insurance companies, high net-worth individuals, family offices, endowments, foundations, fund-of-funds, and sovereign wealth funds (Pitchbook Data 2017). As of 2016 there are 898 venture firms in the United States, backing 7,750 firms and providing $69.1 billion in funding (Pitchbook Data 2017). Start-up funding can also come from international sources, and outside of the United States, 54% of venture funding is made to companies within the United States (Amadeo 2017). Venture capitalists receive deal flow from a variety of sources, including professional, private and referral networks, actively seeking out investments, and receiving business plans and pitches from entrepreneurs. Once a company has been funded, hold times to exit can vary. Starting at the time of funding, the firm supports the company on a high accelerated growth path to exit. Typical exit strategies are Initial Public Offering (IPO) and more commonly acquisition.

Only 39 IPOs were completed by venture capitalists in 2016 (Pitchbook Data 2017). In 2016, software was the leading sector of investment, and the only sector, other than IT hardware, that has shown growth from 2015 (Pitchbook Data 2017).

A 2016 study 'How Do Venture Capitalists Make Decisions' took a qualitative approach on venture capitalists' decision making, estimating that only one in 100 investments received by a venture capitalist firm will ultimately get funded (Gompers, et al. 2017).

According to this study, for early-stage investments, 17% of venture capitalists did not use any quantitative factors in their funding decisions, and 9% of overall investments were made solely on qualitative factors (Gompers, et al. 2017).

2.1.2. PRIVATE EQUITY

Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors provide the capital for private equity, and the capital can be utilized to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet.

Private equity investment comes primarily from institutional investors and accredited investors, who can dedicate substantial sums of money for extended time periods. In most cases, considerably long holding periods are often required for private equity investments in order to ensure a turnaround for distressed companies or to enable liquidity events such as an initial public offering (IPO) or a sale to a public company.

2.1.3. ANGEL INVESTMENT

Angels are individuals or groups of individuals with a high net worth who typically invest during earlier stages of companies than venture capitalists. They focus smaller investments, less than $1 million per startup, and often provide various levels of assistance to their investment companies such as through mentoring or industry expertise.

The exact border between Venture Capitalist and Angel Investor is fluid. Angels invest their own money into start-ups and can come together in groups to achieve funding comparable to that of venture capital. Angels, like venture capitalists, must be SEC accredited to provide funding to start-ups, since both are high-risk. Accredited investors are defined as those who have a net worth of over $1 million in addition to their primary residence, or an income of $200,000 per year for at least 2 years or $300,000 for married couples (AngelList 2015).

2.1.4. CROWD FUNDING

Crowdfunding is defined as financing a project or venture directly through individuals (Armin Schwienbacher 2012). The Journey of Business Venturing article' "Crowdfunding: Tapping the Right Crowd" evidences that rewards of funding can be realized in the form of rights to pre-order new products or owning a share of equity in the new company after it has been fully backed, a profit-sharing model, or lending contract, but sometimes funding is obtained in the form of donations, thus expecting no compensation (Belleflamme, Lambert and Schwienbacher 2013). Profit-sharing is more often the choice for larger investments, and smaller investments would fall into the category of funders wanting pre-ordering rights (Belleflamme, Lambert and Schwienbacher 2013). Due to recent legislation and the growth in online availability and awareness of crowdfunding, the 2015 United States total for crowdfunding is $17.25 billion dollars and $34.4 billion globally (Massolution 2015). 2016 global results are expected to surpass that of venture capital funding (Massolution 2016). Crowdfunding is usually done through internet sources such as CircleUp.com and Kickstarter.com. Kickstarter.com alone launched 57,515 project and funded 19,235 projects in 2016 (Kickstarter 2017). The drawback to crowdfunding is that it is not managed by professional investment partners. A study of Kickstarter by Pennsylvania State University's Wharton School of business showed that since 2009, 9% of Kickstarter projects failed to deliver promised rewards to their backers (Kickstarter 2017).

There is little research done on crowdfunding since legislation has largely prohibited crowdfunding. In

2015, the Securities and Exchange Commission filed Title III of the JOBS Act to allow crowdsourcing for individuals who are not registered investors as long as the amount raised does not exceed $1 million in a 12-month period, and individual investments are limited to $2,000 or 5% of a participant's annual income or net worth, or 10% if annual income is over $100,000, not to exceed $100,000 of total investments in a twelve-month period (Securities and Exchange Comission 2015). This legislation has largely allowed for smaller investments which can be harder to track and regulate, but still requires registered investors to account for investments over $1 million, so new legislation is beneficial for early-stage start-ups, but would not be applicable to venture capital-seekers over $1 million. Crowdfunding can potentially be used to prove products, or establish traction required before obtaining venture-capital funding in some circumstances.

2.2. EMPIRICAL REVIEW

In economic research it is important to make an empirical assessment since reality can be far from theory. Especially in this case, empirical analysis is imperative because theoretical approaches are not always evident for least developing countries.

In 2016, software was the leading sector of investment, and the only sector, other than IT hardware, that has shown growth from 2015 (Pitchbook Data 2017).

A 2016 study ‘How Do Venture Capitalists Make Decisions’ took a qualitative approach on venture capitalists’ decision making, estimating that only one in 100 investments received by a venture capitalist firm will ultimately get funded (Gompers, et al. 2017). According to this study, for early- stage investments, 17% of venture capitalists did not use any quantitative factors in their funding decisions, and 9% of overall investments were made solely on qualitative factors (Gompers, et al. 2017).

Several studies examine the hypothesis that venture capitalists play an active role in the companies in which they invest, providing mentoring, strategic advice, help in bringing innovative products to the marketplace, and assistance in the recruitment of top managers. Other studies hypothesize that the presence of venture capitalists is useful in certifying the value of companies to the marketplace, and that venture capitalists play an important role in the governance of the companies in which they invest. In short, these studies hypothesize that venture capitalists are active investors of the type envisioned by Jensen (1993).

The increase of money which has been invested in PE and VC funds over the last two decades finds its equivalent in sustained growth of corresponding research on venture capital and private equity financing. In her paper “Venture capital and private equity financing: an overview of recent literature and an agenda for future research”, T. Tykvová surveys the growing body of most recent literature on VC and PE. Therefore, she collected and analyzed the impressive number of 314 papers, which were published from 2011 until mid of 2016 in top ranked international finance and business/management journals. By choosing appropriate categories, the author presents them in a comprehensible way.

In addition, she points to areas that deserve deeper investigation. Most of the surveyed articles are related either to PE or VC, with the latter accounting for the majority. Only a small part (17 articles or about 5 percent) deals with both forms, accordingly low is the number of corresponding previous surveys. Only two recent papers review the literature on both the VC and the PE industry. Moreover, they are focused only on certain aspects. Metrick and Yasuda (2011) concentrate mainly on studies that deal with returns and contracts, whereas the survey of Kaplan and Sensoy (2015) is exclusively referring to VC and PE fund performance. In contrast, the survey of Tykvová covers all topics of both the VC and the PE industry that have been recently published in leading international journals. Hereby, the reader gets also information on the frequency of different research areas in all studies on PE and VC. In addition, it should be emphasized that many of the analyzed papers have not been included in previous surveys. Tykvová gives an overview of differences of VC and PE, like the different age of the portfolio companies and the use of leverage, as well as on common characteristics such as the typical VC and PE cycle with the specific roles of limited partners (LPs), VC or PE firms and funds and the portfolio companies (PCs). VC and PE firms take a very active role in the management of the PCs which unlike the investments of most other types of funds are illiquid private companies. The author identifies so-called 'hot' topics, those that have received the greatest interest of researchers in recent years and that have not gained so much attention in prior studies (e.g., aspects of heterogeneity within the VC and PE industries; the process of selecting and matching PCs; PC performance and the value-adding impact of the fund management or the performance of VC and PE funds and its proper measurement).

T. Tykvová shows that recent research includes a couple of new topics that reflect the developments within the VC or PE industries. For example, she emphasizes an expansion in terms of regional coverage, reflecting an increased interest in regions outside the US, especially Europe, as well as in cross-border VC and PE investments. The author points to emerging research in new areas, such as new sources of entrepreneurial finance, and discusses research gaps. Finally, she suggests an agenda for future research. One of her overall five recommendations for future research is more evidence from outside the US, because distinct differences between the characteristics of the US economy and those of other regions may influence the way in which the VC and PE industry operates. All the more, the editors are pleased to introduce in the following new research that deals with both, VC and PE activities from outside the US and some of the 'hot' and future research topics, which were addressed by Tykvová.

S. Schmidt, D. Bendig, and M. Brettel raise the question of how to build an equity story. In their paper the authors use the concept of effectuation for a better understanding of the outcomes of the investor activity of business angels and provide empirical evidence on business angels' value-added to their investee businesses. The effectuation theory of entrepreneurship which was developed by S. Sarasvathy (2001) is generally defined as a form of problem solving which assumes the future is largely unpredictable, but that it can be controlled through entrepreneurial action. This is in opposite to causality, which assumes that the future is theoretically predictable based on prior events. So, when it comes to entrepreneurship, the future is neither found nor predicted, but made by what the entrepreneur controls. The authors gathered primary data amongst German speaking business angels, resulting in a sample of 73 complete responses, each representing an individual investor-venture setting. Although the size of the sample is small, the collected data fit well into the picture of previous angel investor research. It is their main finding using regression analysis that angel investors who emphasize the effectual decision-making principle of means orientation led to a significant increase in their investee business' valuation. For the further analyzed effectual dimensions affordable loss, partnerships, and leveraging contingencies empirical evidence could not be proved. Amongst the control variables, as it was expected, only the new economy dummy and investor involvement show a positive and significant effect on valuation increase in the baseline model. Furthermore, the results empirically confirm the positive influence of the "hands on" attitude of business angels which is well known from literature and practice, but the study is among the first to provide empirical insights into the role and attitude of business angels in the crucial phase of early post-investment. Besides the academic contribution, the findings are also relevant for practice, e.g., for business angels and entrepreneurs. Following the study's outcomes, on the one hand, a stronger focus on available means rather than on goals in business angels' decision-making will have a positive effect on their investee business' valuation. On the other hand, entrepreneurs approaching potential investors should specifically look for angels that provide ideas on how to make best use of available means.

There is an expanding literature on emerging VC markets, especially on Asia-Pacific countries. Asia Pacific countries have grown rapidly and become the main VC importers since the late 1990s. Many studies have investigated the legal and institutional differences between emerging and established markets. Cumming et al. (2006) analyzed the impact of legality on VC exits among 468 VC-backed companies from 12 Asia-Pacific countries. They found IPOs to be more likely in countries with a higher legality index. Lerner and Schoar (2005) investigated contract choices in 210 private equity transactions in emerging markets. They found that, unlike the U.S. VC market where convertible preferred are ubiquitous, in emerging VC markets, a much broader array of securities is employed and private equity investors often have fewer contractual protections. The choice of securities appears to be driven by the legal and economic circumstances of the nation and the private equity group. Also, Bruton et al. (2004) examined how institutions in East Asia shape the VC industry and create differences from VCs in the West. Ahlstrom and Bruton (2006) explored how VCs in established markets use network relationships among entrepreneurs, VCs, enterprises and other informal institutions to manage investments in ways that supplement or replace weak, missing or unstable formal institutions in emerging markets. Cumming et al. (2008) examined the impact of VCs' ownership structures on VCs' provisions, especially in governance and value-added services, to small and medium-sized businesses (SMEs) in Japan. They found that U.S.-affiliated funds in Japan are more likely to have smaller portfolios and tend to provide more advice to their portfolio companies. Cumming and Walz (2010) further addressed the systematic biases in valuation reporting of private equity in 39 North and South American, European and Asian countries. Their findings imply that the reporting biases depend on international differences in accounting standards and laws, and on the proxy, they used for information asymmetry between private equity managers and their institutional investor.

CHAPTER THREE: RESEARCH METHODOLOGY

This research is basically the study of understanding how decision makers interpret funding opportunities, and whether generalized industry commonalities occur. For addressing the objectives of the study, both primary and secondary data sources are entrusted upon. Secondary data is collected from different publications, newspaper articles, journals and online sources. In case of collecting primary information, detailed discussion, interviews and/or questionnaires using Google forms with Venture capitalist, Private equity firms and concerned government institution is conducted.

3.1. RESEARCH APPROACH

In this study the researcher has chosen to use a mixed research approach. The term "mixed methods" refers to an emergent methodology of research that advances the systematic integration, or "mixing", of quantitative and qualitative data within a single investigation or sustained program of inquiry. The basic premise of this approach is that such integration permits a more complete and synergistic utilization of data than do separate quantitative and qualitative data collection and analysis (Jennifer Wisdom & John W Creswell, 2013).

The qualitative analysis part of the research starts with the analysis of qualitative data such as text data from interview transcripts. The emphasis of the qualitative analysis is "sense making "or understanding the phenomenon, rather than predicting or explaining. Subsequently a quantitative analysis is used to ensure reliability and validity of the qualitative data analyzed by the researcher in order to better understand the Venture Capitalists' perception instead of relying heavily on the researcher's experience and instinct when analyzing.

In total, ten mixed methods approaches are identified that can be grouped into four major groups: (i) sequential design; (ii) concurrent design;(iii) multiphase design; and (iv) multilevel design (Almeida, 2018). For this research a sequential mixed method design has been found appropriate. The sequential mixed method design is characterized by an initial qualitative phase of data collection and analysis, followed by a phase of quantitative data collection and analysis, with a final phase of integration or linking of data from the two separate strands of data (Berman, 2017).

3.2. RESEARCH DESIGN

A research design is a set of advance decisions that makes up the master plan specifying the methods and procedures for collecting and analyzing the needed information (F. Bush, 2003). Saunders (2007) indicate that research design is the general planning about how the researcher will go about answering his or her research questions. To address the overall research objectives, the researcher believed that a combination of exploratory and descriptive approach is most suitable. The exploratory part of the research helps achieve the primary objective which is to explore the subject matter to provide insights into and comprehension for more precise investigation.

It focuses on the discovery of ideas and thoughts. The descriptive part of the research describes the characteristics of the subject of interest which are Venture capitals in Ethiopia.

Conclusively this research provides insights and hypothesis for further investigation while providing complete and accurate information to minimize bias and maximize reliability.

3.3. RESEARCH METHOD

As this study utilizes a mixed research approach which comprise both qualitative and quantitative research approach, the researcher must select a methodology appropriate to achieve the desired perspective on the selected topic between the five qualitative research approaches.

The five qualitative approach is a method to framing qualitative research, focusing on the methodologies of five of the major traditions in qualitative research: biography, ethnography, phenomenology, grounded theory, and case study. The method facilitates identifying and writing a problem statement. Through taking a future perspective, the researcher discovers the importance & direction of the study and composes a purpose statement. The process develops an overarching research question integrating the purpose and the research problem (Elkatawneh, 2016).

Hence, the researcher has chosen to apply a case study approach as the study aims to make a detailed and in-depth analysis of multiple cases over time through the use of multiple sources such as interviews, observations and other materials.

3.4. METHOD OF DATA COLLECTION

For addressing the objectives of the study, both primary and secondary data sources are entrusted upon. Secondary data are collected from different publications, newspaper articles, journals and online sources. In case of collecting primary information, detailed discussion, interviews and/or questionnaires using Google forms with Venture capitalist, Private equity firms and concerned government institution is conducted.

3.5. METHOD OF DATA ANALYSIS

The study used descriptive research design in order to achieve the research objective. This helped gather relevant information for ventures who seek funding from venture capitals and private equity firms.

3.6. QUALITATIVE DATA ANALYSIS METHODS

Qualitative research yields mainly unstructured text-based data. These textual data could be interview transcripts, observation notes, diary entries, medical and nursing records. In some cases, qualitative data can also include pictorial display, audio, video clips or other multimedia materials. Data analysis is the part of qualitative research that most distinctively differentiates from quantitative research methods. It is not a technical exercise as in quantitative methods, but more of a dynamic, intuitive and creative process of inductive reasoning, thinking and theorizing (Wong, 2008).

Data analysis in qualitative research is defined as the process of systematically searching and arranging the interview transcripts, observation notes, or other non-textual materials that the researcher accumulates to increase the understanding of the phenomenon. The process of analyzing qualitative data predominantly involves coding or categorizing the data. Basically, it involves making sense of huge amounts of data by reducing the volume of raw information, followed by identifying significant patterns, and finally drawing meaning from data and subsequently building a logical chain of evidence (Wong, 2008).

From the different method of qualitative data analysis used, the researcher has chosen thematic analysis. Thematic analysis is a method of analyzing qualitative data, applied to a set of texts, such as interview transcripts. The researcher closely examines the data to identify common themes – topics, ideas and patterns of meaning that come up repeatedly (Caulfield, 2019).

3.7. STEPS OF DATA ANALYSIS

A qualitative data analysis requires roughly a 6-step process:

Step 1 – Preparation and organization of data – the first step of qualitative data analysis is to transcribe interviews into text, print out transcripts, gathering of notes taken, documents or other materials. This might mean to mark the source, any demographics that may have been collected, or any other relevant information that help to analyze the data.

In general, this method of organizing and displaying the data allows the researcher to look at the responses to each topic and specific question individually, in order to make it easier to pick out concepts and themes.

Step 2 – Review and explore of data – At this stage the data is read thoroughly, probably several times, to get a sense of what it contains.

Step 3 – Development of data coding system – Coding can be explained as categorization of data. A 'code 'can be a word or a short phrase that represents a theme or an idea. All codes are assigned meaningful titles. A wide range of non-quantifiable elements such as events, behaviors, activities, meanings etc. can be coded.

There are three types of coding:

1. Open coding. The initial organization of raw data to try to make sense of it.

2. Axial coding. Interconnecting and linking the categories of codes.

3. Selective coding. Formulating the story through connecting the categories.

For the reason that this research uses grounded theory as a research method, open coding be utilized as this method is the analytic process by which concepts (codes) to the observed data and phenomenon are attached during qualitative data analysis. It is one of the 'procedures' for working with text as characterized by Strauss (1987) and Strauss and Corbin (1990). Open coding aims at developing substantial codes describing, naming or classifying the phenomenon under consideration. Open coding is achieved by segmenting data into meaningful expressions and describing them in single word to short sequence of words. Further, relevant annotations and concepts are then attached to these expressions. (Flick, 2009)

Step 4 – Assigning codes to the data – Coding qualitative data makes it easier to interpret results. Assigning codes to words and phrases in each response helps capture what the response is about which, in turn, helps to better analyze and summarize the results of the entire research. These labels cantake a form of words, phrases, or numbers.

Step 5 – Identifying recurring themes – This stage is the identification of themes, patterns and relationships. Unlike quantitative methods, in qualitative data analysis there are no universally applicable techniques that can be applied to generate findings. Analytical and critical thinking skills of researcher plays significant role in data analysis in qualitative studies. (Dudovskiy, 2018)

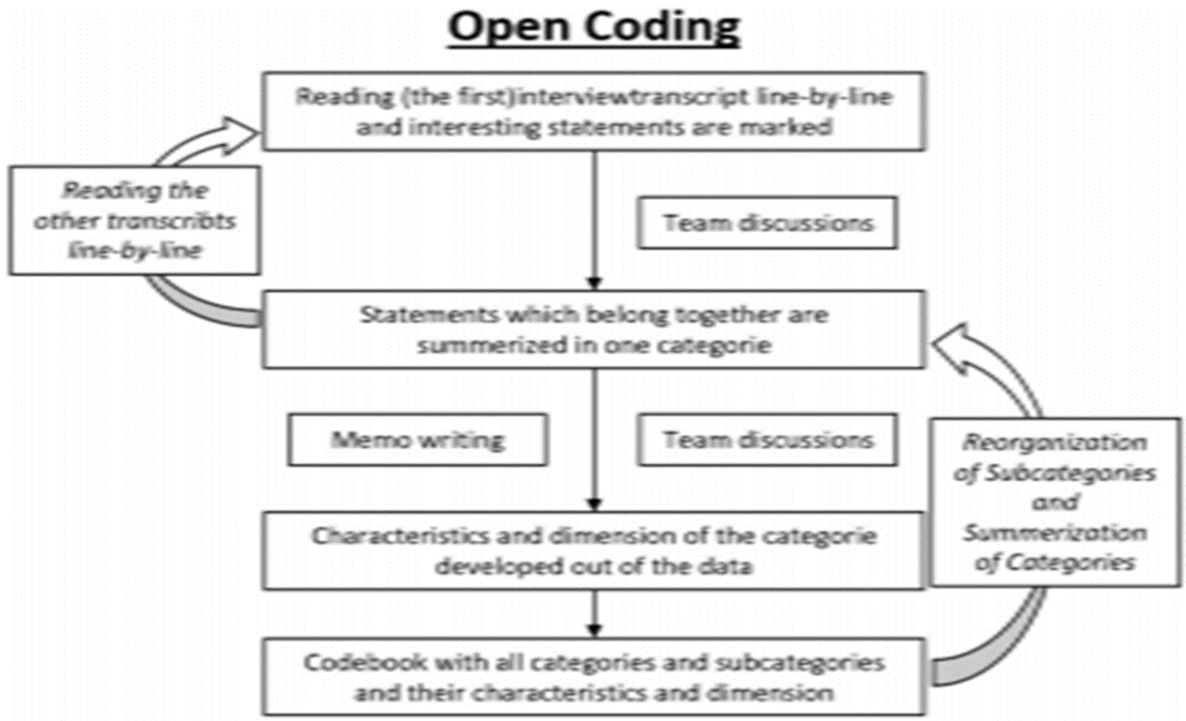
Themes are developed using

- **Word and phrase repetitions** – scanning primary data for words and phrases most commonly used by respondents, as well as, words and phrases used with unusual emotions;
- **Primary and secondary data comparisons** – comparing the findings of interview/focus group/observation/any other qualitative data collection method with the findings of literature review and discussing differences between them;
- **Search for missing information** – discussions about which aspects of the issue was not mentioned by respondents, although you expected them to be mentioned;
- **Metaphors and analogues** – comparing primary research findings to phenomena from a different area and discussing similarities and differences.

Step 6 – Summarizing the data - At this last stage the researcher links research findings to hypotheses or research aim and objectives. When writing data analysis chapter, the researcher uses noteworthy quotations from the transcript in order to highlight major themes within findings and possible contradictions.

3.7.1 CODING

The coding type chosen for this research is open-coding because of the nature of the data. Open coding in grounded theory method is the analytic process by which concepts (codes) to the observed data and phenomenon are attached during qualitative data analysis. It is one of the 'procedures' for working with text as characterized by Strauss (1987) and Strauss and Corbin (1990). Open coding aims at developing substantial codes describing, naming or classifying the phenomenon under consideration. Open coding is achieved by segmenting data into meaningful expressions and describing them in single word to short sequence of words.



3.7.2. DEVELOPMENT OF THEME

The data was analyzed by developing descriptions & themes from the data. After coding the data

- Developing a description from the data
- Defining themes from the data
- Connecting and interrelation themes follows

Then the number of codes was reduced to get few themes or descriptions. The researcher then identified the few themes found to compare with the data.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND FINDINGS

This chapter shows the analysis and findings of the data collected. In order to collect data interviews were conducted. Accordingly, the analysis is presented in four major sub sections. The first sub section talks about respondent rate for this research. The background of the stakeholders involved in this research is discussed on the second sub section. The third sub-section discuss about organization of the interview response. Finally, the themes Research data is discussed in the fourth section.

4.1. RESPONDANT RATE

Although the researcher has planned to use a census sampling technique, out of ten venture capitals and private equity firms identified by the researcher, due to different reasons, only 6 has accepted and managed to give information.

Table 4.1. Response rate of Interview requested

	Frequency	**Percent**
Accepted request	6	0.6%
Denied request	4	0.4%
Total	10	100%

Source: Research data (2020)

The above table shows a descriptive statistic of the respondent rate of the research. The researcher has managed to collect 60% of available firm's data needed for this research.

4.2. DEMOGRAPHIC CHARACTERISTICS

4.2.1. BACKGROUND INFORMATION OF RESPONDENTS

The purpose of key informant interview is to collect information from a narrow range of people and with their particular knowledge and understanding that they can help to provide insight on the nature of the problems and give recommendation for possible solutions. The soundness is that key informants know the issue very well, and it is a best method to get reliable information about the subject.

The data collected from concerning the interview were venture capitals and private equity firms in Ethiopia & their portfolio; The background information of the interviewed individuals is outlined in table 4.2.

Table 4.2. Background of Interview Respondents

Code	Organization	Position	Interview type
Participant 1	BDO Ethiopia	Managing partner	In-person
Participant 2	RENEW investment advisors PLC	Project manager	Google forms
Participant 3	Cepheus growth Capital Partners	Investment director	Google forms
Participant 4	Zoscales Partners	Investment associate	Google forms
Participant 5	Verdant Consulting	CEO	Google forms
Participant 6	Kudu Ventures	Co-founder & Managing Partner	Google forms

Source: Research data (2020)

Table 4.2. Shows the background information of the interviewed individuals, the content of the table is discussed as follows:

- Referred as in this research – Is a code given by the researcher to refer the respondents easily throughout the analysis.
- Interviewee – Is the name of the respondent.
- Organization – Is the organization the respondent represents.
- Position – Is the organizational position the respondent is on.
- Interview type – The type of interview used to collect data.
- Language focus – The language used in the interview.

4.2.2. BACKGROUND OF GOVERNMENT ORGANIZATIONS

There are a few concerning bodies in Ethiopia for equity-based investment. Ministry of Trade and Industry, Ethiopian Investment Commission, National Bank of Ethiopia, Ministry of Revenue, Documents Authentication and Registration Agency and Ministry of Finance are few of the named Government agencies that are concerned with investment in Ethiopia. The researcher went to two of the listed above government bodies to get information about the listings of equity-based firms.

4.2.2.1. MINISTRY OF TRADE AND INDUSTRY

The Ministry of Trade (MOT) was re-established in August 1995 under -- proclamation No 4/1995 issued to provide for the definition of powers and duties of the executive organs of the Federal Democratic Republic of Ethiopia (FDRE). The Ministry was again reorganized with a proclamation No 619/2003 issued to amend the reorganization of the executive organs of the Federal Democratic Republic Ethiopia Proclamation No 256/2001.The authority is responsible for registering and allowing trade in Ethiopia. Ato Nuredin Muhammed who is coordinator of development project framework in MOT and whom also worked as director of trade registration with over 32 years of experience with the government, said no listings is available in their ministry whatsoever. The authority is responsible for allowing trade in the country and said it is not responsible for the distribution of equity.

4.2.2.2. ETHIOPIAN INVESTMENT COMMISSION

The Ethiopian Investment Commission (EIC) is an autonomous government institution accountable to the country’s Investment Board, which is chaired by the Prime Minister. A Commissioner, who is also member of the Board, heads the EIC. The EIC has restructured itself recently with a view to becoming more effective at attracting foreign direct investment and improving the services provided to investors.

Ato Ahmed, the director of licensing in Ethiopia Investment Commission who has refused to get the interview recorded, said since equity-based funding is prohibited in Ethiopia, the investment commission address such investments as physical investment. The reason they prohibited such investment is to protect the financial sector ordered by the National Bank of Ethiopia. The director said to allow the equity-based market in Ethiopia, they'll also have to open a secondary market or a stock market in the country. Which the National Bank of Ethiopia is working on. And the reason why the investment commission doesn't allow foreigners in some specific market is to protect local investors. They said they have only prohibited the foreigners to enter in some industry which is believed it can be easily done by the locals.

4.2.3. BACKGROUND OF VENTURE CAPITALS AND PRIVATE EQUITIES

According to the researcher there are about 10 venture capitals and private equities in Ethiopia and over 200 private equities and venture capital funds targeting sub-Saharan Africa (Economist Intelligence Unit, 2012). The description of the firms in Ethiopia is presented as follows:

- Kudu ventures
- Renew impact angels
- BDO East Africa
- Cepheus Growth Capital Partners
- Zoscales Partners
- Verdant consulting
- SGI frontier capital (Cerberus frontier)
- Ascent capital
- Fairfax Africa
- SGI capital

4.2.3.1. KUDU VENTURES

Kudu Ventures is an early/growth stage impact venture capital firm that invests in innovative start-ups, ideas and founders that are aiming to solve our continent's most pressing issues.

4.2.3.2. RENEW IMPACT ANGLES

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 them investments in small and medium enterprises (SMEs) in Africa. RENEW's largest office is in Addis Ababa, Ethiopia, from which it operates The Exchange, our platform for organizing capital, training executives and supporting investments. RENEW also has offices in Kampala, Uganda; Denver, Colorado, USA and Toronto, Ontario in Canada. It has facilitated investments in clean energy, coffee and Teff (Injera), emergency medical services, beverage, food, sesame and textile industries and has provided business consulting and other support to companies in a variety of other sectors (Renew Strategies, 2016).

4.2.3.3. BDO EAST AFRICA

BDO East Africa acquired a new firm in Ethiopia, effective 1 July 2013. The firm was formerly called Next Consult, and was established in 2005. The firm has grown rapidly to become the second largest professional services firm in Ethiopia. Operating out of one office in Addis Ababa with 45 partners and staff, the firm's clients include large entities in mining, tourism & leisure, manufacturing and retail, ICT and family-owned companies. (Ethiopia, 2020)

4.2.3.4. CEPHEUS GROWTH CAPITAL PARTNERS

Cepheus is a local Ethiopian fund manager launching its first fund focused on Ethiopia where the private equity industry is nascent. The fund is incorporated in Mauritius and will focus on providing growth capital for Ethiopian small and medium-sized enterprises (SMEs) with a focus on strong job creation and sustainable financial returns. The significant job creation will impact the root causes of the migration crisis in this frontier country. The operation is European Investment Bank's first fund investment in Ethiopia, supporting a first-time manager with a focus on generating superior developmental returns. (Bank, 2017)

4.2.3.5. ZOSCALES PARTNERS

Zoscales Partners (ZP) is an exclusively Ethiopian focused investment firm which deploys capital from its funds, and then manages at full discretion. ZP identifies Ethiopian companies that are poised for growth and injects capital and expertise to accelerate growth. (ZoscalesPartners, 2019). The company was established by Ethiopian and European founders that have an exceptional investment track record in Ethiopia as well as Europe. Alongside the founders, ZP has primarily Ethiopian investment Professionals with world class investment management, operational and advisory skills, garnered here in Ethiopia and abroad. (Zoscales Partners, 2019).

4.2.3.6. SGI FRONTIER CAPITAL

SGI Frontier Capital (previously Schulze Global Investments Limited) is a private equity firm that specializes in emerging growth and growth capital investments, primarily in Asia and Africa. The Singapore-based firm has offices in Ethiopia, Mongolia, Cote d'Ivoire and Georgia.

The Schulze Global Ethiopia Growth and Transformation Fund I, (Ethiopia fund) was launched in 2012 to focus on small and medium-sized enterprises (SMEs) in Ethiopia.It is the first private equity SME fund focused on the country and is managed from Addis Ababa by an experienced team. The fund will explore various sectors including Agri-processing, manufacturing, education and healthcare. (works, 2020)

4.2.3.7. ASCENT CAPITAL ETHIOPIA

Ascent Rift Valley Fund Ltd (the Fund) invests in enterprises in Ethiopia, Kenya and Uganda with ambitious entrepreneurs, a proven track record and significant growth potential. The mission of the Fund is to develop and nurture a league of enterprise champions that set the bar for business standards in their respective markets. The Fund invests in a broad range of sectors and targets transactions of USD 2-15 million. Larger transactions may also be considered together with co-investors. (Ascent, n.d.)

4.2.3.8. FAIRFAX AFRICA

Fairfax Africa Fund, LLC, is a U.S. based investment firm with a proven track record of investing in selected high growth emerging economies. Our current global portfolio includes investments in infrastructure, technology and real estate. Through multiple investment platforms, we provide financing as private equity, venture capital and mezzanine. In certain countries we also provide investment banking and transaction advisory services. (Africa, 2020)

4.2.3.9. BLUEMOON VENTURES

BlueMoon Ventures works closely with BlueMoon Incubator on identifying startups that have potential to be funded by Blue Moon's Seed Fund and later by other investors. BlueMoon Ventures manages four separate options for investing in BlueMoon startups. (BlueMoon, n.d.)

4.2.3.10. VERDANT CONSULTING

A team of systems and process specialists working across the scope of business administration and operations to improve systems and processes, internal controls and to create efficient businesses which deliver for their executive leadership. It specializes in providing bespoke solutions and customized support so that our clients can implement their visions as effectively as possible. It has an unparalleled understanding of the unique challenges, and opportunities, of working in Ethiopia. As a member of the Verdant Frontiers' group, impact is a part of our mission, therefore we support companies to grow, creating more jobs and more sustainable livelihoods. (consulting, 2020)

4.3. ORGANIZATION OF INTERVIEW QUESTIONS

Section one: General information

1. Full name
2. Company name
3. Position
4. As per your position, what is your role/responsibility?
5. Tell us about your company? (Your product and/or service)

Section two:

Given below are a list of questions that helps the researcher to meet the research objectives, please carefully read and answer every question.

1. **With how many other investors do you prefer to invest in a venture?** The question is whether a venture capitalist prefers to invest within a team of other groups together, and if so with how many, or if they prefer to invest alone. Answers demonstrate the rate of portfolio diversity, which is a measure of leveraged risk for the firm.

2. **How many investment opportunities do you review in a year?** This question gives perspective on both the total number of opportunities reviewed in relation to opportunities being funded. This allows an understanding of the breadth of their portfolio, and the number managed per partner. This will give an estimate of portfolio turnover, and subsequently a suggested rate of opportunity for an entrepreneur to receive funding from a typical firm in a calendar year.

3. **If it were possible, what would be your optimal number of projects to invest in each year (for equity-based funding)?**

   The question is about the required deal pipeline that optimizes capacity of the firm and maximum benefit point. It is also a follow-up question to opportunities reviewed.

4. **How many employees are ideal for a startup company that you fund? Why is this number ideal? Are there numbers you would not invest in? Would you, for example, invest in an individual?**

   These questions size the kind of companies an investor would back, and the deterministic criteria guiding a preference for larger teams or sole proprietors.

5. **How many meeting rounds(months), on average, does it require for an investor to gain your funding?**

   What does it take from the first presentation to a decision to invest, and how can an entrepreneur gauge progress?

6. **What is the average amount that you invest in a project?**

   This question senses whether an investor has a certain amount they want to place in mind. It could depend, for example, on risk distribution, size of fund, or stage of the funded company. There also may be a relationship to question one, the number of investors.

7. **What is your target return rate? What is your average return rate?**

   How much yield does a venture capitalist target, or how much yield do they have to make to survive? How many deals end in losses, and how are venture capitalists funding choices influenced by this?

8. **How long have you been in the venture capital business?**

How long has the investor been doing deals? This can be expressed in total number of years, or total deals. This gives a sense of industry knowledge, and if approach can be linked to years of experience.

9. **What is the most important part of an entrepreneur's spoken presentation and why? Do you typically hear many presentations or start with the business plan and then invite the founder to present?**

How are entrepreneurs measured initially? Is it in a framework of a pitch event, or socially, as an individual? What is the focus of the venture capitalist within the presentation? Possible answers can vary, but common points of interest may emerge that show particular focus on certain human attributes for success.

10. **How could an entrepreneur's previous experience (even if a failure) contribute to your evaluation and decision to invest?**

The origin of this question to find out whether an investor is averse to an entrepreneur that had failed or even may prefer one because that entrepreneur had learned lessons. This information can contribute to foreseeable opportunity for the founder who has experienced previous failure, and how to recover.

11. **Are there business plans that you have concluded do not need funding? If so, what stages are they in and why did you determine they do not need funding?**

When is capital too much for a startup? Or is there ever too much capital? When and why does an investor think the business does not need added capital?

12. **What questions should founders be asking you when you are deciding whether to invest?**

This gives venture capitalists insight to the dangers of other firms and brings out the positive points of their own firm.

A collective understanding can help the entrepreneur to better evaluate venture capitalists and avoid unfavorable experiences.

13. **How do you assist companies in which you invest other than providing capital? What level of involvement should a founder expect from you upon being chosen by your firm?**
    What is the added value of a venture capital backing? Do they offer expertise, contacts, marketing, etc.? Responses will indicate qualities to measure when receiving venture capitalist backing, and the venture capitalist's conceptual understanding of their role.

14. **What other business experience do you have?**
    What is the background of a venture capitalist? Are there similarities?

15. **What industries do you specialize in? Are these the only industries you fund?**
    Are investors searching for the next big innovation or sticking to industry expertise? Is it likely that a venture capitalist will fund an idea outside of their investment focus?

4.4. QUANTITATIVE ANALYSIS

After the collection of the interview and transcribing of data to make sense of the finding, an additional data collection was made to check the validity & reliability of the data.

The respondents were sent 6 variables identified by the researcher to rate the variables from most important to least important in deciding to invest, 1 being the most important and 6 being the least important. The variables are presented as follows:

* Quality of the business plan
* Scalability of the venture
* Industry of the venture
* Character of the Entrepreneur
* Product or Technology used
* Network or Affiliation of the entrepreneur

4.5. DATA ANALYSIS AND DEVELOPMENT OF THEMES

4.5.1. DATA ANALYSIS AND DISCUSSION

It is stated in the previous chapter that open-ended interview is one of the major data gathering tools employed to achieve the objective of this study. The open-ended interviews are aimed at providing an insight from the firms' point of view. The insights are presented as follows:

4.5.1.1. FUNDS

The following table shows the total available fund raised by the firms, the average amount invested in single venture and percentage of average invested capital to the total available amount.

Table 4.5.1.1. Funds

Participant no.	Amount invested in single venture		Total available fund	% of average invested to available amount
	In USD	In ETB		
1	5m – 20m	170m – 680m	-	
2	200,000 – 4m	6.8m – 136m	-	-
3	~ 10m	≥ 350m ≥	85m USD	11%
4	Minimum 3m	102m	75m USD	4%
5	~ 10m	Around 330m	No specific fund	-
6	~ 150,000	5m	100m ETB	5%
Mean	6.2m	213.9m		6.6%

Source: Research data (2020)

Due to the difference in currency used by the interviewees, the researcher exchanged the given currencies in accordance to current foreign exchange rate given by National Bank of Ethiopia and rounded it, which is 34.30 as at June 07,2020.

The average amount invested in single venture for participant 6 is calculated by the researcher because the amount wasn't given by the participant. It is calculated taking the mean, dividing the total amount invested by the firm (10million) by the total number of ventures invested (2).

4.5.1.2. INTERNAL RATE OF RETURN

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over some period of time. It is the rise in the general level of prices where a unit of currency effectively buys less than it did in prior periods.

Often expressed as a percentage, inflation thus indicates a decrease in the purchasing power of a nation's currency. (Chen,2020)

The internal rate of return (IRR) is a metric used in capital budgeting to estimate the profitability of potential investments. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero.(Hayes, 2020).

Inflation has a direct relationship with Internal rate of return (IRR). When inflation increase, the cash flow of a project will increase. The increase in cashflow will in turn increase the NPV of a project. Higher NPV will make the IRR higher. (Aho, 1983)

Bearing that in mind, the high inflation rate i.e., 21.775% in 2020 (Economics, 2020) has made the expected return or IRR to be high in Ethiopia. This expectation of higher return doesn't necessarily mean venture capitals in Ethiopia expect higher return. It means they except higher IRR because of the high inflation. A 10% IRR in US is equal to 30% IRR in Ethiopia because the 20% of return will be lost in inflation.

Table 4.5.1.2. Target return

Participant no.	Target return	Average actual return
1	30% return rate	~ 30%
2	25% IRR	18%
3	25% IRR	Haven’t received yet
4	-	-
5	30% + IRR	-
6	5x – 10x	Haven’t received yet

Source: Research data (2020)

Table 4.5.1.2. shows the following

- Target return refers to the minimum expectation of the firms has set as a prerequisite for review of investment.
- Average actual return refers to the actual return the firms got from the ventures they have invested in.

4.5.1.3. INVESTMENT STAGES

There are five distinct stages of venture capital funding: start-up stage, seed or early stage, growth stage, late stage, and buyouts/recapitalizations. Here are the current stages the participants invest in:

Table 4.5.1.3. Investment stages

Participant no.	Stage	Description
1	Growth stage	3 years operated business proving the company is growing but not necessarily profitable
2	Growth stage	At least 2 years operation history
3	Growth stage	Established business that have enjoyed several years of success and might also consider start-up
4	Growth stage	Operating for at least 3 years
5	Early stage	Green field start-up (A "greenfield" is a market that has never been commercially exploited)
6	Early & Growth stage	-

Source: Research data (2020)

- Stage – Is the stage the venture capitals & private equity participants would prefer to invest
- Description – Is the additional information the firms give to further describe the stages they mentioned

The above table shows 4 out of 6 firms are focused on investing on growth stage. Only one is focused on early stage and the other has focused on both early and growth stage of investment.

Venture capitals & Private equities avoid early stages, when technologies are uncertain and market needs are unknown, and the later stages, when competitive shakeouts and consolidations are inevitable and growth rates slow dramatically. (Zider, 1998) Which is the exact case in Ethiopia given the unpredictability of the market.

4.5.1.4. CORE BUSINESS

The following table shows if the firms have additional income generating activities as a contingency plan given the fact that the government doesn't fully understand their core business.

Table 4.5.1.4. Core business

Participant no.	Other business activity
1	Consulting & researching
2	None
3	None
4	None
5	Management consulting
6	None

Source: Research data (2020)

Despite the fact that there is no business line in Ethiopia and the government not acknowledging equity-based investments, the researcher had assumed the firms might have other income generating activities to be secure. However, that was not the case. 4 out of 6 companies didn't have other income generating sources.

4.5.1.5. TIMING

It is true that an Entrepreneur should raise fund from venture capitals when they have a clear idea of what they want to do and a clear idea of how much money they need to get to a milestone that will set a higher value for their company. However, it doesn't mean the Entrepreneur will get funded as soon as it has requested. The venture capitals and private equities have to do their own research such as valuation, structure information, due diligence, reviewing the company's financial and business plan and registration documents. If the mentioned gets approved, the firms will negotiate with the Entrepreneurs to agree on the valuation and key terms of the firms. Finally, a legal document will be prepared and signed of synergy.

The table below shows, it takes a minimum of 6 month from introduction to actually get funding from venture capitalists and private equities.

Table 4.5.1.5. Timing

Participant no.	Time it takes to secure fund
1	6 months
2	6 - 12 month
3	6 -9 month
4	6 months
5	6 - 8 month
6	4 meeting

Source: Research data (2020)

Table 4.5.1.5. illustrates

- Participant no. is the code given by the researcher to identify the respondents easily
- Time it takes to secure fund -is the time it takes a venture to secure fund from introduction to final decision.

4.5.1.6. THERE ARE STILL PLENTY OF FISH FOR ENTREPRENEURS

No matter the fact that it is said the equity-based fund is still on the very early stage in Ethiopia, there is still unrealized available fund for Entrepreneurs. The following table will prove this claim.

Table 4.8. Potential number of investments

Participant no.	Current investment	Ideal number	No. of years	Potential
1	15	5	7	35
2	13	8 - 10	8	64 - 80
3	2	3 or 4	14	42 - 56
4	5	-	6	-
5	5	5	5	5
6	2	15 - 30	1	15 - 30

Source: Research data (2020)

- Participants - are the interviewees who have responded to this research
- Current investment – Current investments are investments the firms have made throughout the life time of their business.
- Ideal number – Ideal number is the number of investments the firms wish to investment in annually keeping other things constant.
- Number of years – is the total number of the lifetime the firms starting from existence till now.
- Potential – The potential investment is calculated multiplying the ideal number the firms wish to invest annually by number of years they have existed.

The table above shows with the exception of one firm, the firms current and potential investment doesn’t match. This shows the industry is generally operating under capacity. Which is a favorable finding for Entrepreneurs seeking equity-based funding.

4.6. DEVELOPMENT OF THEMES

Based on the interview, the researcher identified seven recurring thematic concepts. The thematic concepts are: **Network capital, Entrepreneur's character, Quality of business plan, Entrepreneurs wolf pack mentality, Entrepreneurs' team composition, Proposal novelty & game changing potential, Business risk** is discussed one by one in the following manner.

4.6.1. NETWORK CAPITAL

When asked how venture capitals find investments, they mentioned they get the ventures through word of mouth, different networking platforms, recommendations, directly reaching out to them or vice versa, training programs the firms organize, personal networks, investor events, intermediaries like transaction advisors. This shows how instructed the system is.

An Entrepreneur should always keep himself updated about what event or networking session is going on to meet venture capitalist. The same goes to the venture capitalists. Since there is no formal association or institution such as Silicon Valley is to USA, the venture capitalist has to depended solely on word of mouth or should extensively advertise about what it can offer on different platforms and actively participate on social media.

An Entrepreneur can have a great idea but without a proper network, it'll get him nowhere. The same applies to venture capitalist, they can have available fund but without enough recognition, there'll be an idle capital. On the process of collection of data and discussions with different people businesses, the researcher was surprised to have found that, many educated people even in the stream of finance are unaware of the existence of such firms.

As the saying goes, "Your network is your self-worth".

4.6.2. ENTREPRENEURS CHARACTER

Venture capitalists pay close attention to the Entrepreneur's character. In the interview about an Entrepreneur's spoken presentation, the words passionate and visionary comes up to describe an ideal Entrepreneur. Due to the fact that the entrepreneur and the venture capitalist meet informally at first, the venture capitalist is mostly likely to assess the entrepreneur character before the business plan. The main thing is they know their numbers, they know the company's vision and they understand business, plus they have the drive to take the company to growth said Participant 2.

For the reason that a business plan can be easily discussed and amended easily, the venture capitalist doesn't give it much place in deciding to invest. Participant 4 even said a business plan can be developed discussing mutually after it is understood the entrepreneur is strategically fit.

4.6.3. PROPOSAL NOVELTY AND GAME CHANGING POTENTIAL

People invest in good people and good idea; good people in this research is defined as an entrepreneur mentioned in the previous title as ideal entrepreneurs' character which is passionate and visionary. Good idea in this research is defined as a feasible product or service that can prove it has potential to be growing in the future.

As venture capitalists are an Entrepreneurs themselves, they do due diligence themselves. They identify which industry have high growth opportunity and investments which can realize within the life of their fund. This doesn't mean they'll not invest in other industries that has game changing potential.

50% of the participants identified themselves as sector-agnostic. Sector agnostic is a term that refers to private equity firms that don't specialize in a specific industry.

This is to mean, the decision to invest is not about the industry the entrepreneurs are in, but rather if the Entrepreneurs has a needed mindset and the business has a potential to grow. However, this is at the exception of foreign backed venture capitals, their decision to invest is also affected by permission granted by the government to allow an international investment for an industry.

The following table will show the firm's preidentified industry and whether they consider other industry other than their pre-identified one.

Table 4.6.3. Proposal novelty and game changing potential

Participant no.	Foreigner constraint	Preidentified industry	Would consider other than preidentified industry
1	Yes	Agnostic	Yes
2	Yes	Agro-processing, Manufacturing	Yes
3	No	Manufacturing, Agro-processing & Service	Yes
4	No	Fast-moving consumer goods, Healthcare materials	Yes
5	No	Real-estate, Agriculture, Agro-processing	Yes
6	No	Technology, Agnostic	Yes

Source: Research data (2020)

The table above explains if the firms have a preferred industry and if these firms will fund a venture outside of their focus.

- Participant no. is number given to the respondents.
- Foreigner constraint – Foreigner constraint is the constrains a firm faces because it is backed by a foreign company and therefore couldn't invest in some specific industry because the government of Ethiopia has closed it.
- Preidentified industry – This is the industry the firms have pre-identified that has high growth opportunity and investments which can return within the life of their fund.
- Would consider other than preidentified industry –This is if the firms would consider investing other than their pre-identified industry

4.6.4. ENTREPRENEURS WOLF PACK MENTALITIY

The 'wolf pack' mentality takes on the approach that more investors interested in a company is more favorable than less, and that entering in on an investment opportunity alone is not optimal. These are also heavily dependent on their network for support, guidance, and to build the confidence of others to participate in an opportunity. Herders also exhibited the quality of calling prospective buyers of companies or product contract purchasers to see if they would potentially be interested in the company needing funding. The herder also looks at the total available market, and seeks out players in this market for associative confirmation that the potential investment is differentiated or a market leader (Brunner, 2017).

Since wolf packs are interested in minimizing risk through partnering in investments, the warm introduction is also a way to show an association to trusted members of their personal network. Successfully achieving a referral is a signal to the venture capitalist that the entrepreneur can be trusted and will reduce assumed risk, ultimately speeding up the evaluation process (Iskold 2015).

Wolf pack doesn't mean lone wolves doesn't exists though. Lone Wolves take the approach that judgement of the success of an opportunity lies in their industry expertise and their own decision-making abilities.

50% of the participants in this research prefer to work with various investors because working with others can get them more connections, knowledge, experience and can also share risks. One out of six will only consider other investor if a deal requires them. Participant 5 who invests in start-ups would like to invest alone at first and then bring in additional investors on later stage. Participant 6 who has recently entered the industry, has never co-invested with other investors but is planning on for the future.

4.6.5. BUSINESS RISK

A Venture capitalist backed ventures are more likely to be successful (i.e., higher growth, longer survival) than non-Venture capitalist backed ventures (Gupta and Sapienza 1992; Sandberg 1986). This could be due to many factors but the main is venture capitalist give more than capital.

All of the participants said they provide more than capital. They help by providing operations experts within their team who can work with businesses to improve processes/efficiency, provide a lot of guidance on environmental, social and governance issues, introduce a company to international experts who can help make improvements to the business, value creating, putting in proper governance, back office systems and process, provide strategic consulting, mentorship, fundraising more fund if it is beyond the capacity of the firm, provide management and strategic support before and after investment, give training, assisting with recruitment , planning, budgeting and financial management. All of which would take years for the Entrepreneur to get or will cost a huge amount of money and the risk of the failure of the business reduced.

4.6.6. ENTREPRENEURS TEAM COMPOSITION

According to the answer of the interviewees, they are indifferent about the number of founders although 33.33% of the respondents prefer more than one founder. This is to avoid the company from relying on just one person. Furthermore 50% of the respondents wouldn't mind to invest on one founder. Another 33.33% think more than 4 founders are problematic because they are less likely to agree on the best strategy for the company.

Overall, the stage matters more than the number of people in the organization. What is important is that what they have is what they need. If it is a single individual, it is important that they know what is required. What is needed is when a single person doesn't know what they need, or doesn't have people because they were unable to recruit talent, or unwilling to fill in their own gaps with additional people. It is important that the entrepreneur knows what is needed and has the minimum people and skill sets required to perform.

4.6.7. QUALITY OF BUSINESS PLAN

It is no mystery that a formal business plan is necessary to show an entrepreneur is committed to building the business. Preparing a thoroughly thought plan forces an entrepreneur to think through and select strategies that will propel the business's growth. This will help Venture capitals and Private equities determine exactly how much capital will be needed and what it will be used for.

A business plan will basically answer questions for Venture capitals and Private equities such as: is there a need for this product/service? What are the financial projections? What is the company's exit strategy?

While the respondents have confirmed the character of the Entrepreneur is essential before writing a cheque, the fact that they'll also review the business plan shouldn't be neglected.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

This paper has given the researcher a better understanding on the determinates of equity-based investment decisions in Ethiopia specifically venture capitals and private equities. In fact, the literature review, the interviews and analysis were considered as an important and valuable degree to which further paved the way to better understanding its process and, as well as its implications.

5.1. CONCLUSION

The fact that there is no proper policy, infrastructure and legal framework for Venture Capitals and Private Equities in Ethiopia has made it difficult for the Venture capitalists and Private equities to syndicate with entrepreneurs. This has made both parties to meet on an informal method and thus be highly dependent on network. Coming across each other through network has made the venture capitalist to get to know the Entrepreneur's character prior and thus have a significant impact on deciding to invest.

The study also identified seven determinant factors that affect the investment decision of VCs and PE firms in Ethiopia which are network is a crucial capital, VCs and PEs pay close attention to entrepreneurs' character, quality of business plan reflects an entrepreneurs' commitment, entrepreneurs team composition doesn't matter as long as the entrepreneur knows what is needed and has minimum people & skill sets required to perform, proposal novelty & game-changing potential refers to entrepreneurs has a needed mindset and the business has a potential to grow, entrepreneurs wolf pack mentality will help VCs and PEs reduce risk and business risk by VCs and PEs is reduced by involving in the operation of the business.

5.2. RECOMMENDATION

5.2.1. INSIGHTS AND RECOMMENDATION FOR ENTREPRENEURS

For an Entrepreneurs with no previous experience, who is hustling their way to raise funds from day 1, fundraising is a dual journey. To prove the business idea & their own merit. In this case, approaching a large VC first may not be the most viable option. Their first options can be mostly incubators (BlueMoon incubators, Ice Addis, X-hub), accelerators (Solve-it, reach for change) angel networks (Ethiopia Business Angles network) or individual angels (who can be categorized as serial entrepreneurs or high net worth individuals (HNIs)) mostly diasporas in Ethiopia.

Although experience is a plus for the success of a business, it doesn't necessarily mean having a prior business. There are other ways an Entrepreneur can gain knowledge about business. It could be by finding a mentor who already has many years of experience or gone in the same path, taking training about financial information, building network will also be a great asset.

To all the young brilliant minds that have been eagerly waiting to launch their business idea but couldn't due to lack of financing, NOW is a great time to start networking and find what works for you.

5.2.2. INSIGHTS AND RECOMMENDATION FOR GOVERNMENT

There needs to be a proper policy, infrastructure and legal framework (which do not exist at the moment) for venture capitals and private equities to operate efficiently. Especially since unemployment is increasing rapidly, the government has a responsibility to encourage Entrepreneurship.

Government stakeholders should also ensure that the private sector (practitioners) is involved in the policy creation process, often laws are drafted by academics who have no or little practical experience in the given sector.

Tax incentives are very important too to highly encourage people who work. It's also important for the country to understand the importance of being at the forefront of technological advancements in order to become a thriving knowledge-based economy.

5.2.3. INSIGHTS AND RECOMMENDATION FOR VENTURE CAPITALISTS AND PRIVATE EQUITIES

We have seen in the analysis that most firms are focused on growth stage of the venture. But in a country like Ethiopia where the private sector is not as many as it should be, new ventures should be supported. To support new ventures, firms should also give an equal emphasis to start-up stages as given to growth stages.

5.2.4. INSIGHTS AND RECOMMENDATION FOR FURTHER STUDIES

It would be very important contribution when future scholars can include an interview of Entrepreneurs who have both gain funding and who had been rejected by venture capitalists as well.

It would also be helpful if further extensive research is conducted including venture capitals and private equity firms who have invested but are not based in Ethiopia.

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APPENDIX I. INTERVIEW QUESTIONS

Dear participant, I would like to forward my heartfelt thanks in advance. This survey is designed to research purpose entitled "Qualitative determinants of Venture capital investment decisions in Ethiopia", in partial fulfillment for a Master of Arts degree in Business Administration. Your participation in providing honest and thoughtfulness in completing the survey is a reliable input to the study. The estimated time to complete the questionnaire is 20-30 minutes.

Your response will be kept strictly confidential and anonymous, the information provided is only for research purpose and exclusively accessed only by the researcher.

N.B. The questions were amended from one interview to another when found necessary to make it tailor-made for each participate.

1- How long have you been in the private equity business?

- Participant 1 – 7 year
- Participant 2 – 8 years
- Participant 3 – 14 years
- Participant 4 – - 6 years
- Participant 5 – 5 years
- Participant 6 – 1 year

2- H o w many investment opportunities do you review in a year in Ethiopia? How many have you invested in so far? How do you get these investment opportunities?

- Participant 1 – on average we review somehow up to 10 investments mostly from private equity financers, mostly they are coming from abroad as you know the pear concept is not yet here in Ethiopia, and for your surprise there is no business line for …, for example if someone is going to establish an PE fund, the Ethiopian law cannot register it, there is no anything, for example if you are going to establish a garage or a restaurant, there is a business line ya? But if you are going to establish a private equity fund or even an investment fund, you cannot register it in Ethiopia because there is no business line in Ethiopia and its really funny.
    - we can say we're engaged with 15 investment ventures so far
    - for example there will be a fund that will be established abroad, because the fund cannot be established in Ethiopia since there is no business line in Ethiopia, they will have to register there fund in somewhere else like in Mauritius or Dubai or Netherlands, which is what they call it an offshore country, especially from the tax optimization point of view and also from administration point of view, so the fund will be registered for example at Mauritius, so then once its registered in Mauritius and from that registration, it will be directly invested to the investing company in Ethiopia directly, there will not be any other structure in Ethiopia, for example the fund will be in Mauritius, and if they want to invest in hospital, in the fund directly to the hospital, so when the hospital pays dividends, the hospital should pay the dividends abroad, because there is no structure in Ethiopia.
    - this happens because we are part of the business community, so there is no formal form for this, in most of the country there is an investment club or a business club, so just by being part of the community or the club you can have initiates but in Ethiopia since there is no structure for this you cannot do it formally but we do it informally by word of mouth.

- Participant 2 – in a year we may look at up to 200 companies, throughout the 8 years we have made 13 investments in 10 companies, we meet the companies through different networking platforms recommendations, directly reaching out to them or them reaching out to us and also through our training programs under the ABG project
- Participant 3 – We review approximately 30 deals per year. We have invested in 2.
- Participant 4 – -On average we can look at 50 companies a year before selecting the business. Thus far we have made 5 investments sourced through personal networks, investor events, investee companies themselves and various intermediaries like transaction advisors and such.
- Participant 5 – 3-4 reviewed per year. About 5 invested in to date
- Participant 6 - We review about 200-500 startups a year. So far, we have invested in an acceleration program “Solve IT Accelerator” with iCog Labs and two startups - an EdTech& health tech startup.

3- If it were possible, what would be your optimal number of projects to invest in annually (for equity-based funding)?

- Participant 1 – annually? to be honest 5 is optimal, because a single venture in average takes about 6 months to study about it, since there are many things to consider like valuation, structure info, and many things.
- Participant 2 – If it was possible and we find the right investable projects and entrepreneurs we would like to invest in 8 to 10 companies per year
- Participant 3 – 3 or 4
- Participant 4 –
- Participant 5 – 1 in Ethiopia, others in other countries
- Participant 6 - 15-30 startups

4- How much fund is available in your company? How much have been used so far?

- Participant 1 –
- Participant 2 –
- Participant 3 –Cepheus Growth Capital Partners hopes to have approximately $85 million to invest. We do not disclose how much we have invested to date.
- Participant 4 –
- Participant 5 – We raise funds for each project so we don't have a specific fund that we hold
- Participant 6 - We raised a 100M Birr fund. Due to Ethiopia's tech ecosystem still being very nascent we were not able to make as many investments as we've planned. So far, we have spent close to 10M Birr on startups, giveaways and our acceleration program.

5- At **what stage of the venture and what is the average amount (in ETB) that you invest in a project?**

- Participant 1 – in minimum we invest $5million USD and in maximum we invest $20million USD, but it is more than $20 million, we don't have that kind of company that accommodates $20million or if it is less than $5million it would be too small for us to invest in. So, basically it will be at their growth stage, so normally when the company is established and runs for like 3 or 4 years, they will prove that the company is growing but it may not be profitable.
- Participant 2 –We invest in the growth stage of business i.e., with at least 2 years of operation history with a growing record and we invest in $200K up to $4M in different rounds of investment (ETB6.8M to ETB 136M)
- Participant 3 –We prefer to invest in established businesses that need new equity to grow. We will invest in start-up businesses, but we prefer businesses that have already enjoyed several years of success. Ideally, we would invest around ETB 350 million in each company but we can do more or less than this.

- Participant 4 – PE is growth capital investment thus we look at companies that have been in operations for at least three years with minimum investment size of USD 3m.
- Participant 5 – We go from green field startups to early stage investing and we invest up to around 330m ETB
- Participant 6 - We invest starting from early stage to growth stage.

6- What is your target return rate? What is your average return rate?

- Participant 1 – the average Ethiopian return rate is higher than the rest of the world, you know why because of the inflation, for example if I invest in America and if we get 10% it's a miracle which is the opposite in Ethiopia. Yes, on average yes, and the minimum target we're looking for is 30%, because the inflation is 20%, so if a company got 30% return rate, we will have 10% share, so if I am investing in America and get 10% return rate its equal to the Ethiopian one because there's no inflation in America.
- Participant 2 – 25% IRR, Average rate is around 18% IRR
- Participant 3 – We target an IRR for our investors of 25%. We do not have an average return rate as we have only just started investing.
- Participant 4 – -
- Participant 5 – 30%+ IRR
- Participant 6 - We hope to return 5x-10x.

7- What industries do you specialize in? why? Are these the only industries you fund?

- Participant 1 – so, basically we are not sector specific, they call it sector-agnostic which means, the companies provide that they are growing or they will be growing in the future so this makes us sector-agnostic, but the problem in Ethiopia is that most of the sectors in Ethiopia are limited to be invested on from local investors, because we are investment partners with international investors and it's not permitted in Ethiopia to invest by international investors because Ethiopia have one of the locked economy in the world, even though that system the average

Ethiopian bank cannot afford petty cash of big companies, so this shows we have very small banks and also at the same time international investors are not permitted to invest freely, which is foolishness.

- Participant 2 – We are generally interested to invest in all sectors that are allowed for foreign investors but we focus on Agro-processing, manufacturing
- Participant 3 – Manufacturing, Agri-processing and Services: we believe these industries offer the greatest opportunities in Ethiopia at the moment.
- Participant 4 – We focus on FMCG, healthcare, materials etc. These sectors show high growth opportunity and investments which can realize return within the life of our fund.
- Participant 5 – Real Estate, Agriculture and Agro-processing
- Participant 6 - We invest in technology enabled startups. We are also sector agnostic.

8- With how many other investors do you prefer to invest in a venture? And why?

- Participant 1 – yes, we work with various companies, and we prefer to do that because when working with other companies you can get more connections, knowledge, experience and you can share risks too.
- Participant 2 – about 3 - the more the investors the more complicated the decision process.
- Participant 3 – We prefer to invest alongside the business owner/founder only, but we will invest alongside other investors if our goals are aligned and/or if the investment size is too big for Cepheus to do on its own.
- Participant 4 – -We do investments usually as a sole investor unless deal requires to bring in a co-investor.
- Participant 5 – Alone, but bringing in additional at later stages
- Participant 6 - So far, we haven't co-invested with other investors but plan on leading rounds & co investing with other strategic investors depending on the size of the fund.

9- How **many meeting rounds(months), on average, does it require for a venture to gain your funding? Briefly explain the process.**

- Participant 1 –In average takes about 6 months, there is valuation, structure info, and many things.
- Participant 2 – it takes about 6-12 months to finalize a deal and that is if all the information is provided on time the process is the first meeting, signing NDA (non-disclosure agreement) and reviewing the company's financial and business plan and registration documents then offer term-sheet if that is signed then start detail due diligence (check all the background and information from all parties) then if the company passes the due diligence and we find no information that affects the initial term offered we will sign the actual term at DARA and start the investment
- Participant 3 – A typical process would take 6-9 months. We begin by speaking to the business owner, hearing about their company and what they need investment for. If Cepheus decides that the opportunity is interesting, we sign an NDA with the business owner and ask him/her to provide us with company information (financial statements, business licenses, marketing presentations etc.) so that we can begin to analyze the company and try to determine how much the company is worth. We then negotiate with the business owner until we agree on the valuation of the company and the key terms for Cepheus' investment. Once these are agreed Cepheus presents the opportunity to its internal Investment Committee, where we seek approval for a budget to allow us to conduct detailed due diligence on the company. If we receive the approval, we then engage external advisors such as lawyers, accountants, ESG experts, industry experts etc. in order for us to confirm that the company is a good investment. Due diligence usually takes 2-3 months. After due diligence we make a more detailed presentation to the Investment Committee seeking approval to invest in the company. If we receive approval from the Investment Committee, we begin the process of drafting legal documentation (Shareholder's Agreement, Share Subscription Agreement, revised Articles/Memorandum of Association) - this usually takes 2-3 months. Once the legal documents are finalized, we sign these with the business owner and make our investment.

- Participant 4 – On average minimum of six months. We have our internal investment process which from the time deal is introduced to the final approval of investment. Deal will be discussed with the Zocalos internal team and external advisors prior to final decision.
- Participant 5 – 3-4 months - DD, IC then fund 3-4
- Participant 6 - It really varies, but on average around 4-8 meetings

10- Are there business plans that you have concluded do not need funding? If so, what stages are they in and why did you determine they do not need funding?

- Participant 1 – ya for example those who are not scalable or that cannot grow or those companies that do not have proper systems, so this problem is mostly seen in Ethiopian company, most of the companies are relied on their founders, so when the founder is not there it means the company is recked, so this kind companies don’t have system.
- Participant 2 – Do not need funding or do not qualify to get funding - on average only 2.5% of the companies that we see throughout the year qualify to get funding this may be viability and scalability of the project, the stage of the business that does not allow it to take on equity (too small or too early), not agreeing on terms (very exaggerated valuation or expectation from entrepreneur)
- Participant 3 – We don't usually conclude that a business plan does not need funding, but we often conclude that the business plan is not something that we want to fund.
- Participant 4 –Business has to show a potential for growth, alignment with promoters should be there and a solid business plan.
- Participant 5 – All have needed funding to date
- Participant 6 - Some startups are very early stage and sometimes do not even have an MVP (minimum viable product) or proper business plan. We usually want to see some type of traction or effort.

11- **What is the most important part of an entrepreneur's spoken presentation and why? Do you typically hear many presentations or start with the business plan and then invite the founder to present?**

- Participant 1 – we usually hear the presentation before the business plan because we would like to see the passion of the founder or the manager and their role in the company and then after we see the passion level, we see the business plan
- Participant 2 – depends if they send an email, we can review their plan but if they schedule a meeting, we will meet them and then ask for the plan, the main thing is they know their numbers, they know the company vision, and they understand the business, plus they have the drive to take the company to growth.
- Participant 3 – The entrepreneur must have a clear vision for what his/her business is planning to do and what it needs to achieve that. We will almost always speak with the entrepreneur before we review a business plan, as we want to listen to them talk about their business. This helps us understand whether they truly know what it is that they're trying to achieve, and whether they've considered the risks involved.
- Participant 4 – Promoter mindset is important and what they envision for their business as well. Often strategic fit for ZP is understood via various formal and informal discussion and business plan can be by the promoters or mutually discussed.
- Participant 5 – We don't have spoken presentations
- Participant 6 - We always hear from the Founder/CEO because that's who is most passionate about their idea.

12- **How many founders are ideal for a startup company that you fund? Why is this number ideal? Are there numbers you would not invest in? Would you, for example, invest in a sole proprietorship?**

- Participant 1 – Ok, so we don’t invest in a solo leader company, its preferable to invest in companies with founders more than 1 because since the company is going to rely on that person, so this is the problem in most of Ethiopian startups, they always rely on 1 person.so 3 founders are normal to consider,5 is good and more than 5 is great, so that the risks will decrease
- Participant 2 – We usually don't invest in startup unless the entrepreneur has another proven existing business, sole proprietorship has to change to PLC to get investors in their company so we will /can only invest in sole business if they are willing to change to PLC
- Participant 3 – We would invest in a company started by one person, but we typically require all of our invested companies to become Share Companies (as this provides us with better protections under Ethiopian Law). I'm not sure there is an ideal number of founders for a startup, but you probably don't want more than 4 as it is critical that everyone has the same vision for the company. The more founders you have, the more likely it is that not everybody agrees on the best strategy for the company.
- Participant 4 – Yes, we can consider sole proprietorship.
- Participant 5 – It depends on the people
- Participant 6 - More than one founder is always ideal but more then 3-4 is usually problematic.

13- **How could an entrepreneur's previous experience (even if a failure) contribute to your evaluation and decision to invest?**

- Participant 1 – so first of all not all the founders or entrepreneurs need a significant experience, but we need a mix from experienced founder and unexperienced entrepreneurs, we don't mind if it's a fresh graduate but he has to team up with experienced person, this is needed because in order for a company to start up they need resources, money, building, networking, connections and this is only done with the help of experienced peoples.
- Participant 2 – it does contribute a lot - investors are looking for both the business potential and the entrepreneur's potential and that could only be proven by his/her track record
- Participant 3 – Entrepreneurs need to demonstrate that they have appropriate experience that has given them the expertise to run the type of business that they need investment for. Failure is part of anybody's life journey - the important thing is that you learn from it.
- Participant 4 –That will depend on how the promoter handled the situation.
- Participant 5 – Experience is invaluable someone has to know what not to do as well as what to do
- Participant 6 - An entrepreneur's previous experiences are very important because we often have very little financial information/track record of the startups because it often hasn't been in operation for long.

14- **How do you assist companies in which you invest other than providing capital? What level of involvement should a founder expect from you upon being chosen by your firm?**

- Participant 1 – what level? First of all, there are 2 types of investments the first is pure financial investment and the second one is pure technical investment, when the first one is applied it means the company have the marketing knowledge and every other technical need but the thing, they are lacking is money and in the other case is when the company have little amount of budget but they lack every technical thing.
- Participant 2 – we are very involved we provide management and strategic support both before and after investment - the entrepreneur will go through our training program our Portfolio managers will assist the companies with recruitment, planning, budgeting, marketing, and financial management of the companies to ensure a growth and a positive return for our investors.
- Participant 3 – Our team provides much more than just capital. We have operations experts within our team who can work with businesses to improve processes/efficiency. We also look to provide a lot of guidance on environmental, social and governance (ESG) issues. We will also often introduce a company to international experts who can help make improvements to the business.
- Participant 4 – Value creating, bringing in expertise, putting in place proper governance
- Participant 5 – We support companies on governance, back-office systems and processes, wherever they need support.
- Participant 6 - We provide strategic counseling, mentorship and fundraising support for our startups beyond the financial investment that's provided by traditional Venture Capital firms.

15- What questions should founders be asking you when you are deciding whether to invest? (What is subtly expected from the founders of the venture?)

- Participant 1 – The first thing they need to know is the thing what they want to get or they need to know what they don't have, what they have and what they are looking for, so if they know this all this thing, they will figure out the questions what they are going to ask, and a problem that frequently happen is they think they have an idea but they did not make research about their idea, they don't even know if their idea is somewhere in the world
- Participant 2 –
- Participant 3 – The founders are expected to work with Cepheus to deliver the business plan, they are expected to behave with complete integrity and they are expected to comply with the shareholders' agreements that both sides have entered into.
- Participant 4 – Plans for the business, how we handle our investments.
- Participant 5 –commitment
- Participant 6 - We expect our founders to solve our country's most pressing issues and doing their best to showcase ET's thriving tech ecosystem in order to motivate other founders.

16- Does your company have other products/ services?

- Participant 1 – we do consult and researching too, it mainly involves consulting on how to grow, how to establish a company, how to lead, and many more related to this, and also, we make research for a company to invest on, we can also make a research on specific company, mainly a startup company, but in this process of making research if we find something that can hold back the startup company, we will not only show the problem but we will re-structure that problem and solve it.
- Participant 2 – None
- Participant 3 – None

- Participant 4 – None
- Participant 5 – Management consulting
- Participant 6 - As of now, we’re focusing on growing our core business which is making investments in startups. Depending on the need of the market we might pivot to other services within our sector.

17- What are the major challenges and opportunities for this specific business? How are you managing the challenges/ using the opportunities?

- Participant 1 – the biggest opportunity I see in Ethiopia is that there is no competition amongst markets despite the other world, the lack of competition happens due to the lack of production, so I see a big opportunity for a new product to be produced in Ethiopia, and the reason why there’s high inflation rate in Ethiopia is due to the lack of production.
- Participant 2 – Main challenge is understanding of Equity investment in Ethiopia and the expected valuation for the business and also the business operation is more traditional than modern management so we find challenges to scale the business and grow.
- Participant 3 – The major challenge of investing in Ethiopia is finding companies that have a track record of success, a realistic plan for how to make the business bigger and more successful and have owners who truly understand what it means to have a private equity fund become a partner alongside them.
- Participant 4 – A growing market with various opportunities. Key challenges mainly on some local bureaucracy.
- Participant 5 – Covid-19
- Participant 6 - Early-stage investing is extremely high risk due to lack of financial track record and the lack of investable startups. We try as much as possible to be involved with our startups and support in order to minimize the various risks we’re facing.

18- How do you see the future of this sector in Ethiopia?

- Participant 1 – ok first of all its not a miracle to grow by 10%, for a country like ours since we have very low G.D.P it's not that big to grow by 10%, so right now in Ethiopia it's better for us to be economically entity, because if the government gets its hand off a private company that company is going to be advantageous to the population and when the population is helped a country is helped as in the government too.
- Participant 2 – as the free trade agreement is signed by African nations and borders are opened then business will face competition and they will need partners and support to compete with the other experienced business in Africa which have modern operation and scaled by partnering with Equity investors so we believe there will be more business that seek capital in the future.
- Participant 3 – Equity investment in Ethiopia will continue to grow as the economy grows and as companies become more mature. The most important factor for Ethiopia to continue to attract foreign investment will be political stability and rational economic reforms that eliminate red-tape and make investing in Ethiopia easier.
- Participant 4 – Country is the fastest growing economy which is showing indications to open up certain markets initially limited to the public only. More involvement being seen by the private sector is also an indicator for more investment opportunities in the country.
- Participant 5 – Interesting
- Participant 6 - Ethiopia's tech ecosystem is still growing and many opportunists have been left untouched. I hope to see more young folks pursing their ideas to change the narrative of Ethiopia & Africa as a whole.

19- **How do you see the future of the business world and particularly in this business sector with regard to Covid-19?**

- Participant 1 – in the way I see it theirs advantageous and disadvantageous part of this pandemic, the disadvantageous part is that every company who does organizing or events or meetings will not have any way to do their jobs, but in the advantageous side we are cancelling physical meetings and making everything online so we saved money and time due to the time of traveling, the cost for flights and hotels we didn't spend are considered as a good side, so I think the world have learned something from this pandemic, so as long as we learn from it it's not a challenge.
- Participant 2 – Most businesses are affected and straggling both big and small business are affected the future will be determined how long COVID stays and how many businesses can service the crisis - but we believe most business will depend on digital platforms to cope and operate even after COVID.
- Participant 3 – There will always be investors looking to make equity investments in companies - this is a key part of a capitalist economic model. Crises such as Covid-19 will destroy some businesses but will create opportunities for other businesses. Investors will always try to invest in businesses that can respond to crises and seize the opportunities that these offers.
- Participant 4 – There will be some strategic shifts taken by businesses to get through the pandemic. This will also be a time where many businesses, new and existing, try to optimize their resources as much as possible. PE investment will still continue to help business strive during this pandemic.
- Participant 5 – Raising investment is difficult, and DD when you can't visit the company is difficult, but it will improve
- Participant 6 - Covid-19 has put immense pressure on markets all over the world. Especially in developing countries such as Ethiopia, where government is not in a position to bail out business in the same way western counties do.

20- Any additional comment you want to add regarding the topic?

- Participant 1 –None
- Participant 2 – None
- Participant 3 – None
- Participant 4 – Please send me the outcome of your research!
- Participant 5 – None
- Participant 6 - None

APPENDIX II: QUANTITAIVE ANALYSIS

From the following 6 variables, please rate the variables from most important to least important in deciding to invest, 1 being the most important and 6 being the least important. The variables are presented below

* Quality of the business model / plan
* Scalability of the venture
* Industry of the venture
* Character of the Entrepreneur
* Product or Technology used
* Network or Affiliation of the entrepreneur

Out of 6 respondents, 5 has managed to answer the follow up question:

	Par.1	Par. 2	Par. 3	Par. 4	Par. 6
Quality of business plan	4	1	1	3	3
Scalability of the venture	2	5	5	4	5
Industry of the venture	5	3	6	2	4
Character of the entrepreneur	1	2	4	1	2
Product / technology used	3	4	2	5	1
Network of affiliation of the entrepreneur	6	6	3	6	6