Expanding Early-Stage Financing for Climate Adaptation

Tanzania Market Study

Final Market Landscape Report

October 2024

fsdafrica

In partnership with eit Climate-KIC

Supported by Open Capital

Contents

Photo credit: Unsplash

Executive summary

Open Capital

The Tz early-stage ecosystem is still nascent, with a wide spectrum of financiers and slowly improving policy environment

Demand

Tanzania's startup ecosystem is **still nascent**
- The number of **startups has tripled** in three years, but Tz is still a **second-tier market** in the wider African context, with fewer and smaller deal activity than markets like Kenya

Early-stage climate adaptation ventures are **predominantly in agriculture** and are primarily niche-businesses

All businesses **rely heavily on initial grant funding** (and BD support), although follow-on financing needs vary
- **High growth**: have a high reliance on **larger equity/debt** tickets to fund operations and capex investments on their path to profitability
- **Niche ventures**: **struggle to raise investment capital** due to smaller addressable market size, and often **use grants** as "backup"
- **Dynamic ventures:** tend to **prioritize debt financing** for working capital / asset investments

Supply

There is a **wide spectrum of actors** in the Tz financing landscape (incubators, foundations, banks, investors)
- Despite nominal interest, many regional investors **have limited activity in Tanzania** and don't have a local presence
- Few have a specific focus on climate adaptation, though many **apply a climate lens** to their investment process

Financiers are **varyingly active across the venture lifecycle:**
- Foundations (grants) and Incubators / Accelerators dominate smaller ticket size spectrum (<$100K)
- Impact investors operate in the $500K-2M spectrum, **very few are active in $100-500K range**
- While **banks struggle to provide loans** to start-ups, some innovative alternative lenders are active in the <$500K range
- DFIs typically only make direct investments in **larger businesses**, but seed smaller funds / grants / accelerators

Enabling environment

Businesses and investors are increasingly optimistic about the Tz ecosystem as the government endeavors to improve policies

Nevertheless, bureaucratic inefficiencies and some regulations remain a challenge, affecting the ease of doing business:
- Businesses cite **unfavorable tax policies,** which often disincentivize formalization, e.g., taxation at pre-revenue stage
- **Equity investors, have to pay a fee of USD 25-40K to the FCC for every transaction** and approval takes up to six months which makes equity investment expensive at small ticket sizes
- **Bank lending is highly regulated by the BoT** making it too stringent and out-of-reach for early-stage businesses

Notes- All figures are in USD unless otherwise stated

Early-stage ventures face multiple barriers to grow their business- spanning the investment lifecycle

Limited pool of businesses:
- While the startup ecosystem has grown significantly, there's still a gap in start-up or entrepreneurial culture
- In parallel, the policy environment remains challenging for early-stage ventures
- As a result – many investors complain it is hard to develop a consistent pipeline of investable businesses

Key capability gaps in ventures:
- Local founders often lack networks and experience, leading operational and management skill gaps; they struggle to articulate their financial & impact stories
- Successful start-ups often have non-local founders who are more experienced and have stronger networks
- Businesses lack climate adaptation knowledge and struggle to articulate climate impact to investors*

Limited business awareness of the investor landscape
- Traditional financiers like banks and microfinance institutions are the most familiar to businesses
- Alternative financiers active in Tz are regional, mostly based in Nairobi, except for local accelerators
- Most new founders have limited awareness of the alternative investor landscape & requirements

Limited investor-business visibility
- There are limited opportunities for start-ups in Tz to interact with potential investors
- Many regional investors don't have a local presence
- Lack of proximity and avenues to interact makes it difficult for businesses to get investor attention

Limited range of flexible debt financing instruments:
- Although there are a few alternate lenders in the market, banks remain the main providers of debt in Tz; BOT regulations especially on NPLs demand for stringent requirements on their loans
- Start-up businesses often cannot meet bank requirements as they have limited asset bases

Low availability of small ticket (post-grant) investors:
- Few impact investors are interested in tickets <500K, which is the typical financing need post-grants
- Businesses therefore approach large-ticket investors for which they are not suited, further confirming perception of paucity for both investors and businesses

Notes: Financiers too lack data and frameworks to evaluate investees for climate adaptation impact; All figures are in USD unless otherwise stated
Sources: OCA interviews and analysis

A spectrum of interconnected potential intervention areas* could further support and grow the early-stage venture ecosystem

1. Continue seeding new ventures through incubators/accelerators: Establish more incubators, subsidized coworking spaces, and accelerator-like structures to cultivate a start-up culture and the establishment of new ventures

2. Provide more structured investment readiness support: Design a new vehicle or partner with existing programs to provide businesses with comprehensive investment readiness transaction-support, (e.g. CASA+ program)

3. Support business-investor interactions to increase visibility: Support players creating avenues for adaptation businesses and investors to engage in summits, e.g., Sahara Sparks and Anza Entrepreneurs

4. Facilitate linkages for follow-on funding across venture life-cycle: Encourage accelerators to design programs geared to support businesses post-grants. Facilitate interactions between accelerators/ grant funders and small ticket investors to create linkages

5. Support the providers of flexible and patient early-stage capital: Identify and partner with providers of flexible and patient early-stage debt or equity to support more businesses; distil and disseminate learnings

6. Support innovative and flexible debt financing structures: Partner with banks and alternative lenders providing flexible debt financing offerings, e.g., Iungo Capital and EFTA to grow current portfolio or pilot new products

7. Incentivize early-stage bank financing: Partner with DFIs to provide capacity building and derisking mechanisms, e.g., guarantees and on-lending facilities like Aceli Africa and the CRDB's GCF-supported facility

*Notes: *These interventions are not standalone, but rather components to be considered as part of a broader response once specific objective(s) are defined; concrete interventions could address multiple areas. Sources: OCA interviews and analysis*

Photo credit: Unsplash

Research objectives and methodology

The objective was to understand Tanzania's early-stage climate adaptation finance landscape to inform potential interventions…

Project objectives and key research questions

Objective: Understand climate finance landscape for early-stage adaptation ventures in Tanzania to gain insights into current market functioning as a basis for interventions to support market development.

1. What is the **demand** for early-stage finance in climate adaptation?
2. What are the **sources** of early-stage finance in climate adaptation?
3. What **factors** influence the **demand** and **supply** of early-stage financing in climate adaptation?
4. What are the **market constraints** and **potential opportunities** for development in early-stage financing in climate adaptation?
5. What are some **market building interventions** that can be considered to develop early-stage financing in climate adaptation?
6. Which **market building interventions** should we consider to develop early-stage financing in climate adaptation?

Scope of assessment

Tanzania climate adaptation

Types of companies
- High growth enterprises
- Niche enterprises
- Dynamic enterprises

Sectors
- Agriculture
- Energy
- Water management

Sources: OCA analysis leveraging the project terms of reference and kick off discussion

…leveraging the CFF framework to segment local businesses as part of our analysis

1 High growth ventures

Business profile: disruptive business models and target large addressable markets; pioneer new products & models
Risk profile: Have the highest level of risk tolerance and demonstrate high ambition for growth and scale
Financing need: to fund their development cycle – from new product/service development, testing (i.e., product/market fit), sales & marketing, and scaling
Typical financing instruments: Debt | **Equity** | **Grant**

2 Niche ventures

Business profile: Create innovative products & services that target niche markets or customer segments; seek to grow but prioritize goals other than massive scale
Risk profile: Demonstrate a high level of risk tolerance and desire to grow but not beyond what is manageable
Financing need: To invest in the development of new products and services, and accelerate its growth
Typical financing instruments: **Debt** | **Equity** | **Grant**

3 Dynamic enterprises

Business profile: Operate in established stable 'bread and butter' industries, e.g., trading, retail, etc; deploying proven business models
Risk profile: Have a moderate risk tolerance; lower than that for niche ventures; desire to impact larger numbers
Financing need: To sustain and accelerate growth, invest in productivity & capacity expansion, e.g., machinery
Typical financing instruments: **Debt** | **Equity** | Grant

4 Livelihood sustaining enterprises (OUT OF SCOPE)

Business profile: Driven by opportunity and not necessity; employ a small number of people, and are already formal or soon to be formalized
Risk profile: Low to moderate risk profile with limited desire to grow and scale
Financing need: to sustain the current growth trajectory and support operations
Typical financing instruments: **Debt** | Equity | **Grant**

- We engaged businesses across the three focus segments to ascertain their financing needs and determine what interventions and financing models would best suit their needs

Notes: CFF- Collaborative for Frontier Finance
Sources:1. Collaborative for Frontier Finance, Segmenting Enterprises to Better Understand Their Financial Needs 2. The state of the agri-SME sector-Bridging the finance gap

OCA started with a literature review, followed by stakeholder consultations to develop potential interventions

Phase 1

Hold kick-off meetings & conduct literature review

- Held kick-off calls with the FSD Africa and Climate-KIC teams to align on expectations, stakeholder consultations, the scope of work, key business segments, and the working approach
- Conducted a deep review of key market reports and research papers
- Delivered an inception report including a consultation stakeholders list

Deliverables:

- ***8-12 slide inception report presented in PPT***
- ***Consultation stakeholder list***

Phase 2

Field phase and develop case studies[1]

- Developed stakeholder questionnaires
- Conducted 5-10 high-level virtual consultations with ecosystem players
- Conducted 10-15 on-the-ground consultations in Tanzania
- Submitted a draft report integrating findings from consultations

Deliverables:

- ***30-35 slide draft report with field phase conclusions presented in PPT***
- ***2-hour interim report workshop***

Phase 3

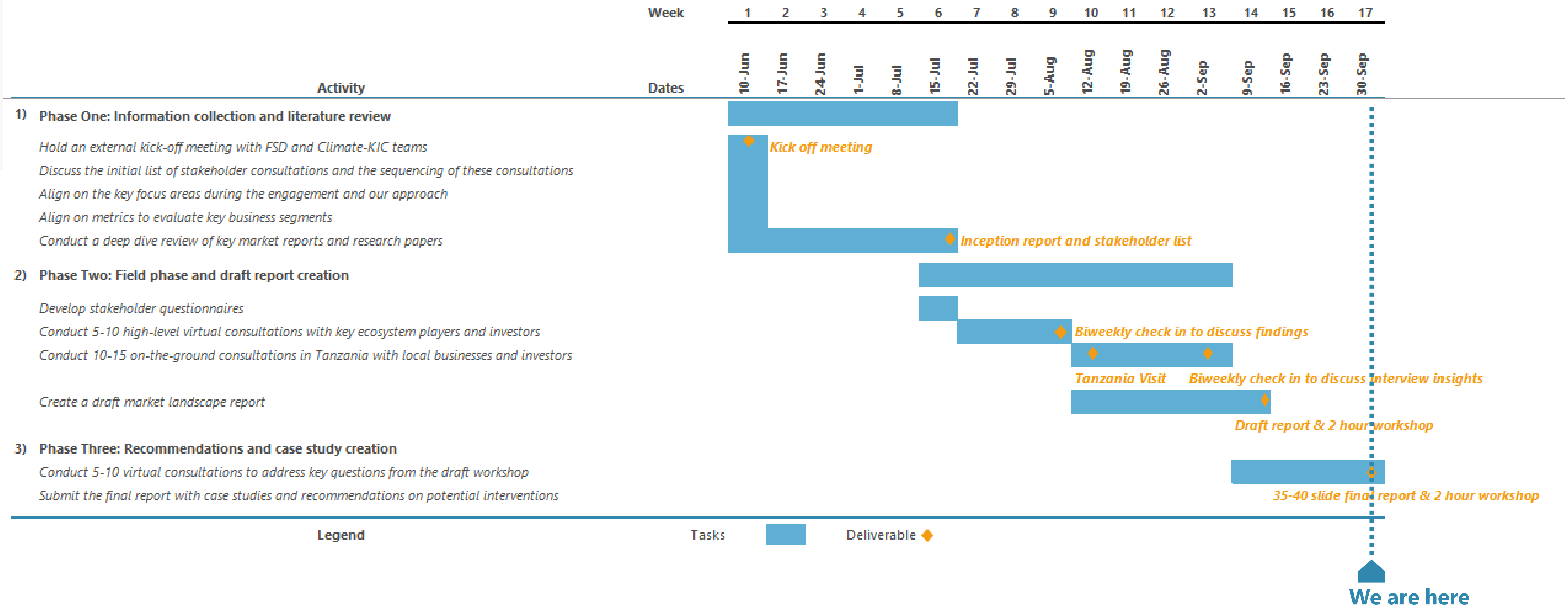
Develop potential interventions

- Conducted 5-10 virtual consultations to address questions from the workshop
- Hosted a workshop to discuss case studies and recommendations, and prioritize interventions
- Delivered a final report, which consolidates all key insights, case studies, and recommendations on interventions as well as feedback from the workshop with FSD Africa and Climate-KIC team

Deliverables:

- ***35-40 slide final report (PPT)***
- ***2-hour final report workshop***

Over the last 3 months, we engaged with stakeholders – this document represents the final report for handover



We conducted over 35 stakeholder consultations that informed the interventions

Stakeholders	Agriculture	Energy	Water
Early-stage businesses *N=14*	Ip; Maza Hub; Kilimo Maendeleo; Africa Harvest; Dark Earth Carbon; Topfoods; LIMA Africa; Coastal Biotech; DMA Digital Mobile Africa	TRÍ; Simusolar; Nishati Eco (Biomass Briquettes | Gas | Solar); Zaidi Recyclers	N/A
Financiers *N=14*	IFC International Finance Corporation (World Bank Group); E3 Capital; iungo capital; ARAF Acumen Resilient Agriculture Fund; AgDevCo; Catalyst Fund; CRDB Bank (The bank that listens); UNDP; Africa Eats; FMO Entrepreneurial Development Bank; Sayuni Capital; Hooge Raedt Social Venture B.V.; British International Investment		
Ecosystem players *N=11*	Tanzania Startup Association; FSDTanzania (Beyond Access); REEEP (Developing Clean Energy Markets); Sahara Ventures; Tetra Tech; CASA; Funguo Programme; Palladium; UKaid Manufacturing Africa; Robotech Labs		

Open Capital

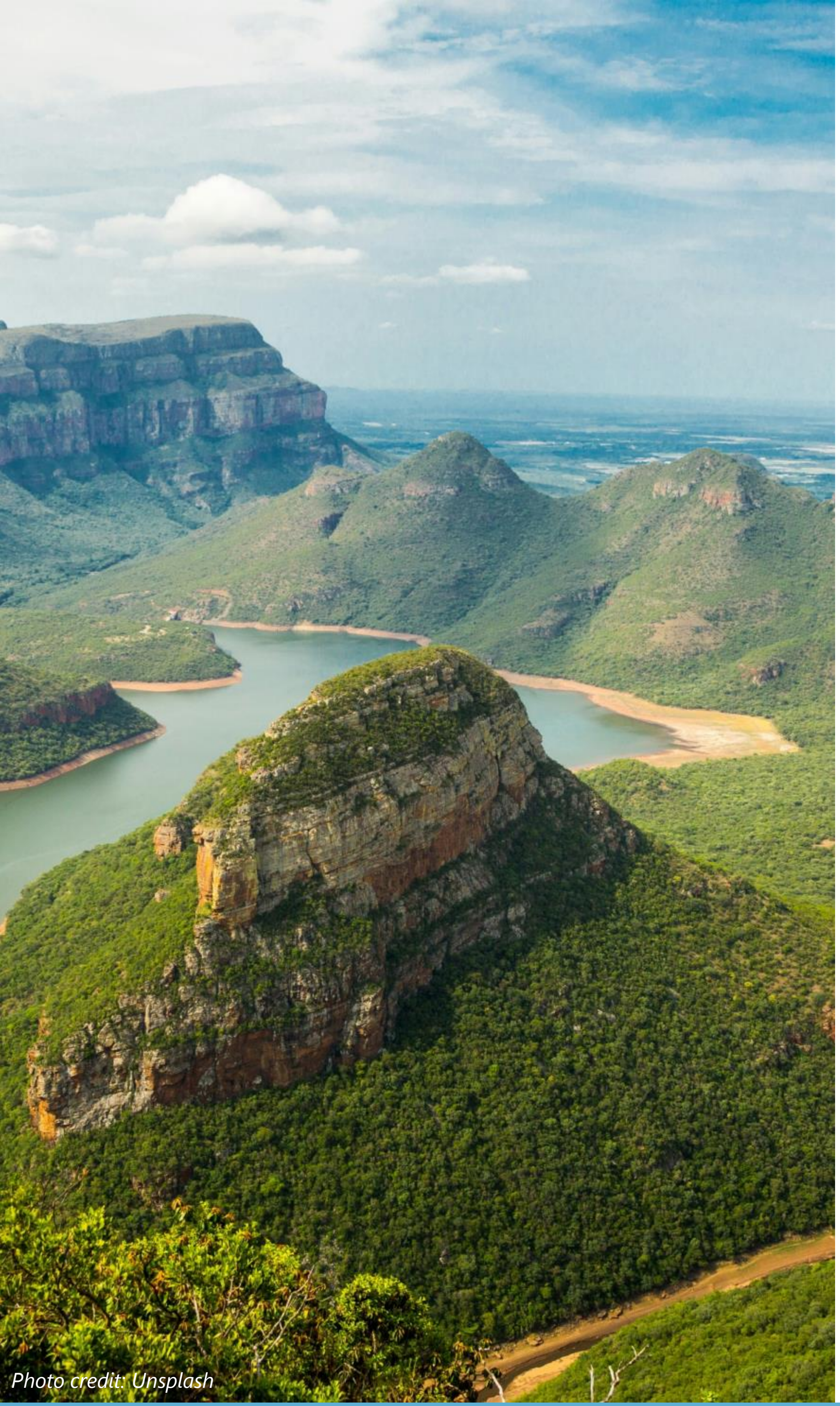


Photo credit: Unsplash

Tanzania overview

Tanzania is one of the poorest countries in the world, least prepared for climate change, most susceptible to climate shocks

69 million
Population of Tanzania in 2024[1]

USD $76 bn
GDP of Tanzania in 2022[3]

24%
Of Tanzania's GDP is from agriculture, forestry, and fishing in 2023[2]

66%
Labor force employed in agriculture

26%
Of Tanzania's population live below the poverty line in 2020[4]

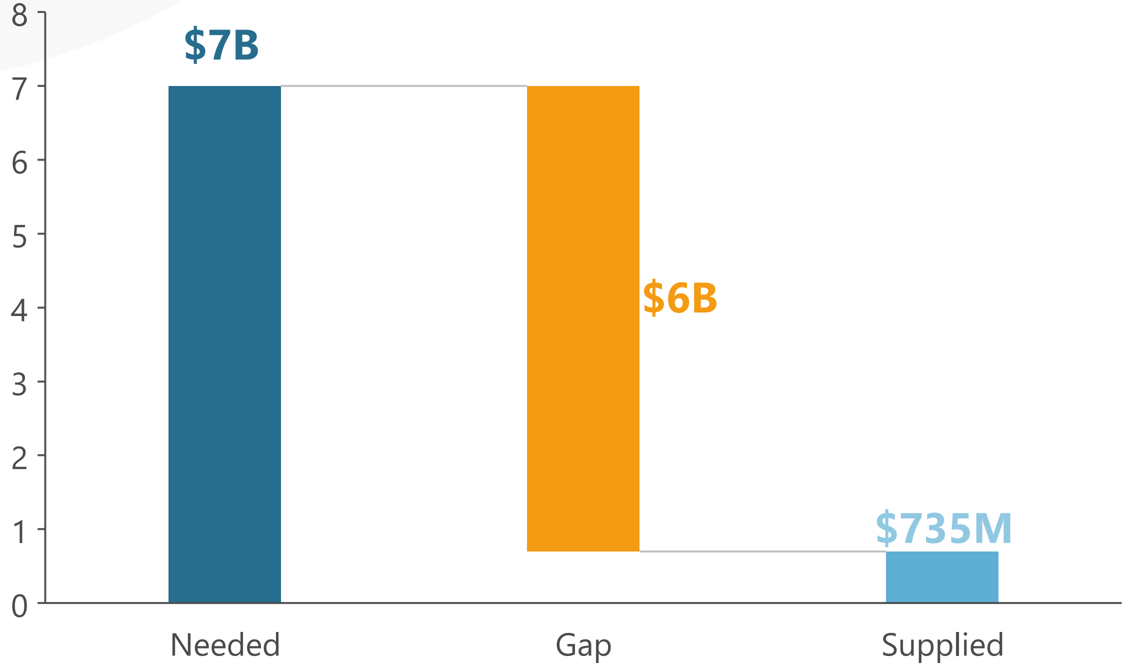
- Tanzania is **highly vulnerable to climate change** and **is less prepared** to respond to climate change impacts
  - Frequency (and severity) of climate events has been increasing in recent decades[6]
  - Tanzania is the **45th most vulnerable** country to climate change (out of 185)[6]
  - In addition, Tanzania is the **58th** least prepared to leverage investments to adaptation actions according to the IMF journal 2023[6]
- **Adaptation is critical in Tanzania** as their reliance on agriculture (**24% of GDP** and **66% of employment**) leaves them economically vulnerable to supply shocks
- Tanzania is also one of the poorest countries with **26%** of the population **living below the poverty line** with supply shocks likely to **disproportionately impact vulnerable groups**

Sources: 1. Population of Tanzania; 2.World Bank; 3. World Bank;4. Statista;5. World Bank Group; 6. IMF Journal 2023

Climate adaptation is critical to Tz, and remains underfunded at a macro level, underscoring the need to support private ventures

Tanzania requires USD 7B annually in climate finance

Annual climate finance need and gap in Tanzania as of 2020[1] ($B)



Private sector involvement and diversification are necessary

- **Majority of climate project finance is from the public sector;** >95% of finance is from public sector (based on flows tracked by CPI)
- **Project-based Climate finance focuses primarily on water;** while continentally, the focus is on agriculture.
- **Majority of public climate adaptation funding is debt;** with a small proportion in grants (note: PE/VC investments not included)
- **PE / VC inflows represent ~1%** of climate finance (average ~$11M / yr)
  - Private business funding **overwhelmingly directed at energy,** driven by fewer **large-ticket deals**
  - Meanwhile, **agriculture represents over half of the deal volume** over the period

1. CPI landscape of climate finance in Africa *2. CPI 2022* *3. ** CPI data focuses mainly on project level data rather than business activities*

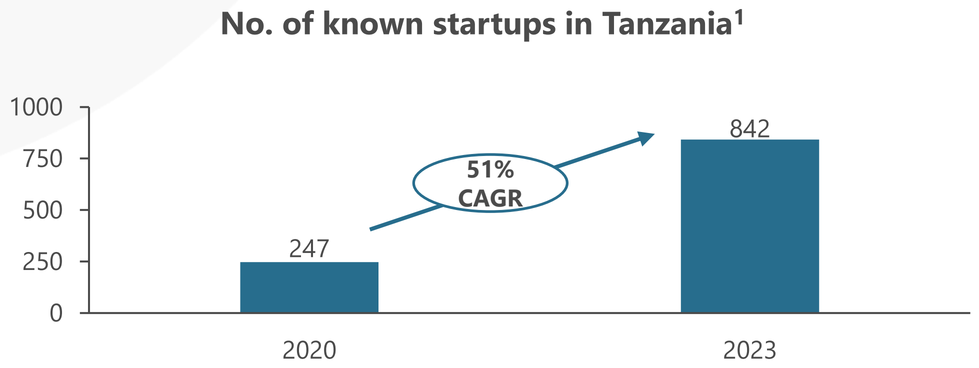
Open Capital


Photo credit: Unsplash

Demand for early-stage climate adaptation financing

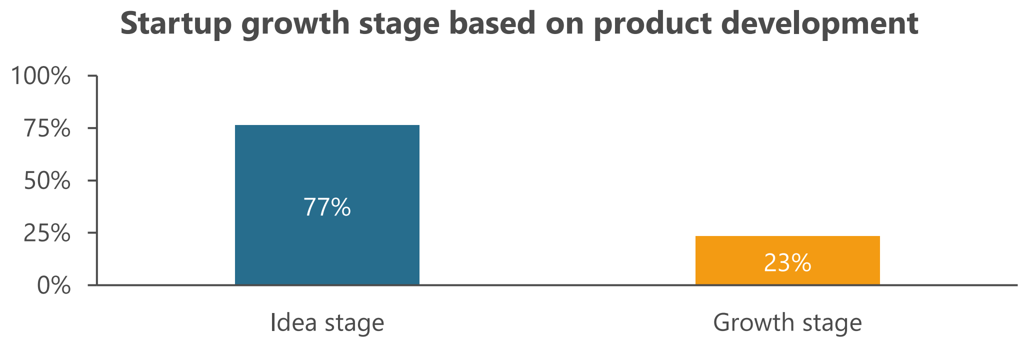
The Tanzanian startup ecosystem is experiencing massive growth with an influx of tech & agriculture ventures

Tanzania's startup ecosystem has boomed since 2020



- **The number of known start-ups has grown over 3x over the last 3 years, suggesting massive growth potential**
  - This growth is driven by multiple factors like improved digital infrastructure, better access to funding, and more favorable government policies
- **Many startups offer tech solutions across sectors, with Agritech ranking second by number of businesses**
  - Key sectors: Software (20%), Agritech (19%), Ecom (10%)

But most companies are still very nascent

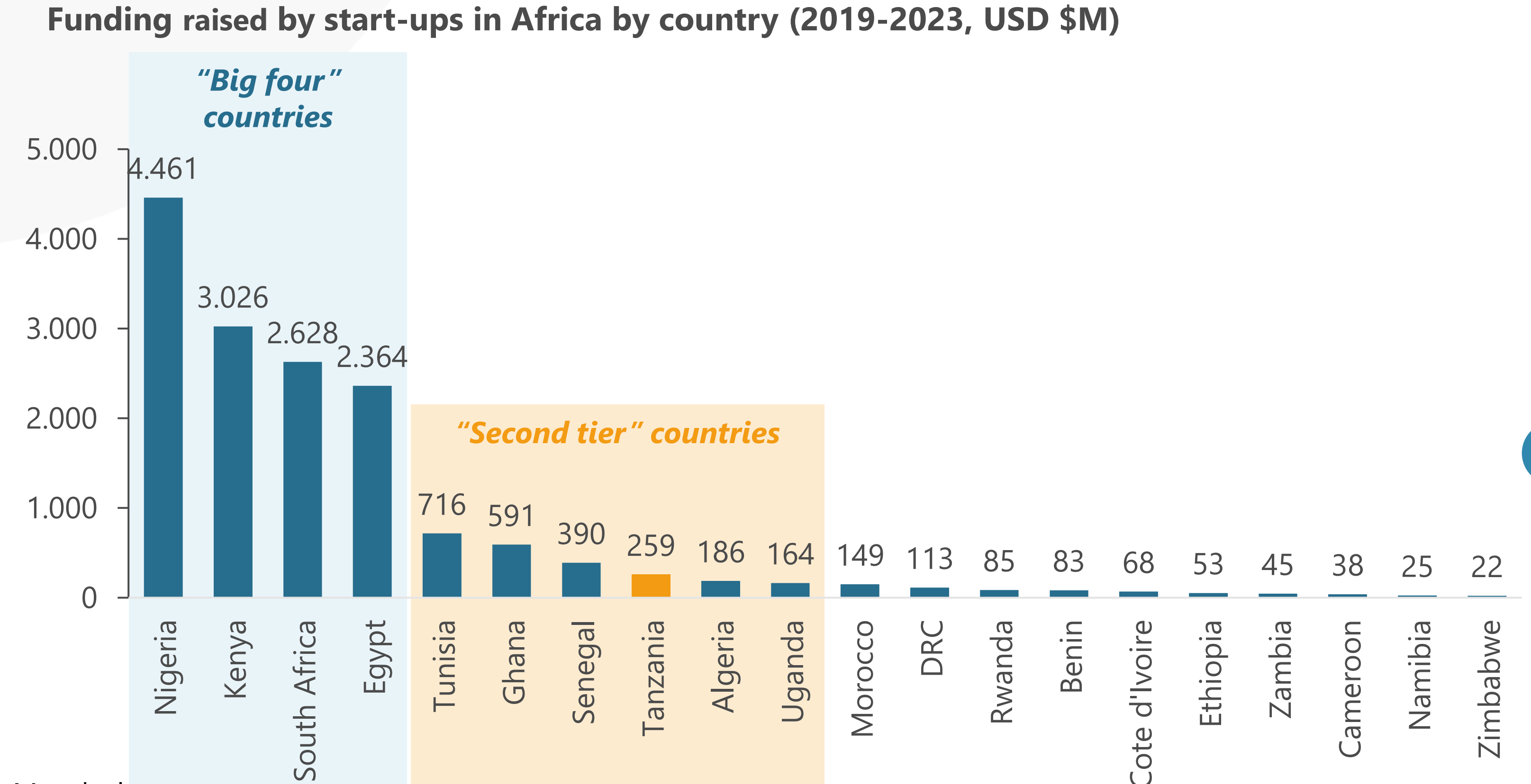


- **The ecosystem is fairly nascent, with over 75% of start-ups in the idea stage and only 31% post-revenue**
  - Targeted investments will be needed to facilitate the transition of firms into the growth stage
  - Greater collaboration between the various actors in the ecosystem is necessary to help unlock growth
  - Development of enabling environments such as accelerators to better equip new entrepreneurs with the skills to grow their businesses

Tanzania currently ranks 7th in the Eastern Africa startup ecosystem and enhanced financing could drive further progress[2]

Source: 1. Tanzania Startup Association 2023 report 2. Startupblink

Despite the growing startup scene, Tanzanian startups lag behind on fundraising, with lower volumes and fewer big-ticket deals



	Nigeria	Kenya	South Africa	Egypt	Tunisia	Ghana	Senegal	Tanzania	Algeria	Uganda	Morocco	DRC	Rwanda	Benin	Cote d'Ivoire	Ethiopia	Zambia	Cameroon	Namibia	Zimbabwe
Max deal size	400	288	120	260	446	200	200	90	150	30	60	40	21	63	14	26	12	8	15	13
Deals >10M	76	54	59	46	5	12	4	6	2	6	2	3	3	2	1	1	1	0	1	1

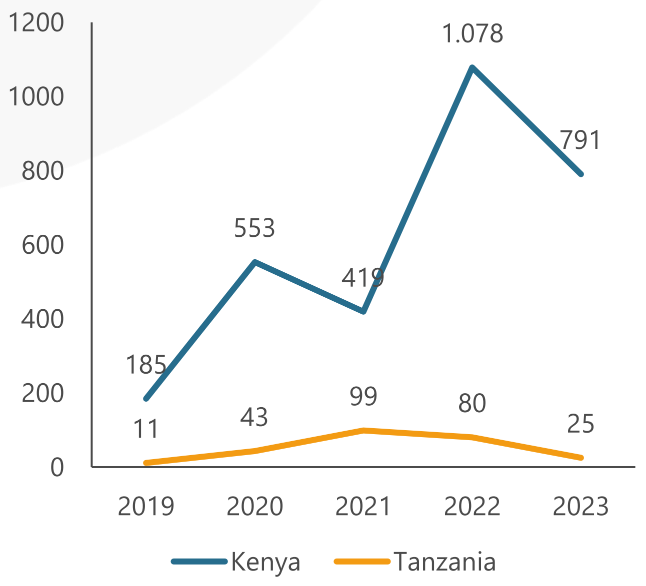
Observations

- **Majority (75%) of Africa's start-up funding goes into "big four" markets**
  - Highly developed start-up ecosystems
  - Total funding >$400M/yr
  - Many, and sizable deals (multiple >$100M, regular deal flow >$10M)
- **Tanzania is a second-tier country**, alongside Tunisia, Ghana, Senegal, Algeria and Uganda, that have an **emerging startup ecosystem**:
  - Average annual fundraising $30-100M
  - Handful of >$10M deals
- Underscores **need for supporting early-stage ventures** to build ecosystem

Notes- All figures are in USD unless otherwise stated
Sources: 1. The Big Deal Database; 2. GrowthAfrica; 3. WeeTracker

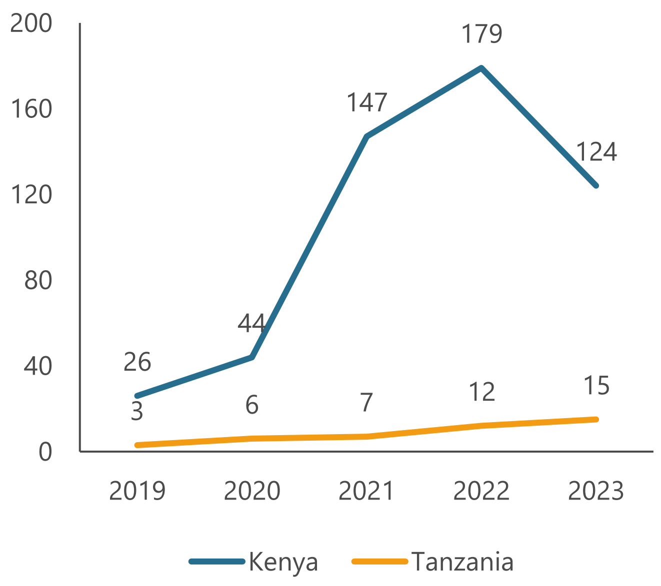
Detail: Kenya, while notably ahead of TZ in deal flow highlights significant growth potential for TZ with the right interventions

Total value of deals, 2019-2023[1] (USD M)



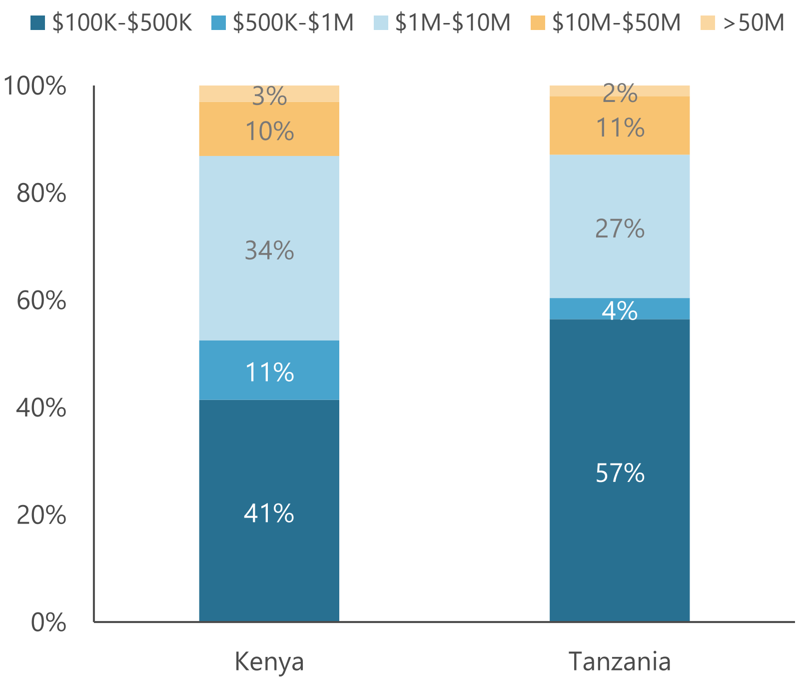
Total (2019-2023)
Ke – USD 3026M
Tz - USD 359M

Number of deals, 2019-2023[1] (#)



Total (2019-2023)
Ke - 520
Tz - 43

Composition of deals by size, 2019-2023 (%)



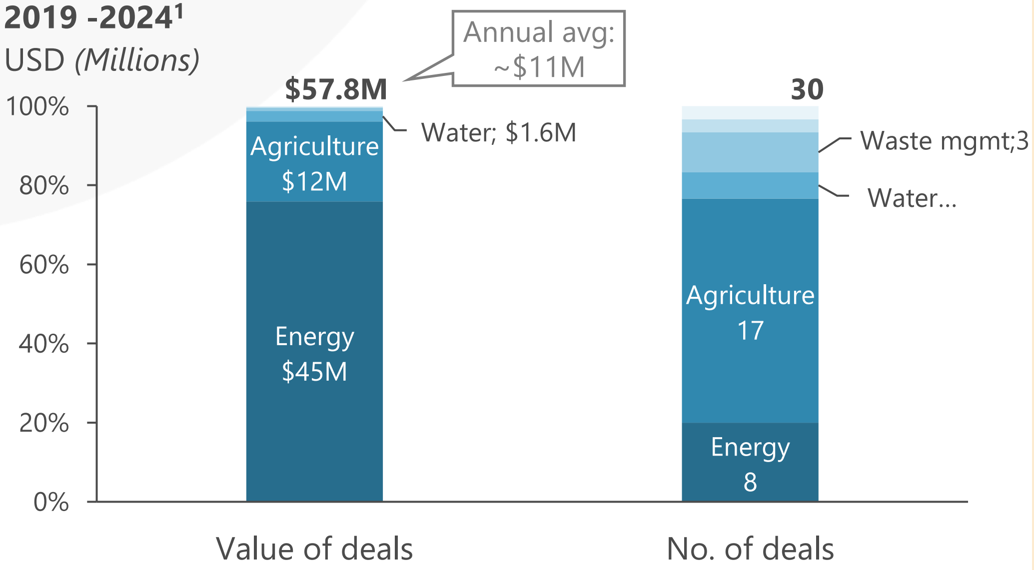
- **Kenya is decades ahead of Tanzania** with multiples of **8x** on value of deals and **12x** on number of deals, additionally Tanzania has a larger portion of smaller deals (**57%** of **deals below $500k** compared to **41%** in Kenya)
- Similarity in large deal size segment (both economies have **13%** of **deals above $10m**) as well as proximity to regional leaders may allow Tanzania to benefit from Kenya's growth and chart a path for a similar growth journey over time with the support of the right interventions

Source: 1. Africa Big Deal Database, 2019-2024
Note: The chart does not include the companies with unspecified deal sizes and 2024 deals; All figures are in USD unless otherwise stated

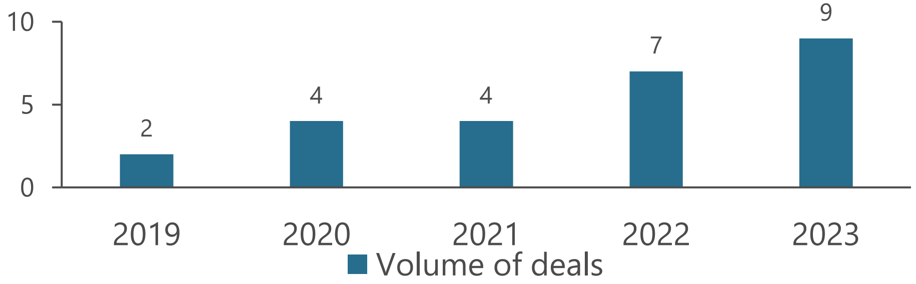
There has similarly been significant growth in private sector adaptation ventures with the bulk going to energy & agriculture

Private sector deals in climate in Tanzania between 2019 -2024[1]

USD *(Millions)*



Number of deals in climate since 2019[1]



- Private equity climate-related **inflows average ~$11M** / yr
- Private business funding **overwhelmingly directed at energy,** driven by fewer **large-ticket deals**
- Meanwhile, **agriculture represents over half of the deal volume** over the period
- The number of known private sector investment deals more than tripled since 2019 to 2024 suggesting enhanced bankability of businesses

Example investments

Goldenpot | Agribusiness
Engages in aggregation & manufacturing to reduce post harvest losses; raised USD 100,000 in grant funding in 2023

BioBuu | Waste management
Recycles organic waste into animal feeds; raised $200K & $100K in grant and equity in 2023 and $200K in equity in 2024

Mavuno | Climate tech
Offers satellite imagery-steered farming services, microloans to SHFs; raised $100K in grant funding in 2023

Simusolar | Climate tech
Provides IoT-enabled productivity tracking equipment; has raised >$2.7M in financing

Notes: In 2021, Zola Electric raised USD 90 million for solar installations in rural Africa, but this was excluded from the totals as it is an outlier; All figures are in USD unless otherwise stated

Source: 1. Africa Big Deal Database, 2019-2024

Startups focusing on climate adaptation tend to coalesce around three sectors

	Agriculture	Energy	Water
Market themes	• Businesses develop solutions to enhance integrate agricultural value chain roles, enhance smallholder farmer productivity and resilience to climate change while minimizing operating costs	• Businesses provide clean off-grid energy systems to households and small manufacturers, and clean cooking technologies to replace dirty fuels usage	• Businesses develop solutions that optimize and maximize water usage and improve water safety for households, farms, and industries
Innovations	• Key innovations: Leveraging AI to integrate value chain activities from soil testing to market access, sustainable farm inputs and animal feeds production, digital marketplace, and financial services for ag players	• Major innovations: Provision of charging hubs, briquette production to replace charcoal and firewood and reduce deforestation, solar-powered irrigation and pumping systems	• Notable innovations: Use of AI to optimize distribution and ensure safe water quality, development of water-efficient irrigation systems e.g. hydroponic systems & drip irrigation
Examples	Dark Earth Carbon, Chanzi, Coastal Biotech, Mazao Hub, BioBuu, DMA Digital Mobile Africa	Jaza, Greenlink, Zola, Nishati Eco, Simusolar	JAHA, RejTech *Note: few Water-related adaptation businesses identified in Tanzania*

Source: 1. OCA Consultations 2.Mazao Hub 3. Dark Earth Carbon 4. Chanzi 5. Coastal biotech 6. Biobuu 7. Digital Mobile Africa 8. Jaza 9. CAA Energy 10. Greenlink 11. Zola 12. Simusolar 13. Nishati Eco 14. Jaha

During our engagement, we identified >35 businesses that have activities in climate action and in the sectors of interest

	Agriculture	Energy	Water	Others
Clear focus on adaptation / resilience				
Activities aligned with adaptation/resilience				
Limited focus on adaptation / resilience				

Degree of focus on adaptation & resilience

High *(exclusive focus)*

Low *(no focus)*

Sources: 1. Big deal database 2. OCA consultations 3. Dark Earth Carbon 4. Chanzi 5. Coastal biotech 6. Biobuu 7. Digital Mobile Africa 8. Jaza 9. CAA Energy 10. Greenlink 11. Zola 12. Simusolar 13. Nishati Eco 14. Jaha 15. Mazao Hub 16. Yakwetu Biotech 17. Flamingoo Foods 18. NovFeed 19. iProcure 20. Kilimofresh 21. Agripoa 22. Kinshaga 23. Carbon Tanzania 24. BimaSokoni 25. Power Providers 26. Rogathe Dairy 27. Lima 28. Solar Sister 29. Rift Valley Energy 30. Agrilife 31. Greenwheels 32. E-motion 33. Tri 34. Robotech 35. Zaidi 36. Emo Mobility

Open Capital

From our initial list, we've consulted >10 of these businesses, majority of which are either ag-focused or niche businesses

Business archetype/segment

	High growth enterprises	Niche enterprises	Dynamic enterprises
Agriculture	Mazao Hub; DMA Digital Mobile Africa	Kilimo Maendeleo; Coastal Biotech; Dark Earth Carbon; Lima Africa; Zaidi Recyclers	Tanganyika Plywood; Africa Harvest; Topfoods
Energy	Simusolar	TRÍ; Robotech Labs	Noshati Eco
Water			

Observations

Classification of enterprises based on assessment of business models and products.

- High-growth enterprises have disruptive business models, are ambitious, and target large SAMs, e.g., Mazao Hub
- Niche enterprises target specific markets e.g., Coastal Biotech
- Dynamic enterprises are traditional 'bread-and-butter' trading businesses with slower, consistent growth trajectories

Sources: 1. Big deal database 2. OCA consultations

Many early-stage ventures have limited awareness of funding landscape, and struggle to find suitable investors

Key Insights

Limited awareness of the investor landscape & requirements

- Business are unaware of the investor options available and often resort to financiers that charge extreme interest rates

Few investors appear to be in Tanzania

- Majority of the regional investors consulted have limited or no active investments in Tanzania

Businesses struggle to articulate business model and climate impact

- Many early-stage ventures we spoke to struggle to articulate their core business model and growth path succinctly – especially so when it comes to the climate impact of their ventures (and demonstrating that)

Businesses that are more impact-inclined struggle to raise financing

- Investors are primarily focused on securing a return on investments and tend to prioritize opportunities that offer strong returns, regardless of whether they are related to climate adaptation or not

Businesses are too early stage for investors

- Although there are numerous tech enabled startups, many are at a pre-revenue and early-stage level, which presents considerable risk for potential investors and therefore just a handful secure financing

Consultation quotes

"Most businesses obtain loans from platforms that charge them extremely high interest since they only know of banks which need collateral"
~Local business

"Many investor websites indicate that they invest in TZ but actually aren't locally present"
~Local business

"Businesses struggle with developing financial models that communicate the impact & projections clearly which is critical for investors"
~ Climate expert

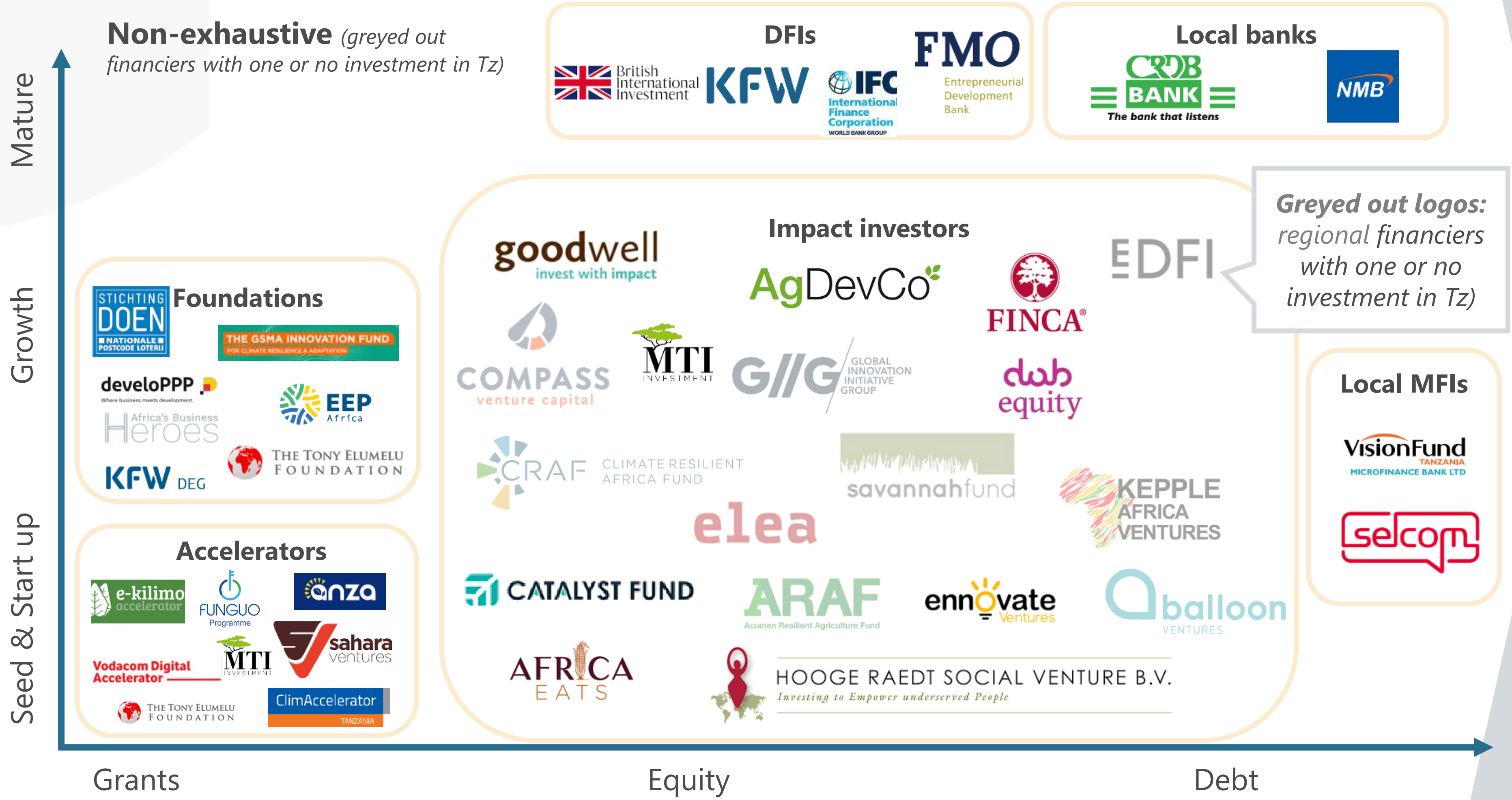
"While we would like to invest in adaptation, investors want returns and therefore we tend to finance businesses that have a higher ROI "
~Investor

"Most investors want proof of traction and high revenues yet our businesses are very early stage & need that financing to achieve profitability"
~Business owner

Source: OCA consultations

Supply of early-stage climate adaptation financing

Tanzania finance landscape features a diverse mix of actors with varying engagement levels



Most players have a regional East African focus, but do not (currently) have active investments there

Sources: 1.The Big Deal Database;2. E-kilimo;3. developPP; 4. anza;5. Funguo;6.The Tony Elumelu Foundation;7.Goodwell; 8.COMPASS;9.CRAF;10. Catalyst Fund;11.Afrcia Eats;12.ARAF;13. AgDevCo;14.GIIG; 15.Savannah fund;16elea;17.ennovate ventures;18.Kepple Africa Ventures;19.Finca;20.EDFI;21.NMB;22.CRDB;23.FMO;24.KFW;25.balloon ventures;26.HRSV;27.BII;28.EEP Africa;29. Africa's Business Heroes;30.The GSMA Innovation Fund

Each category of players contributes uniquely to the development of the ecosystem

Mature
Growth
Seed & Start up

Grants

DFIs

Local banks

Local MFIs

Foundations

Impact investors

Accelerators

Foundations provide grant funding to early-stage businesses in Tz, primarily as competition awards.
E.g. The Tony Elumelu Foundation which supported East Africa Fruits and Mazao Hub

DFIs in Tz are usually active indirectly through impact funds., or grant programmes (e.g. KFW's DEG). Direct investments typically target larger ticket sizes (>2M), which are not common in Tz

Local banks typically provide funding to mature businesses, but limit their engagement in early-stage financing due to the risk profile of the segment. This is sometimes mitigated by guarantees and on-lending partnerships with DFIs. (E.g. CRDB's GCF-backed facility)

MFIs typically finance small businesses (<$25k) e.g. Jamil Microfinance provided receivables financing to Simusolar

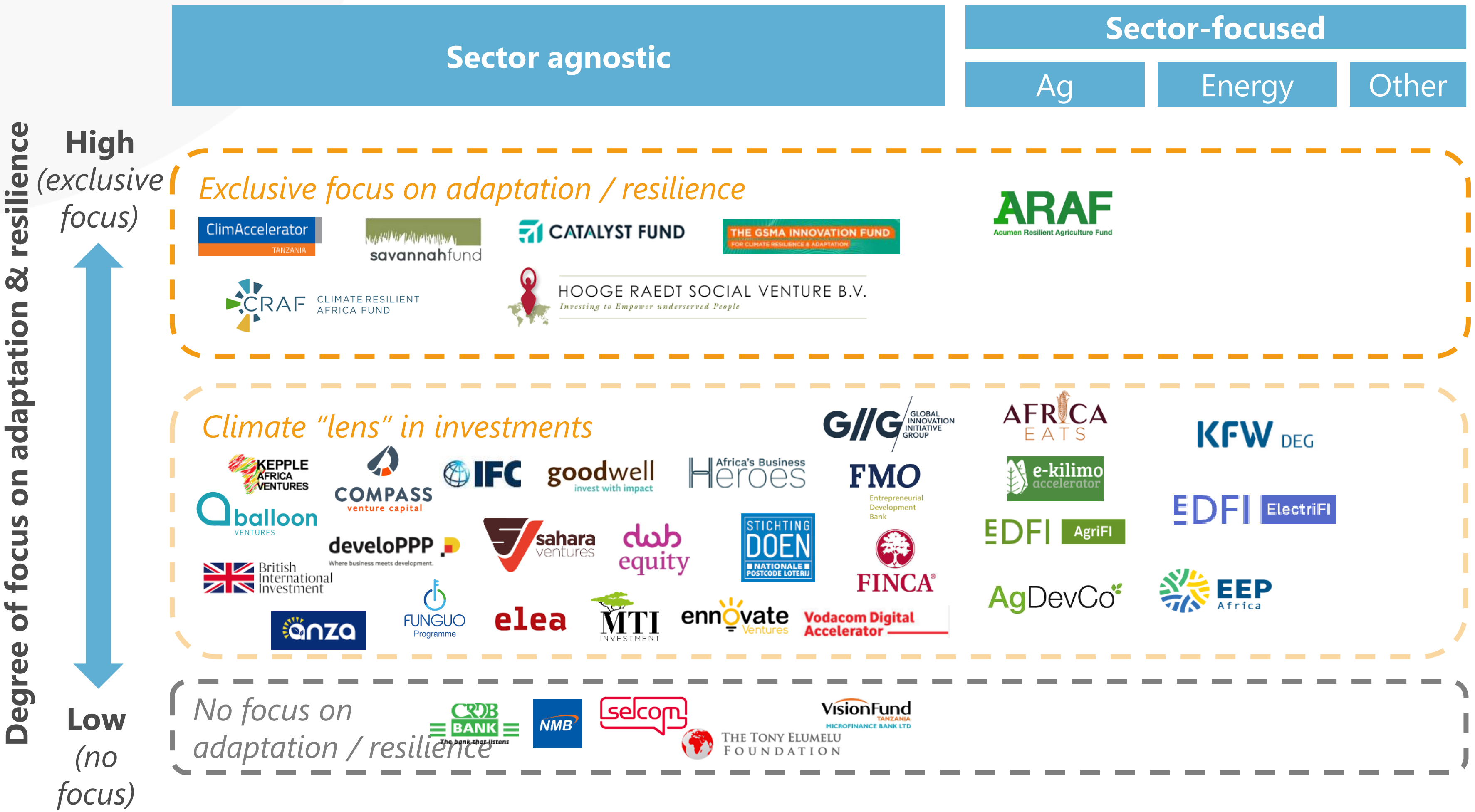
Accelerators and incubators provide business and technical support to start-ups and early-stage businesses to help shape their proposition. They are typically donor funded and provide this support over a short period of time. (e.g. UNDP's Funguo program or Climate KIC-backed ClimAccelerator)

Impact investors provide both equity and debt investments with ticket sizes of USD 500K+. They typically focus on high-growth businesses and prefer a tech-angle.
Most of those active in Tz have investments in ag and energy (e.g. Goodwell Investments holds a stake in Tz based EA foods)

Notes- All figures are in USD unless otherwise stated
Sources: 1. African Development Bank; 2. DeveloPPP; 3. Stakeholder consultations

NON-EXHAUSTIVE

Most financiers are sector-agnostic and invest with a climate "lens"



Observations

- Most financiers in TZ are sector agnostic with climate adaptation emerging as one of the "lenses" financiers apply to opportunities
- This resonates with the local business mapping as very few businesses are purely adaptation-focused
- Of the sector-focused financiers, there is a clear preference for agriculture and energy as focus sectors, unsurprising as Tanzania deal data indicates these two sectors as the most active, in number and volume of deals

Sources: 1.The Big Deal Database;2. E-kilimo;3. develoPPP;4. anza;5. Funguo;6.The Tony Elumelu Foundation;7.Goodwell; 8.COMPASS;9.CRAF;10. Catalyst Fund;11.Afrcia Eats;12.ARAF;13. AgDevCo;14.GIIG; 15.Savannah fund;16elea;17.ennovate ventures;18.Kepple Africa Ventures;19.Finca;20.EDFI;21.NMB;22.CRDB;23.FMO;24.KFW;25.balloon ventures;26.HRSV;27.BII;28.EEP Africa;29. Africa's Business Heroes;30.The GSMA Innovation Fund

Open Capital

Investor landscape: there is paucity across spectrum, though particularly at lower end of ticket-size spectrum

25K 50K 100K 250K 500K 750K 1M 1.5M 2M 3M 5M 10M+

Grants / equity:

<$100K

Largely Grants & accelerator-based TA

Broad range of players active, but more could be needed

$100-450k

Few Impact investors active

Few impact investors <500K, resulting in reliance on grants

$500k-2M

"Sweet spot" for Impact investors

*Most impact investors >500K, often w/ regional scope (and restrictions on portfolio exposure); high cost/ complexity of smaller deals**

$2M+

DFIs & Larger investors

DFIs & some impact investors with larger funds don't operate below $2M, sometimes even above 10M, often also invest in smaller funds

Debt:

<$500K

Banks & alternate debt providers

While banks struggle to fund startups, some alternate innovators are active in providing smaller debt products (though not enough)

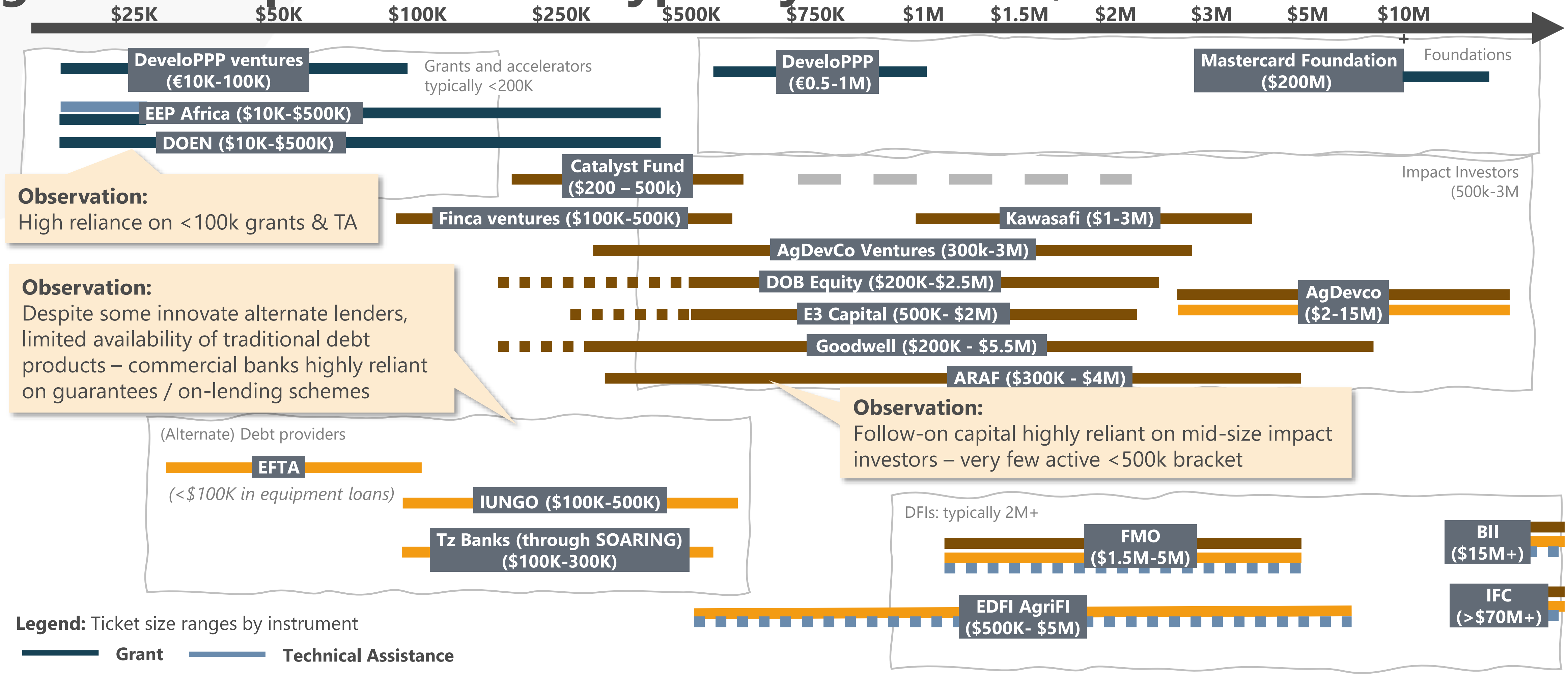
Observations

- There is a high reliance on incubators / grants for initial financing – though scarcity further in pipeline suggests more is required
- Limited providers of smaller tickets (100-450K) to bridge to first seed investments
- DFIs & larger investors are nominally present (often regionally), but struggling to develop pipeline

*Notes: All figures are in USD unless otherwise stated; *The Fair Competition Commission charges a significant fee ($25-40K) per transaction for investors with AUM >$1M making equity investment expensive at small ticket sizes hence there is need for more flexible instruments at low ticket sizes*

NON-EXHAUSTIVE / DIRECTIONAL

Detail: At lower end of ticket size, there is a high reliance on grants – impact investors typically start at ~$500k



Observation:
High reliance on <100k grants & TA

Observation:
Despite some innovate alternate lenders, limited availability of traditional debt products – commercial banks highly reliant on guarantees / on-lending schemes

Observation:
Follow-on capital highly reliant on mid-size impact investors – very few active <500k bracket

Legend: Ticket size ranges by instrument

Grant | Technical Assistance
Equity | Debt
Follow on capital

Notes- All figures are in USD unless otherwise stated

Low availability of smaller/medium ticket sizes is a key barrier for early-stage ventures

Key Insights

Banks most common financiers, but struggle with early-stage ventures

- Limited ability for commercial banks to finance early-stage ventures (<$500k ticket size); efforts are underway to support banks in increase lending through DFI/MDFIs such as IKI and GCF
- Emerging new players with innovative models like Iungo, EFTA, Untapped providing alternative debt models & smaller tickets

Most larger impact investors have a regional scope, with limited on-the-ground presence and pipeline visibility

- While many investors have a mandate for Tanzania, most have not made any investments, citing lack of good pipeline and sufficiently large deals
- In addition, many don't have in-country presence

Low availability of smaller & medium ticket sizes

- Majority of businesses interviewed have required grant funding below $100k while the majority of the financiers are debt and equity providers looking for deals with ticket sizes >$500k
- The transaction cost and complexity of equity and debt deals limits the number of players willing to lower their ticket size threshold and complete equity transactions at this size

Consultation quotes

"We often seek financing from banks and are currently seeking a debt style product to service our contracts"

~Ecosystem player

"We have made 4 investments in Tanzania and are looking to now invest in other regions"

~ Regional fund

"Impact investors mostly provide grant funds but then there is a need for more VCs who can provide larger ticket-size funding than grants to facilitate growth of businesses"

~Ecosystem actor

"Due to the high regulatory requirements and associated fees for issuing financing, we prefer to focus on larger ticket sizes, as they offer a better return relative to the effort involved"

~Financier

Notes- All figures are in USD unless otherwise stated
Sources: OCA insights leveraging stakeholder consultations


Photo credit: pexels.com

Enabling environment in Tanzania

The startup ecosystem environment in Tanzania is favourable despite facing macroeconomic challenges

Tanzania's political stability and regulatory advancements are favorable for investments…

Tanzania's political environment is pivotal in shaping the landscape for climate adaptation finance, influencing both business operations and access to funding

Political Stability and Economic Growth: The absence of major political upheaval since independence has created a secure environment, encouraging both domestic and foreign investments essential for climate-related projects

Regulatory Framework and Governance: The current government of Tanzania has introduced several reforms to liberalize the economy to create a more conducive environment for investments

… although some macroeconomic challenges persist

Tanzania's macroeconomic challenges pose risks for doing business and investing in the country, as seen in their ease of doing business and corruption rankings

141 of 190

EDB rank

Ease of Doing Business (EDB): Tanzania ranks 141 out of 190 countries in the World Bank's Ease of Doing Business index, indicating that further reforms are needed to enhance the business environment[1]

87 of 180

Corruption index

Corruption and Its Impact on Financing: Corruption challenges the investment landscape. Enhancing transparency and anti-corruption measures is essential to building trust and ensuring funds support impactful climate adaptation initiatives[2]

Sources: 1. World Bank ; 2. Transparency International

Some government policies and regulations were regularly mentioned as barriers by both investors and businesses

Regulatory and government policies are hindering the startup ecosystem

Despite significant improvements, the startup ecosystem in Tanzania is hindered by regulatory and policy barriers, as highlighted by industry players:

Regulatory Barriers: Complex regulatory frameworks and bureaucratic processes hinder entrepreneurship and discourage investment in startups

Lack of Support Networks: There are insufficient startup hubs, incubators, and accelerators, resulting in a lack of mentorship, training, and networking opportunities for entrepreneurs.

Limited Market Research and Data Availability: Due to limited reliable market research and data, investors struggle to assess opportunities accurately, which increases risks and uncertainty, making them hesitant to enter the market."

Absence of Startup Culture: The startup culture is underdeveloped, limiting motivation and engagement among potential entrepreneurs. This in turn leads to a reduced pipeline of investable startups.

Quotes from some ecosystem players

"Due to strict regulations and high fees for issuing financing, we focus on larger ticket sizes."

~Financier

"Investors struggle to assess opportunities due to unreliable market research and data, increasing risks and introducing unnecessary uncertainty into the investment process."

~Investor

"The lack of incubators and accelerators means many entrepreneurs miss out on vital opportunities for mentorship and networking."

~Founder

"There's no real startup culture in Tanzania, and this needs to start with embedding entrepreneurship at the University."

~Start-up coach

Sources: Literature review and OCA consultations

Despite the challenges, industry players assert that substantial progress is underway to enhance the ecosystem

Progress in Tanzania Startup ecosystem

While challenges persist, significant progress has been made in developing a more supportive regulatory and policy environment:

Policy Advocacy: Partnerships with advocacy groups to develop a conducive environment for startups (i.e. TSA and regulators have developed and currently piloting regulatory sandbox for FinTechs)

Emergence of Incubators and Accelerators: A growing number of incubators and accelerators are being established to provide mentorship, training, and networking opportunities for startups

International Partnerships: Collaborations with international organizations and development agencies are providing Tanzanian startups with access to resources, expertise, and funding

Development of Support Structures: Initiatives like the Founder's Guide to Fundraising in Tz support early-stage startups by providing insights into fundraising strategies and highlighting available support

Consultation quotes

"Tanzania's SME ecosystem has high potential and is rapidly evolving."

~Business owner

"Initiatives like the Founder's Guide to Fundraising support early-stage startups by offering insights into fundraising strategies."

~Ecosystem actor

"Collaborating with international organizations provides our startups the tools they need to succeed globally."

~Founder

"The new regime is perceived to be more friendly to foreign investors, and people are starting to take interest"

~Impact investor

Sources: Literature review and OCA consultations


Photo credit: Unsplash

Barriers to early-stage climate adaptation financing

Barriers to early-stage climate financing barriers are present across stakeholder groups and along the investment lifecycle

Opportunity identification → **Due diligence / vetting** → **Transaction** → **Post-investment**

Key barriers to access to early-stage financing:

Business

- *Limited **local investor presence***
- *Limited **awareness** of investor landscape / options and their **requirements***
- ***Low availability** of small-ticket investors / more flexible instruments (including debt & flexible debt)*
- *Limited **climate adaptation** knowledge, data and capability*
- *Inability / **challenge to articulate climate-specific impact***
- *Limited **avenues for follow-on** funding/linkages with other investors* (Post-investment)
- ***Monitoring & evaluation** of impact* (Transaction to Post-investment)

Financiers

- *Limited **local pipeline** (e.g. local network, incubators, etc)*
- *Limited **climate adaptation** knowledge, data and capability*
- *Key **capability gaps** in startups: operational / management skills, ability to articulate investment proposition (including finances)*
- *Unproven exit-landscape (so far)* (Post-investment)

Ecosystem

- *Restrictive **administrative / tax regulations** for start-ups and financiers*
- *Lack of **start-up culture** (risk appetite/university-level support)*

Source: OCA stakeholder consultations

Key themes: *(further detail in next pages:)* *Business presence & quality* | *Business-investor visibility* | *Availability of flexible financing*

Open Capital

Business presence & quality: **There are very few investment-ready businesses in Tz, the majority of which are expatriate-led**

Key Insights

Limited pool of businesses

- While the startup-ecosystem has grown significantly, there's still a gap in start-up or entrepreneurial culture; institutions of higher learning do not (yet) support graduates pursuing entrepreneurship
- Bureaucratic registration processes and tax requirements also discourage those who start businesses from formalizing their operations – many early-stage ventures remain informal / unregistered

Critical team capability gaps

- Early-stage ventures and founders often lack experience and struggle to articulate their business models and impact stories
- They also face challenges identifying local talent with the expertise and credentials necessary to constitute a strong team while the cost of acquiring expatriate talent is prohibitive for most of these enterprises

Consultation quotes

"The government requires businesses to pay taxes upon registration regardless of revenue stage which disincentivizes them from formalizing their operations"

~Local business

"There are hardly any tech-enabled businesses to invest in in Tz. The majority of these are value addition businesses which are asset heavy"

~Regional VC Fund

"With a large number of these companies, we don't manage to get to due diligence stage due to investment readiness challenges"

~Regional VC Fund

"Most start-ups that raise funding in Tz are expat-led – they are more savvy in framing their growth story and know the investor landscape better – it's hard to find a business with a local founder."

~ Regional Investment Fund

Source: OCA stakeholder consultations

Business-investor visibility: Businesses have limited investor landscape awareness and avenues for investor interactions

Key Insights

Limited business awareness of the investor landscape

- Traditional financiers like banks and microfinance institutions are the most familiar to businesses in Tz
- Most new founders, especially local ones, therefore, have limited awareness of the alternative investor landscape
- Many impact investors operate regionally, with limited/no in-country presence – reducing business' awareness of funding options
- As a result, they often struggle to position themselves for impact investments besides accelerator/local grant funding

Limited investor-business visibility

- There are limited opportunities for start-ups in Tz to interact with potential investors and pitch their solutions
- Some businesses highlighted that local events do not engage other types of financiers besides banks and government officials; some ecosystem players are forced to support founders to travel and pitch at international events
- This lack of proximity and avenues to interact makes it difficult and costly for businesses to create investor awareness of their solutions

Consultation quotes

"Early-stage businesses lack knowledge of the equity and impact investors space in Tanzania and are only used to banks and SACCOs"

~Ecosystem player

"Businesses generally are not well knowledgeable of the funding and instruments available, incl. understanding the terms and negotiation"

~Regional VC Fund

"We had to take the entrepreneurs we support to pitch to investors at events in Europe and Nairobi and therefore decided to put together our local themed conference"

~Ecosystem player

"Networking events are not as helpful as rarely do alternative investors attend them. The organizers only invite govt officials and banks"

~ Local business

Source: OCA stakeholder consultations

Open Capital

Availability of flexible financing: There are very few small ticket-size and flexible financing options in Tz

Key Insights

Low availability of small/medium ticket sizes post-grant funding

- Most businesses that have raised prior grant funding often need ticket sizes of between USD 100-500K as follow-on capital
- Very few investors are willing to flex their ticket sizes to fit this range (notable exceptions are Finca Ventures, Africa Eats, Catalyst)
- There is, therefore, a mismatch between the financing needs of early-stage businesses and the available ticket sizes
- As a result, these businesses approach large-ticket investors for which they are not eligible, further increasing perception of paucity on both sides

Limited range of flexible debt financing instruments

- The main providers of debt financing in Tz are commercial banks; who are regulated by the Bank of Tanzania requiring NPL <5%
- Banks impose very stringent requirements on their loans, e.g., immovable property collateral of up to 125% of the loan value
- Start-up businesses often cannot meet bank requirements as they often have limited asset bases
- There is a need to support flexible debt financing models that can accommodate start-ups' cashflows and repayment capacities

Consultation quotes

"The conversations are happening between mismatched financiers. i.e. small startups are approaching large ticket investors"

~Ecosystem player

"Very few impact investors are interested in tickets <500K; when they do, it's only if others are already on board"

~ Regional VC Fund

"A bank will typically require 125% of the value of the loan as collateral, flexible to ~60% of the loan if they can get additional protections"

~Regional VC Fund

"A lot of founders will attempt to raise pre-revenue capital from commercial banks who will never finance a company at that stage"

~Ecosystem player

Notes- All figures are in USD unless otherwise stated
Source: OCA stakeholder consultations


Photo credit: Unsplash

Potential interventions

An ideal ecosystem offers a spectrum of interdependent support structures for all business archetypes and growth stages

Required support mechanisms along venture lifecycle:

Idea stage → **Early stage** → **Growth** → **Mature**

Incubators, ***accelerators***, *innovation hubs*

Patient capital

Grants

Tailored investment readiness *support*

Equity: *impact investors (funds & DFIs directly & indirectly)*

Debt: *Access to liquidity to grow (banks, microfinance, alternative lenders,…)*

Supportive ***policy environment*** *& key* ***ecosystem support*** *(business providers, associations, events, etc*

Archetypes leverage the ecosystem in different ways:

High-growth | **Niche**

High-growth and niche businesses are more suited for the venture capital model of financing but require patient and flexible capital to grow

Dynamic | **Livelihood sustaining**

Dynamic enterprises are more traditional and require flexible and affordable debt to, run daily operations, acquire assets and invest for growth (e.g. working capital & debt)

Sources: OCA insights based on stakeholder consultations

While some elements of the ecosystem are being seeded, additional interventions are required

Key observations on Tz start-up ecosystem

- Tanzania's early-stage landscape lags about 10-15 years behind leading countries in the region like Kenya and lacks an established start-up culture
- It requires coordinated, multistakeholder efforts to nurture an ecosystem that supports businesses at different stages of the venture life cycle, i.e.,
  - Initial nurturing of a start-up culture through the establishment of innovation hubs and coworking spaces
  - Targeted and tailored support across the investment pipeline
  - Multi-year incubator and accelerator programs
  - Support to create a network and range of small seed/ticket investors
  - Support for networking to attract bigger investors to the market

Potential intervention areas for FSD Africa and Climate KIC*

1. **Continue seeding ventures** through incubators/accelerators
2. Provide more **structured investment readiness support**
3. Support **business-investor interactions** to increase visibility
4. **Facilitate linkages for follow-on funding** across life-cycle
5. Support providers of **flexible and patient early-stage** capital
6. Support **innovative and flexible debt products**
7. Incentivize **early-stage bank financing**

Interventions are **not stand-alone, but mutually reinforcing** – it is critical to **orchestrate with other actors** pursuing these outcomes to ensure the **ecosystem is nurtured across the investment lifecycle**

*Notes: *These interventions are not standalone, but rather components to be considered as part of a broader response once specific objective(s) are defined; concrete interventions could address multiple areas*

Potential interventions need to be holistic and impactful for businesses at all stages of their life cycle

Potential interventions to address the barriers identified:

Idea stage → ***Early stage*** → ***Growth*** → ***Mature***

1 Continue seeding ventures through incubators/ accelerators

Incubators, ***accelerators***, *innovation hubs*

4 Facilitate linkages for follow-on funding across venture life-cycle[1]

Grants *&* ***patient*** *capital*

5 Support the providers of flexible and patient early-stage capital

...ors (funds & DFIs directly ...ndirectly)

2 Provide more structured investment readiness support

6 Support innovative and flexible debt financing structures

Debt: *Access to liquidity to grow (banks, microfinance, alternative lenders,...)*

7 Incentivize early-stage bank financing

Supportive ***policy***

3 Support business-investor interactions to increase visibility

providers, associations, events, etc

Archetypes leverage the ecosystem in different ways:

High-growth | **Niche**

High-growth and niche businesses are more suited for the venture capital model of financing but require patient and flexible capital to grow

Dynamic | **Livelihood sustaining**

Dynamic enterprises are more traditional and require flexible and affordable debt to, run daily operations, acquire assets and invest for growth (e.g. working capital & debt)

1. This intervention connects the different financing options available in the ecosystem
Sources: OCA insights based on stakeholder consultations

Highlighted as a potential priority area based on FSD Africa / Climate KIC discussions

Open Capital

FSD Africa and Climate KIC can leverage existing programs to drive impact across different business pathways

	Interventions	Description	Potential partners
1	**Continue seeding ventures via incubators /accelerators**	Establish more incubators and accelerator-like programmes to cultivate start-up culture and encourage new ventures	ClimAccelerator Tanzania, FUNGUO Programme, anza, sahara ventures
2	**Provide more structured investment readiness support**	Design a new or partner with existing programs to provide comprehensive investment readiness & transaction support	CASA, EEP Africa, sahara ventures
3	**Support business-investor interactions to increase visibility**	Create more opportunities for investors and businesses to interact – support events & ecosystem actors; encourage regional investors to attend	EAVCA East Africa Venture Capital Association, Tanzania Startup Association, sahara SPARKS, anza
4	**Facilitate linkages for follow-on funding across venture life-cycle**	Create linkages across the investment lifecycle to increase mobility from idea to growth (accelerators <> early stage funds <> impact investors <> debt providers)	FUNGUO Programme, EEP Africa, Catalyst Fund, seedstars
5	**Support the providers of flexible and patient early-stage capital**	Identify and partner with providers of flexible and patient early-stage debt or equity to support more businesses	MTI Investment, Africa Eats, Hooge Raedt Social Venture B.V.
6	**Support innovative and flexible debt financing structures**	Partner with alternative lenders providing flexible debt financing offerings to grow their current portfolio or pilot new products for Tz early-stage adaptation businesses	EFTA Equipment Loans, iungo capital, Untapped
7	**Incentivize early-stage bank financing**	Partner with DFIs to provide capacity building and de-risking mechanisms, e.g., guarantees for on-lending facilities	ACELI Africa, CRDB Bank, NMB

Sources: OCA insights based on stakeholder consultations

We expect the short-term impact of the interventions to cascade and materially contribute to the long-term impact

High | Medium | Low

	Short term (1-5 years)		Long-term (>5 years)	
Interventions	**Impact**	**Rationale**	**Impact**	**Rationale**
1 **Continue seeding ventures via incubators /accelerators**	High	There is an immediate need for more accelerators/incubators due to the nascency of the start-up ecosystem	High	Continued seeding of incubators enhances overall start-up culture and volume in long-term
2 **Provide more structured investment readiness support**	High	Most Tz start-ups are unable to articulate their financial and business models to investors	High	Start-ups will learn to better position themselves to investors resulting in more deals
3 **Support business-investor interactions to increase visibility**	Medium	The quality and preparedness of start-ups is currently low resulting in fewer deals	High	More investment-ready start-ups will amplify the impact of increased investor interactions/visibility in the long term
4 **Facilitate linkages for follow-on funding across venture life-cycle**	Medium	Availability of small capital providers is more urgent than linkages	High	More start-ups will have secured initial funding and may require follow-on funding
5 **Support the providers of flexible and patient early-stage capital**	High	There are currently very few small ticket capital providers in Tz	Medium	Market maturity will attract more capital providers requiring less support
6 **Support innovative and flexible debt financing structures**	High	Alternate lenders' flexibility allows more start-ups to meet requirements	High	Has the capacity to make debt more accessible to start-ups and transform the ecosystem
7 **Incentivize early-stage bank financing**	High	Banks can support a large no. of start-ups if incentivized to support	Medium	Banks are likely to stop pursuing the segment once incentive facilities end

Sources: OCA insights based on stakeholder consultations

1 Continue seeding ventures through incubators/accelerators

Problem statement

While the Tanzania ecosystem is growing, it is still nascent; More support for grassroots businesses will be required to create new businesses that can start to flow through the pipeline
Incubators and accelerators exist, but the volume of investable start-ups is still low

Intervention overview

- Support the establishment of new incubators/accelerators and provide grant funding to existing ones to enable them to persistently support more businesses
- Link incubators/accelerators to expert networks to encourage mentorships and peer learning for aspiring founders
- Link accelerators/incubators/foundations to funding opportunities to increase the leverage of their grant awards

Expected outcomes

- Incubators/accelerators can support more businesses with more tailored and diverse forms of support
- More start-ups emerge with a higher chance of success as a result of a more supportive ecosystem at the idea stage

FSD Africa/ Climate KIC's role

- Convene key investors (e.g. impact investors / DFIs, foundations providing grants) to mobilize support for incubators/accelerators
- Link existing incubators and accelerators to expertise required to help them build in-house or outsource expertise, e.g., technical experts to mentor and guide founders through testing the viability of their ventures

Potential partners

ClimAccelerator TANZANIA
FUNGUO Programme
anza
sahara ventures
MTI INVESTMENT
EEP Africa

Next steps

- Identify existing programs/incubators/accelerators to enhance
- Articulate the form of support to be provided to businesses

Sources: OCA insights from stakeholder consultations

2 Provide more structured investment readiness support

Problem statement

Early-stage ventures exhibit significant capability gaps in articulating their business model, its climate impact and general investment readiness. Accelerators provide some of this support, but cohort-based approach doesn't often meet individual needs (and/or longer-term support is required)

Intervention overview

- Partner with select investors, to design a comprehensive Tz-specific investment readiness program (similar to CASA Plus), providing both pre- and post-investment support
- Provide grant funding to conduct tailored investment readiness support to businesses at subsidized rates
- Work with investors to enable cost-sharing of TA services for successful transactions

Expected outcomes

- Businesses receive more tailored investment readiness support and transaction support
- More businesses are successful at fundraising and prudently absorbing the investment received
- Increased volume of investable deals piques interest of regional funds not yet active in Tanzania

FSD Africa/ Climate KIC's role

- Convene key investors (e.g. impact investors / DFIs, foundations providing grants) to mobilize TA capital / initiate vehicle design
- Contract investment and transaction support experts in program design and supporting businesses

Potential partners

CASA, sahara ventures, BDO, DFIs

Next steps

- Articulate vehicle concept & test with stakeholders
- Identify key investors to mobilize capital for the program

Sources: OCA insights from stakeholder consultations

3 Support avenues for more business-investor interactions to increase financiers-business visibility

Problem statement

Businesses have limited opportunities to showcase their business to investors; existing conferences are focused more on corporates and not designed for early-stage businesses

International investors typically don't have a local presence and struggle to identify pipeline

Intervention overview

- Identify organizations creating avenues for investor-business interactions and explore opportunities for partnership
- Actively engage with regional investors based in Nairobi / SA to attend Tz-focused events to create critical mass
- Engage accelerators and associations to ensure businesses get opportunities to pitch their ideas to potential investors (and are sufficiently prepared)

Expected outcomes

- Conferences and investment summits are more effective for early-stage businesses (and more affordable given increased volume of local events)
- Early-stage businesses have access to greater pools of investors (more regional investors attend)
- Investors have more visibility on local pipeline & activity

FSD Africa/ Climate KIC's role

- Map the summit and investment conference organizers landscape in Tz and build relationships with the players
- Link them to investor and accelerator networks to enhance the reach and effectiveness of their events
- Reach out to financing partners to provide grants and any other type of funding support needed to conduct the events

Potential partners

EAVCA East Africa Venture Capital Association

TANZANIA STARTUP ASSOCIATION

sahara SPARKS

anza

Next steps

- Identify current event providers to engage and support
- Engage regional investors, encouraging them to attend

Sources: OCA insights from stakeholder consultations

4 Facilitate interactions between accelerators, grant providers and small-ticket investors to create linkages for follow-on funding

Problem statement

Many businesses struggle to obtain follow-on funding after initial small grants/awards programs
While many smaller ticket investors (e.g. Catalyst, Finca, Africa Eats) are incentivized to facilitate follow-ons, grant providers and incubators are less so

Intervention overview

- Work with accelerators and ecosystem actors to share best practices on facilitating linkages & embedding in programs (e.g. involving small ticket investors in program design)
- Encourage foundations to support grantees and link them with other initiatives (e.g. TA facilities, networking events)
- Facilitate linkages across incubators, foundations, and investors to exchange pipeline

Expected outcomes

- More businesses can easily raise follow-on funding post accelerator programs or grants to facilitate their growth
- Impact investors have a stronger pipeline of potential investees for investments
- Due diligence for potential investors becomes less costly and difficult, enabling investors to take smaller tickets

FSD Africa/ Climate KIC's role

- Facilitate information-sharing across network actors through events, roundtables, etc
- Engage ecosystem actors to identify opportunities for further linkages
- Support small-ticket investors that create linkages/support follow-on investment (e.g. Catalyst Fund, Africa Eats, etc)

Potential partners

DFIs, ClimAccelerator Tanzania, FUNGUO Programme, Anza, seedstars, CATALYST FUND

Next steps

- Identify key actors to engage with based on existing network & test appetite for linkage interventions

Sources: OCA insights from stakeholder consultations

5 Support the providers of flexible and patient early-stage capital to build their capacity and invest in more businesses

Problem statement

Early-stage ventures require a broad spectrum of small ticket sizes to bridge their growth to an initial seed round
There are currently very few (local) investors that are able to offer this spectrum of instruments

Intervention overview

- Identify and engage small ticket investors active in Tz and engage on ways to support, e.g., financial or technical support for streamlined due diligence
- Engage DFIs and other large ticket investors interested in supporting small ticket investors
- Distil, document, and disseminate learnings to encourage more flexible and patient capital investments

Expected outcomes

- Early-stage businesses in Tz have access to flexible and patient financing options and can scale and graduate their solutions in readiness for impact investment opportunities
- There is a large pipeline of investment-ready businesses for impact investors

FSD Africa/ Climate KIC's role

- Identify local and regional small ticket investors to support
- Reach out to potential investors such as DFIs to support these providers
- Document the learnings from successful existing small ticket investment models

Potential partners

DFIs · Hooge Raedt Social Venture B.V. · Africa Eats · MTI Investment · Catalyst Fund

Next steps

- Identify small ticket investors and engage them on potential ways of augmenting their offerings

Sources: OCA insights from stakeholder consultations

6 Support innovative and flexible debt financing structures for alternative lenders

Problem statement

Banks/MFIs struggle to provide debt to early-stage ventures due to BOT requirements (up to 125% collateral)
Traditional debt products often don't match start-ups' cashflow and revenue profiles

Intervention overview

- Support existing alternative lenders through increased capital, TA and partnerships with ecosystem actors, to enable them to increase their portfolios & reach target SMEs better
- Provide grant funding to encourage the testing of new lending structures tailored to the Tz context
- Distil, document, and share learnings from pilots across markets & with traditional lenders

Expected outcomes

- Early-stage businesses have alternative sources of debt financing besides traditional bank debt
- Capital providers have well-tested flexible models of lending to early-stage adaptation businesses that they can adopt
- Traditional financiers like banks can learn from innovative products and eventually adopt flexible debt options

FSD Africa/ Climate KIC's role

- Engage financiers such as DFIs to mobilize resources to finance the pilot programmes for new structures
- Contract technical experts to design the programmes, provide TA to the participants, conduct M&E and document the learnings
- Disseminate the learnings to other stakeholders such as banks

Potential partners

DFIs
EFTA EQUIPMENT LOANS
iungo capital
UNTAPPED unlock the potential of the next billion

Next steps

- Identify alternative lenders to engage
- Define the terms and financing structures to deploy

Sources: OCA insights from stakeholder consultations

Open Capital

7 Incentivize early-stage bank financing via on-lending capital, guarantees, TA and incentives

Problem statement

Banks struggle to lend to both start-ups and scale-ups due to high-risk perception and strict NPL regulations. Although working with banks to devise effective on-lending/guarantee schemes is notoriously complex, new initiatives are continually being deployed, and continued engagement is required to mobilize local financial service providers

Intervention overview

- Augment existing initiatives such as Aceli Africa or CRDB's GCF on-lending facility that seek to incentivize bank lending
- Success likely dependent on a combination of instruments:
    - Provide first-loss/guarantee facility to reduce bank risk
    - Embed TA for banks (building pipeline, KYC/DD early-stage ventures, specific climate knowledge, etc)

Expected outcomes

- Banks in Tz have a more accurate risk perception of early-stage businesses and have appropriate risk assessment frameworks
- Banks in Tz increase their early-stage adaptation business lending portfolio

FSD Africa/ Climate KIC's role

- Identify and engage stakeholders involved in existing initiatives to determine the best ways to support
- Distil, document, and disseminate learnings from past and current bank incentivizing initiatives to encourage an interrogation of their effectiveness and sustainability of impact

Potential partners

CRDB BANK The bank that listens · NMB · DFIs · ACELI AFRICA

Next steps

- Gather and disseminate learnings from past and current initiatives

Sources: OCA insights from stakeholder consultations

Photo credit: Unsplash

Intervention case studies

We identified 8 case studies that demonstrate the application of multiple interventions to catalyze impact

Case study	Description of main service	Interventions demonstrated 1	2	3	4	5	6	7
CASA	Investor-centric TA facility aimed at providing pre- and post-investment TA support to Agribusinesses	✓	✓					
EEP Africa	Cohort-based multi-year TA & Grant program supporting clean energy businesses across SSA to achieve key investor readiness milestones and raise (project) funding	✓	✓	✓	✓			
Africa Eats	Early-stage investment company focusing providing small tickets at very early stages & supporting follow-on investments & growth			✓	✓	✓		
charm	Peer-to-peer investment platform providing unsecured loans to early-stage businesses					✓	✓	
ACELI Africa	Market Catalyst aiming to unlock Agri-SME bank financing through a combination of origination incentives, guarantees and TA to banks		✓					✓
iungo capital	Alternative debt provider for dynamic businesses providing more flexible repayment schemes and lower collateral requirements (leveraging local angel investors)					✓	✓	
EFTA Equipment Loans	Capex financing company providing investment capital through leasing model						✓	
CRDB Bank / Green Climate Fund	Partnership between bank & GCF to encourage climate smart SME lending through Guarantees, capability building TA & on lending credit line							✓

Sources: OCA insights based on stakeholder consultations

Case study: TA provider that offers extensive support on investor readiness, revenue and supply chain management

CASA Plus

Profile	• CASA is an agriculture **technical assistance facility** initiated by FCDO & DFIs aimed at supporting Ag investments to build DFI pipeline across Sub-Saharan Africa[1,2] • **Highly investor-centric:** Collaborates with a select pool of mid-size Impact investors and DFIs (e.g. ARAF, DOB, BII, FMO, etc) • Recent expansion (CASA "plus") financed by **BII & FMO** and **expands scope to pre-investment support and market-building**

Offering	• CASA's core offering and programming includes:
	  ◦ **Post-investment TA** support to help Investors realise value on topics such as supply chain mgmt., impact tracking, resilience (core CASA offering – targeted at building investable pipeline for DFIs)
	  ◦ **Research and development:** commissioning various studies on access to Finance for Agri SMEs
	• **CASA Plus** expands TA offering, and is **piloting their "plus model in Tanzania**, including:
	  ◦ **Pre-investment TA** for select group of investors to enable agribusinesses meet criteria for investment ($1-5M ticket size)
	  ◦ **"Market building" TA:** aimed at working with small-mid-size investors (names TBC) to catalyze deals in the $500k-1M range

Traction & impact	• The CASA program has supported 40 businesses to reach >**115K SHFs** and CASA plus aims to to benefit >**100,000 SHFs** and increase their incomes by **$13M**, with 14 of the SMEs leveraging **~£3M** from private investors • "Plus" offering has only recently been announced, and practical implementation in Tz still to be developed
Observations / learnings	• **Investor-centric approach** enables targeted pipeline development and collaboration with investors to ensure support matches need • **Combination of pre- and post-transaction support** creates a pool of investable businesses, and increases likelihood of follow-on investments and /or exits

Notes- All figures are in USD unless otherwise stated
Sources:1.CASA Plus 2. FMO 3. OCA Consultations

Case study: An early-stage clean energy flexible financier that provides extensive TA, investment facilitation and linkages

EEP Africa

Energy and Environment Partnership Trust Fund

Profile	• A **clean energy financing facility** hosted and managed by the Nordic Development Fund (NDF) that seeks to support the achievement of the Paris Agreement in developing markets through financing **clean energy early-stage businesses**[1] • Capitalized by **NDF and various European Governments** and invests in East and Southern Africa including Tanzania[3] • Deploys **cohort-based approach** aimed at catalyzing finance to early-stage ventures and projects **over multiple years**

Offering	• Employs a **combination of early-stage grants** at ticket sizes of **€200K-€1M** (typically linked to investment-readiness milestones), tailored **one-on-one business development support**, and **cohort-level training** on broad support needs as identified within a cohort
	• **Assigns each grantee a portfolio manager** who oversees their journey, including supporting their milestone reporting to unlock grant disbursements, assessing TA support needs and procuring services for the same, and facilitating investor linkages
	• **Facilitates linkages** to enable grantees to secure **follow-on financing**
	  • **Investor-specific workshops** where businesses pitch to a specific investor
	  • **Project of the year awards** that target start-up and scale-up businesses leading the transition to clean energy in Africa

Traction & impact	• The fund has supported over 274 projects, resulting in the mobilization of **>€227M;** the fund has provided TA to **63 companies** in Africa • In Tanzania, EEP has invested >**€20M** in projects and early-stage businesses, including €500K in Asobo, €350K in Millennium Engineers, €286K in Village boom providing solar lighting in Tanzania, Simusolar and Jaza
Observations / learnings	• **Milestone-linked grants** provides agency to businesses to achieve investor-readiness and **bridge funding** towards larger raises • **Tailored TA program** coupled with grants allows support to be tailored to business' individual needs • **Multi-year cohorts,** persistent nature of facility allows EEP to develop a **suite of investor activities** and **build credibility**

Notes: All figures are in USD unless otherwise stated
Sources:1.EEP Africa 2. EEP Africa Investment Facilitation 3. EEP portfolio 4. OCA Consultations

Open Capital

Case study: Patient early-stage equity financing crowds in more capital, creates investor linkages and accelerates growth (1/2)

AFRICA EATS

Profile and investment model

Profile

- An investment holding company that **blends a VC and business accelerator model** to support early-stage African businesses
- Capitalized by individual and family investors; plans to get publicly listed
- Has invested in 27 companies in 9 countries*

Offering

- Takes up and holds **minority equity stakes in investee companies indefinitely** unless in cases of mergers or acquisitions
- Makes **equity investments of $50-500K** and provides loans, often with tenors of less than a year at **interest rates of 10-12% p.a**
- Provides technical support to investee management teams
- Current portfolio's **annual revenues range between under $100K and $10M+,** all sourced via the Fledge network of accelerators
- Its model is unique because it provides small equity tickets over long periods, which gives businesses time to grow and attract more capital

Traction & impact

- Portfolio companies grew their combined revenues to $24M as of 2022, a **50% YoY growth rate since 2014**
- They also expanded **farmer reach to 114K+ from <1K** over the period

Individual portfolio examples

EAST AFRICA FRUITS

- Tech-enabled aggregator combating post-harvest food losses
- AE was first outside investor ($75k) Since raised $6M+since from among them Goodwell, Elea, FINCA and EDFI

TRUK

- Cold-chain trucking business, spun out of meat processor in AE's portfolio ('22)
- Africa Eats invested $200K in '22
- Grew to $6.4M in annual revenues in 23

Goldenpot

- Maize/cereal processor sourcing from female smallholders
- Received Africa Eats investment in 2019
- Revenues have 50X to $1.4M+ in 2023

Swahili HONEY

- Honey aggregator and distributing business
- Africa Eats invested €20K in 2016
- Grew its revenues 50X to ~$3M in 2023

Observations / learnings

- **Small equity ticket sizes** provided early in a business's journey can fuel faster business growth and enhance access to finance
- **Creating networks with accelerators** is critical in pipeline sourcing and ensuring linkages across a business's fundraising cycle

Notes: All figures are in USD unless otherwise stated; 9 countries-Kenya, Uganda, Tanzania, Rwanda, Zambia, Malawi, Ethiopia, Botswana, and Ghana; YoY- Year over year*
Sources:1. Africa Eats; 2. VC4A; 3. IIED; 4. Fledge; 5. Africa Eats Portfolio; 6. PitchBook

Case study: An early-stage debt fund for businesses in energy access, leveraging de-risking mechanisms to attract investment

charm

Charm Impact Fund

Profile	• A UK-based **peer-to-peer impact investment and debt crowdfunding platform** that seeks to enhance access to finance for early-stage businesses in energy access in developing markets • Capitalized **by individual and institutional investors** who crowdfund through an online impact investing platform. It is also supported with **concessional and philanthropic finance** from organizations such as the IKEA Foundation and Innovate UK
Offering	• Provides **unsecured loans, both senior and subordinated, at ticket sizes of £10K-£350K and average interest rates of 12%** for periods of **up to 24 months**; they **cap the first loan at £100K** • Targets locally owned businesses with commercially viable models and some proof of concept but are yet to scale their solutions, often between pre-seed and Series A • Blends capital crowdfunded from private investors, philanthropic and concessional finance, and lends to early-stage businesses; the **concessional and philanthropic capital acts as a first-loss pool** to catalyze and protect private capital • Enables early-stage businesses that cannot meet bank lending collateral and interest rate requirements to build commercial credit history and scale
Traction & impact	• As of January 2024, it had extended **33 loans worth £2.66M** to businesses in **seven countries**; Nigeria, Kenya, Malawi, Rwanda, Zimbabwe, Tanzania, and India; the Tanzania transaction was a £108K loan extended to a clean cooking company called Hanny G in '22 • First borrower, Havenhill Synergy, a Nigerian mini-grid developer, borrowed $30k in '19 and has since raised $4M+
Observations / learnings	• **De-risking mechanisms** such as first-loss facilities encourage investors to take on more risk, and could incentivize lenders to provide capital at smaller ticket sizes and more flexible terms

Notes- All figures are in USD unless otherwise stated
Sources:1. Charm Impact eligibility criteria; 2. Charm Impact portfolio; 3. Energy4Impact; 4. Global Distributors Collective; 5. Kenya Innovation Week; 6. Charm Impact Fund

Open Capital

Case study: Loan incentives combined with TA have enabled banks to lend to agricultural SMEs in East Africa

ACELI AFRICA

Aceli Africa

Profile	• Aceli Africa is a **market incentive facility** to lenders (i.e. TCB), designed to increase access to finance for agricultural SMEs in East Africa by addressing their perceived high-risk and low-returns • In 2024, the program reached **$93M** in donor commitments from organizations like the IKEA Foundation and Global Affairs Canada, - The average loan size is **$97K** with a range of **$25K and $1M,** though the limit has been lowered to **$15K** for high-impact SMEs**.**
Offering	• Aceli provides guarantees, origination incentives, and technical assistance to banks and SMEs to mitigate risks associated with lending to agricultural SMEs: - **Loan guarantee to cover portfolio losses** whereby **2-9%** is paid into a reserve account to cover potential portfolio losses. Contributions vary based on risk and impact-focused initiatives - **Origination incentives** for loans of **$25k-$500k**, requiring 2-14% payments based on loan size and borrower status, with unrestricted usage typically used for hiring agricultural specialists, staff training, field visits, and value chain analyses - **Technical assistance** to SMEs in the pre- and post-investment stages in partnership with local service providers based on a cost-share model with the organization
Traction & impact	• In the first three years Aceli has supported lenders to issue **>1,800 loans totaling >$170 million**, with **62%** for first-time borrowers. • In 2022, TCB's first year as an Aceli partner, their agriculture portfolio grew by **41% to $10.6M** (2.8% of total lending), with **34 loans** in the target range of $25K-$1.75M. The origination fees covered the bank's additional costs cost of fuel and time to visit the SMEs and Portfolio First Loss Coverage allowed TCB to accept inventory as collateral.
Observations / learnings	• There is a need to address **risk perception by banks** to unlock capital flows to high-impact SMEs in the agricultural sector • Aceli demonstrates that there is **appetite for SME financing by banks** if mechanisms to **de-risk the transactions** are provided

Source: *Aceli Africa year 3 learning report , Aceli Impact-Profile-TZ-Cassava-Cluster, Aceli Financial Benchmarking Report: January 2024, aceliafrica.org*

Notes: TCB- Tanzania Commercial Bank; All figures are in USD unless otherwise stated

Case study: Iungo capital and equipment for Tanzania business cases for debt financing in East Africa

	iungo capital — Iungo Capital	EFTA Equipment Loans — Equity for Tanzania
Profile	• **Mid-size alternative debt provider focused on "bread and butter" SMEs** (e.g. trading / processing) • *Region:* Kenya, Tanzania, Uganda, Rwanda (founded 2016) • *Funded by:* Institutional investors & DFIs	• **Equipment leasing company offering asset financing to Tanzanian SMEs** • *Region:* Tanzania (founded 2003) • *Funded by:* AECF, AgDevCo, Cordaid
Offering	• **Mezzanine debt** 50 -$500k, with lower collateral • **Flexible repayment** schedules to suit business dynamics (e.g. bullet repayment or revenue sharing) • Mitigate risk by **co-investing with local angel investors** to provide strategic advisory and offer TA during process	• **Asset finance** for up to $600k, (in TSh) • No **additional collateral requirement** beyond asset being purchased • Targets **agricultural / processing SMEs** who cannot access traditional bank finance • Charges at- or **above-market interest** rates
Traction & impact	• $22.1 million total invested • 94 loans disbursed • 51 SMEs supported	• Financed over $69 million in equipment for SMEs • 1045 active leases to SMEs

Observations / learnings

- Alternative debt providers can provide **more tailored solutions** than commercial banks
- Use of **institutional (or concessional) capital** avoids Bank of Tanzania restrictions (e.g. collateral requirements)
- There is **willingness to pay** for debt (even at above-market rates)

Notes: Notes- All figures are in USD unless otherwise stated
Sources: OCA consultations, iungo capital, Equity For Tanzania

Case study: Multifaceted incentives can encourage local banks deploy targeted climate finance for enterprises

CRDB Bank & Global Climate Fund

Tanzania Agriculture Climate Adaptation Technology Deployment Programme

Profile	• **A USD 200M climate adaptation lending facility targeted at smallholder farmers and agribusinesses** • Launched this year, the facility's **key beneficiaries include MSMEs, smallholders, and cooperatives**, with a focus on vulnerable groups, particularly rural Tanzanian women • Facility features **$100M concessional funding by GCF,** supplemented with **$100M of CRDB's capital**
Offering	• Facility includes **capital for on-lending**, as well as **instruments to de-risk portfolio** and **pilot new financial products:** - **Credit: $170M** available for **lending focused on** climate adaptation and resilience in the agricultural sector - **Guarantees: $10M** to help CRDB extend lending to vulnerable borrowers and expand access to new clients - **Technical assistance: $10M for technical assistance** to enhance the capacity of CRDB Bank staff to incorporate climate risk assessments into lending processes and provide training on climate-resilient agricultural technologies and practices - **Financial innovation: $10M** to design and pilot a **weather-indexed insurance product** to protect against climate-related losses
Traction & impact	• Too early to tell: Facility is currently ramping up, with the intent to **start deploying capital in Q4 2024** • CRDB's goals are ambitious: benefit **>4M** people in the next **5 years**, focusing on smallholder farmers and agribusinesses; and intent is to build a successful track record that could drive similar large-scale financial innovations in Tanzania
Observations / learnings	• A **combination of guarantees and TA** is required to **de-risk bank lending and build capability within the bank** (both on SME lending and climate adaptation financing opportunities) • **Concessional capital can mobilize traditional commercial capital** as climate adaptation businesses begin to develop strong credit history

Notes- All figures are in USD unless otherwise stated
Source Green climate fund press release . CRDB bank

Open Capital

Consulting Capital Markets Arcadia Innovations