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Scale Up!

Entrepreneurs’ Guide to Investment in Namibia

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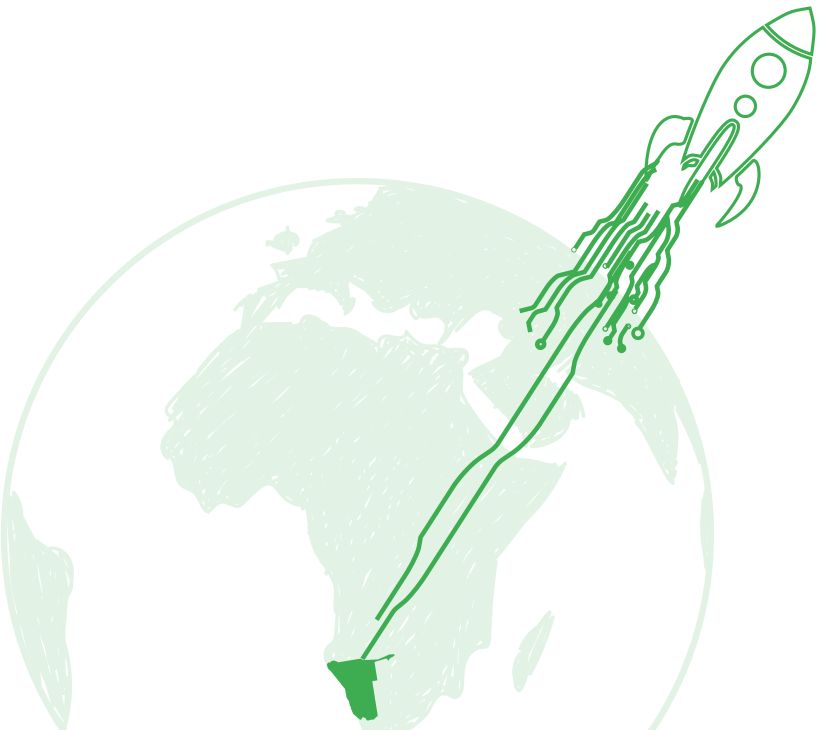
Make-IT in Africa



Scale Up!

Entrepreneurs’ Guide to Investment in Namibia

Foreword

Matthias Rehfeld

Anna Vambe

Roland Groß

Namibia is catching up on internet use, as according to the World Bank, individuals using the internet in Namibia were reported at 51% of the population in 2019. This compares favourably to Namibia's neighbours with Botswana being at 47% and South Africa at 48%. The country has made a great deal of progress over the past 10 years as the rate of internet penetration was at less than 10% at that point in time.

With the rising trend in internet access, mobile phone ownership and social media use, the business case for digital entrepreneurs has been growing stronger. There is a growing number of support organisations emerging to assist Namibian start-ups, and more digital start-ups are being founded. Yet, Namibia has a tech entrepreneurship ecosystem that is still in its infancy.

Most entrepreneurs suffer from a lack of innovation ecosystems, as well as limited access to talent, markets, business advisory services and capital. These difficulties are magnified for those who are young, female, or who live in rural areas. One of the key challenges for start-ups, SMEs and Small and Growing Businesses (SGBs) is to find the right financing instruments. Companies lack the necessary information on available funding options and the capacity to identify the most suitable option for their company. Due diligence processes of investors to successfully acquire funding are largely unknown to start-ups. That is why it is crucial to provide information and guidance to those companies so that they can make better use of the available funding options of the market and successfully acquire funding to scale their digital innovations. This guide aims to help these companies to understand and navigate the variety of financing options in the Namibian market.

The financing options discussed in this guide include diverse mechanisms, such as grants, seed funds, angel investment, impact-oriented venture capital, debt, and more. Furthermore, the guide outlines requirements, investor expectations, as well as investor types in an easily accessible format, and offers practical support to entrepreneurs to help them ask the right questions when approaching an investor. Finally, the guide's investor directory provides readers with an overview of more than a dozen financing partners and shares information on their portfolio and requirements.

The Namibian Investment Guide was created on behalf of the GIZ-Programmes *Business Scouts for Development, Make-IT in Africa* and *Start-Up Namibia*. Similar guides have been developed over the last few years for Côte d'Ivoire, Ethiopia, Kenya, Nigeria and Rwanda. The print version will be also available as an interactive online version under *www.investment-guide-africa.org*. Based on a quick self-assessment tool, the online version will guide entrepreneurs to find the best suited financing mechanism and identify potential financing partners. We will frequently update the guide to include new financing partners, and improve the methodology based on your feedback. So, please, do not hesitate to contact us via *make-it@giz.de*

Matthias Rehfeld
Head of Programme
Make-IT in Africa

Anna Vambe
Head of Programme
Start-Up Namibia

Roland Groß
Head of Programme
Business Scouts for Development

www.investmentguide.africa

Make-IT in Africa

Make-IT in Africa believes in the catalytic power of African innovation and digital technologies for green and inclusive development. In close collaboration with digital visionaries like start-ups, innovation enablers and political partners, we empower African innovation ecosystems. Together, we aim to strengthen an environment in which the full potential of African digital innovation can unfold.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH implements this project on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

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

Start-Up Namibia

In Namibia, preconditions for start-ups, setting up enterprises and upscaling a small business are inadequate. Support structures for start-ups are in their very early, albeit promising, stages. Start-Up Namibia thus aims to improve conditions for the establishment and growth of start-ups in selected regions in Namibia. Start-ups have the potential to drive the creation of new jobs in Namibia and can have a fundamental impact on overall economic productivity. Start-ups can also contribute to economic growth by spurring innovation and injecting competition. Therefore, a Start-up Incubation and Innovation Centre will be built in Windhoek, with mobile outreach units to service selected regions across Namibia.

More information and contact:
www.startupnam.org

Business Scouts for Development

Business Scouts for Development work as development policy experts in around 40 countries across the globe. On behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ), they advise German, European and local companies on development policy matters and promote responsible business engagement through cooperation projects.

The Business Scouts for Development work closely with partners from business associations and institutions, and from TVET organisations, both in Germany and abroad.

More information and contact:
https://www.giz.de/en/worldwide/93161.html

Contents

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

Glossary

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

Angel investors | individuals with disposable income who like to invest part of their portfolio in start-ups. Usually they would invest their cash, time for coaching and mentoring and make business introductions

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

B2B – Business to business | business that aims to sell products and services to other businesses

B2C – Business to consumer | business that aims to sell products and services to consumers

CAPEX – Capital expenditure | the funding needed to invest in assets that your business needs to get off the ground (e.g., computers, stock, machinery), or improving these assets

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

Collateral | an asset (machinery, vehicle, etc.) used as a security when taking out a loan

Convertible note/debt | short-term debt that may or may not covert to equity in a future financing round. Commonly used to defer the valuation discussion to when an early-stage company has historical financials to guide the valuation process

Crowdfunding | raising (typically) small amounts from a large group of people

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

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

Equity | ownership stake in a company

Exit | a way for existing company shareholders to realize their returns; typically, this is done via an acquisition (trade sale), an initial public offering on the stock exchange, or secondary sale of shares

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

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

IPO | stands for '**initial public offering**' and it basically means that a company starts floating on a stock market, selling a significant number of their shares in the process to institutional and non-institutional investors. These large companies are that Venture Capitals dream of, as they often provide large sums of capital to all parts involved (founders, early employees and investors)

IRR – Internal rate of return | a measure, expressed as a percentage, used to evaluate the profitability of an investment

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

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

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

Principle | the original loan amount, without interest

Profit | this is the company's bottom line, which is all the money made from sales of its product or service, minus expenses, taxes, depreciation, and operating costs

Revenue | this is the company's top line, which means it is the money generated from all activities of the company in a given time period

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

SME – Small and medium-sized enterprise | company classification that is defined differently by different countries; in Namibia, according to the National Policy on Micro, Small and Medium Enterprises in Namibia a small business has 11 to30 employees and an annual turnover of up to N$3 million (US$ 180k). A medium business has 31 to100 employees and an annual turnover of up to N$10 million (US$ 600k). Any business exceeding these criteria is regarded as large

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

Term sheet | the document investors present to a company they are interested in funding; this will include details of what form of investment the investor wants to make and the terms of such an investment. Term sheets can be issued for convertible notes, equity investments and other form of investments

Unit economics | the costs and revenue made per product or service sold; this is important for businesses to understand and project how per unit costs and revenues will change as the business grows and acquires more customers

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

Introduction

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

This Entrepreneur's Guide is designed as a comprehensive, accessible and informative tool that can be useful to entrepreneurs in all stages of their business. Its aim is to help Namibia's rising entrepreneurs to navigate the nebulous and suboptimal financing landscape.

We do this in several ways:

Chapter I provides an overview of funding instruments, highlighting the advantages and disadvantages of each.

Chapter II breaks down the different types of investors that are covered in our guide. We examine ten types of funders and present other information about them, including typical funding sizes and the services that each offers, in addition to funding.

Chapter III continues by discussing, more specifically, what happens when entrepreneurs approach various types of investors. This includes an overview of the documents different types of funders will expect, the typical phase at which to approach each type of investor and what to expect in entrepreneurs' interactions with investors.

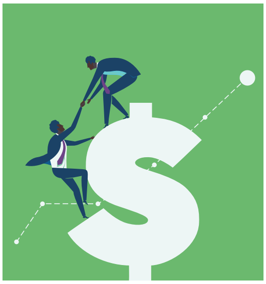
Chapter IV shares Namibia-specific insights based on our conversations, research and data analysis. This chapter will give entrepreneurs a better understanding of the entrepreneurial ecosystem of their country. It will highlight potential perils to look out for and opportunities to be taken.

Chapter V is the Investor Directory – a look at 15 of Namibia's financiers that are actively funding the country's emerging start-ups. In addition to providing basic information about who they are, how long they have been around and the types of companies they invest in, we also show unique and insightful information, including average investment size, the types of funding offered and what benefits they provide, post-funding (if any).

Chapter VI concludes by providing an overview of the guide providing further sources of information.

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

Having introduced the purpose and the methodology, the rest of the guide is structured as follows:



Chapter I

- Overview of funding instruments
- Advantages and disadvantages of each

See pages 20–31

Chapter II

- Overview of 10 investor types
- Typical funding amounts
- Typical funding instruments
- Non-financial benefits

See pages 32–49

Chapter III

- Raising capital overview
- What makes an appealing start-up
- Documents needed in a pitch deck
- When to approach investors

See pages 50–67

Chapter IV

- Namibia's start-up overview
- Brief history
- Realities on the ground
- Investor growth in the country

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Chapter V

- Directory of 15 capital providers in Namibia
- Funding types, sector interest

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Chapter VI

- Key takeaways
- List of useful resources

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Funding Overview

Fundraising is a crucial part of many start-ups' journeys. While there are a few lucky entrepreneurs who can rely on funding to come from their own savings or have wealthy friends or family members who can afford to inject capital, most business owners will need to go elsewhere to raise funds from outside investors.

There are a number of things every entrepreneur needs to do before he or she thinks about fundraising. The steps will vary depending on the start-up's sector, location, etc., but in general, the process leading up to acquiring investors looks like this:

1. Generate a great idea | Often, this starts with a personal frustration. The entrepreneur should identify what pain point exists for businesses or consumers, identify a solution and think about how to turn that solution into a product or service.

2. Begin networking | Once the entrepreneur has an idea and knows what market they are in, the entrepreneur should begin networking and meeting as many potential partners and investors as they can, in their market. This will not only help the entrepreneur further down the line, with fundraising and finding customers, but it will also ensure that the entrepreneur will get a good understanding of the market, and what has or has not been tried before.

3. Build a team | Every founder is great at some things and not so great at others. For this reason, it is important to build the right team around the founder, in order to develop the idea and the product. Founders should choose someone they know and trust as their co-founder, and they should try to find someone who complements their own skill set well.

4. Create an early version of a product | While having a great idea is important, not every great idea turns into a great product. Feedback is very important. Creating something for potential customers to try out early on is important to ensure that a business is listening to their needs, can pivot if needed and does not spend too much time perfecting a product that nobody can use. The *lean start-up methodology (http://theleanstartup.com/principles)* can be useful here.

5. Consider an accelerator / incubator programme | Different accelerators and incubators will demand various criteria in the start-ups they accept into their programmes, and they are not always a good fit for entrepreneurs. Often, however, they do provide access to networks and mentorship (and sometimes funding), which can be very useful to entrepreneurs. They are also a great signalling mechanism to investors, who often have a relationship with these programmes and expect higher-quality start-ups to emerge from them. Note though that it is not critical for an entrepreneur to have gone through an accelerator/incubator programme to be a success.

6. Gain traction | While this will be different for every start-up, as a rule investors want to see a product or service being used. This can mean the number of customers, number of users, page views, etc. If an entrepreneur cannot prove that their product or service is being embraced by the market in some way, investors are unlikely to look very hard at their business.

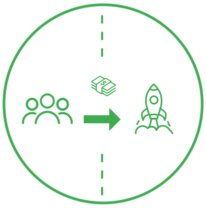
7. Do your homework | Before raising funding, it is important for an entrepreneur to ensure that they are ready for the upcoming process. This means agreeing on how much money to raise (a good financial model should help with this), preparing a good pitch deck, agreeing internally on the terms of the raise and, most importantly, compiling key documentation before embarking on fundraising. The documentation will vary but should include a company's incorporation documents, major contracts, audited financials, etc.

8. Raise funding for scaling | Once the problem-solution fit has been figured out, i.e., a start-up's solution has addressed the problem well and money for scaling is the only challenge, it is time to raise money from investors. Not every investor who wants to give a company money is a good fit. Before a start-up fundraises, it should make sure that it has researched what kinds of companies investors fund, and what they can do to help their business.

Chapter
Funding Instrument Overview

Chapter I:
Funding Instrument Overview

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



GRANT

A type of funding that typically does not obligate the recipient to repay the funds

See page 26

DEBT

A type of funding whereby founders borrow and need to repay, usually with interest

See page 28

EQUITY

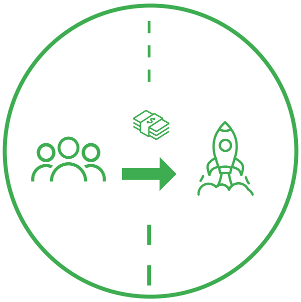
A type of funding whereby founders need to give up a portion of their company to obtain

See page 30

MEZZANINE

A type of funding that combines debt and equity features

See page 32



GRANT

As it is the most straightforward, we will begin with **grant funding**. By a *grant* we mean any source of capital that makes no financial claim on a business, in return for providing the funds. This includes everything from grants offered by national and international organisations as well as foundations, to prizes and awards offered by start-up competitions, as well as donation-based crowdfunding campaigns.

The amounts that organisations grant to businesses vary widely – from thousands to millions of dollars. Most common grants, however, tend to be on the smaller side, typically under N$100k (US$6k). This makes them most appropriate to early-stage start-ups and entrepreneurs, or more established entrepreneurs seeking capital to ease cash flow constraints.

Typically, organisations making the grant will put out a call for applications, inviting interested start-ups to pitch their ideas. Applicants will need to show how their business or idea is relevant to the grant. A judging panel narrows down the field to several finalists and the winner or winners are chosen from there.

While organisations that fund grants typically do not expect any sort of financial return (i.e., a stake in the business, or a promise of repayment), they will often check on the grantees to ensure that the money is being used for the intended purpose – during and after the grant has been disbursed. Some organisations release grant payments in stages, to ensure that the company is working towards its stated goals.

ADVANTAGES

- *'free' money in the sense that there is no equity or interest to pay*
- *funders have little influence in the day-to-day operations of the business*

DISADVANTAGES

- *little support besides funding – thus it is hard to grow networks or get targeted mentorship*
- *long applications*
- *post-funding reporting is sometimes extensive*
- *grant makers can be inflexible in accommodating start-ups that need to pivot from one business strategy to another*

DEBT

Debt financing is one of the most common ways to get funding. In simple terms, debt financing means an entrepreneur takes out a loan from a financial institution, which he or she promises to repay within a predetermined time period subject to an agreed-upon interest rate.
Debt funding can come from various types of funders, including banks, peer-to-peer crowdfunding, impact investors, development finance institutions, microfinance institutions, and others.

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

In order to apply for a loan, start-ups will need to show a business plan and financial projections; these are meant to explain how the borrower plans to repay the debt.

When taking out a loan, borrowers typically focus on two key aspects of the financing structure; the interest rate and the tenor (the time until the entire loan must be repaid). The interest rates are seen to be correlated with the riskiness of the borrower – the less likely he or she is to pay back the loan, the higher the interest rate a lender will charge, as a premium for taking on the extra risk. The rates are also determined by the central bank's prevailing interest rates in the country. This is because government debt (bonds) are considered virtually risk-free, so the bank has no incentive to lend money to a riskier enterprise at a rate that is lower than what the government is willing to pay on its bonds.

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

ADVANTAGES

→ *no need to give up ownership in the company*
→ *management maintains full control of the company*

DISADVANTAGES

→ *often lenders will ask for collateral*
→ *interest payments can be difficult to make for cash-strapped start-ups*

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

EQUITY

Equity financing means an investor puts money into a start-up, in exchange for a portion of the company's shares. This means the investor becomes a part owner of the business.

Equity investment varies in amount, depending on the entrepreneur's needs. It includes everything from relatively small (less than N$100k (US$6k)) injections of capital from family members or angel investors to large deals financed by private equity firms that run into millions of dollars.

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

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

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

ADVANTAGES

- *no interest and capital payments to pay back*
- *investors have an incentive to be as helpful as possible: mentorship, advice, connections*
- *allows for long-term planning as equity investors do not expect to receive an immediate return on their investment*

DISADVANTAGES

- *sometimes there are misaligned time horizons – start-ups building for the long-term, while investors want to exit quickly*
- *control mechanisms can mean entrepreneurs have less control of their business*
- *equity investors expect to receive a return on their money and the amount of money paid to the partners could be higher than the interest rates on debt financing*

MEZZANINE

A **Mezzanine** is a hybrid instrument and refers to financing that sits between equity and debt (hence the name) and combines aspects of both types. It is popular with some investors because it shields investors from certain risks associated with pure equity investment, while still providing an upside if a business becomes highly successful.

There are various types of mezzanine financing, including subordinated debt, convertible notes and equity kickers. These are often combined into a single financing facility. The degree to which an investor is willing to be exposed to risk will dictate the amount of equity upside versus debt, for which he or she will negotiate. Convertible notes (also known as convertible debt) are quite popular globally, especially for early-stage start-ups. There are several reasons why investors and entrepreneurs may want to issue convertible notes instead of debt or equity. For the investors, it provides a level of protection in case the money is used in a fraudulent way – they have the right to pursue the debt issued (typically this is at a 0% rate, so they will attempt to recoup their investment).

For entrepreneurs, who expect their company's equity to be worth more in the future, issuing a convertible note is likely to minimise their share dilution. Both investors and entrepreneurs are also likely to benefit from kicking the can on valuation to a later point, when an institutional investor comes in. While convertible notes can be difficult to understand, the key thing to keep in mind is that the amount an investor puts in as debt will be converted to equity at a later point to be defined in the contract. The share price will determine how many shares that funding injection will be converted to.

To give a very brief example: a founder and an investor agree to a N$500k (US$30k) convertible debt at a discount of 20%. This means that when the company raises money in the next round, the early investor is able to purchase shares at 80% of what they are worth. If, for instance, the shares are priced at N$10 each (US$0.60) in the next round, the investor will be able to purchase them for N$8 (US$0.50). That means instead of buying 50,000 shares at N$10 each (US$0.60) for the N$500k (US$30k) lent in the convertible note, the early investor will actually be able to purchase 62,500 shares (50k/80%).

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

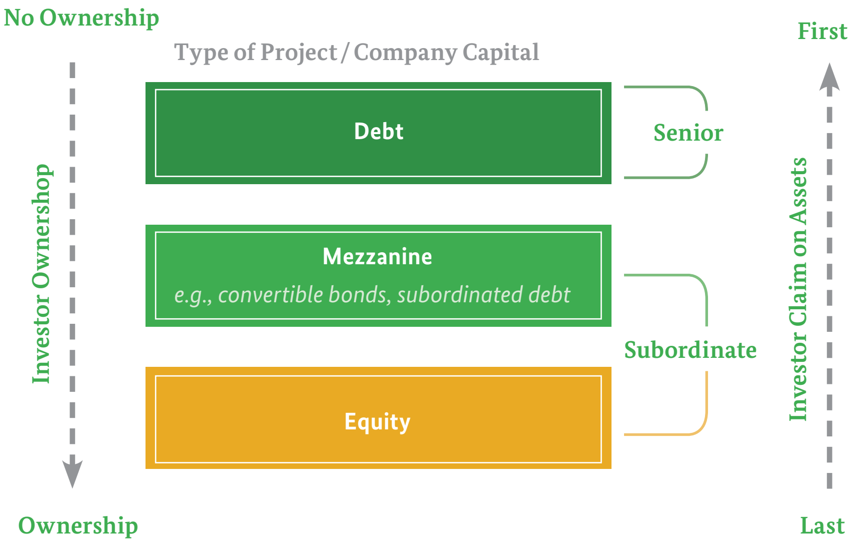
ADVANTAGES

- *it mitigates risk for investors, meaning better funding terms than straight equity*
- *it can delay the valuation of a start-up which is imprecise in early-stage companies*
- *even though the owner loses some independence, he or she rarely loses outright control of the company or its direction*

DISADVANTAGES

- *entrepreneurs may need to make regular payments to funders*
- *it can be overly complex and expensive to arrange*
- *agreements may include restrictive covenants*

This graph shows how mezzanine funding relates to equity and debt. It is riskier than debt but gives investors more protections than equity financing – it sits between the two, hence the name.



Source: http://pdf.wri.org/glossary_of_financing_instruments.pdf

Chapter
Investor Overview

II.

Chapter II: Investor Overview

There are various types of investors that are active across Namibia. This section provides a brief overview of each type of funder, including typical funding amounts and the non-financial benefits that a start-up can expect from each type of funder.

ACCELERATORS / INCUBATORS

Work with early-stage start-ups to help them refine their idea/product and coach them on how to realise their vision

See page 40

ANGEL INVESTOR NETWORKS

Member organisations that recruit individuals and organisations with spare cash who are interested in investing in small businesses

See page 41

FOUNDATIONS

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

See page 43

IMPACT INVESTORS

A varied group of funders that look for social/environmental returns in addition to/instead of financial returns on their investment

See page 48

CORPORATES

Companies that fund small businesses as part of their corporate social responsibility drive or set up their own venture funds

See page 50

VENTURE CAPITAL FIRMS (VCs)

Companies that raise outside capital to invest in small businesses and start-ups

See page 52

CROWDFUNDING PLATFORMS

These are platforms, which can also be online or mobile, that allow companies and projects to raise funding from (typically) a large group of investors

See page 44

PUBLIC / SEMI-PUBLIC FUNDERS

Local and international organisations that have a mandate to promote entrepreneurship or fund small businesses

See page 46

BANKS

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

See page 47

PRIVATE EQUITY FIRMS

Companies that raise outside capital to invest in later-stage businesses, often funding deals worth millions of dollars

See page 54

ACCELERATORS / INCUBATORS

Typical funding instrument: *Grant + Equity*

Typical funding amounts: *< N$100k (US$6k)*

Non-financial benefits: *Office space, mentoring and training sessions, events for start-ups, connections to investors*

These companies work with early-stage start-ups to help nurture them at a crucial stage in their lifecycle. They provide start-ups with a great environment to grow their business in. Typically, accelerators and incubators are focused on technology start-ups.

There are some differences between incubators and accelerators. Generally, incubators are less structured and are more focused on providing a physical co-working area and access to their networks for very early-stage start-ups. Some fund the start-ups in an incubation programme, but many do not. Accelerators are also aimed at early-stage companies, but ideally at those advanced enough to be ready to grow and scale their business. An accelerator generally takes equity in the business in exchange for access to the programme, the facilities and their mentor network. This mentor network often includes investors and experienced business managers. Accelerators and incubators typically have a selective application process, and start-ups need to prove themselves in order to be granted access. The application process typically examines the start-up's business model, financial performance to date, projections for the future and the quality of the team. While they are typically well-run and do help entrepreneurs to refine their businesses, one downside of accelerators and incubators is that they often require entrepreneurs to spend valuable time away from their businesses.

There are several accelerators and incubators in Namibia, including *Start-Up Namibia* and the *UNDP Accelerator Lab*, both based in Windhoek.

ANGEL INVESTOR NETWORKS

An angel investment network is a group made up of individuals (business angels) who inject capital into an angel network fund, in order to provide funding for start-ups, in exchange for equity. The network is made up of experienced professionals who have knowledge and contacts in the industry in which they invest.

The *Namibia Business Angel Network* aims to provide money, time and access to networks for the entrepreneurs in which their members invest.

Angels invest in companies with high growth potential, although they tend to look at a wider range of sectors than VCs which like to invest in highly scalable sectors like tech. Angels typically step in to provide funding for companies that have exhausted any friend and family investments or personal savings they may have been able to access, prior to investment from VCs.

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

Innovative sites like *AngelList* and *VC4A* have helped connect this source of capital to start-ups that are looking for funding around the world.

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Typical funding instrument:
Equity + Mezzanine

Typical funding amounts:
< N$500k (US$30k) – per angel round

Non-financial benefits:
Mentorship, connections

Creating an Angel Investor Ecosystem in Namibia

There are a growing number of start-ups in Namibia and more international funders (both impact and traditional) entering the market to satisfy the demand for finance. Local investors, however, have been slow to invest in local start-ups; for several reasons, including a lack of notable success stories and a general feeling of caution around investing in often untested entrepreneurs. However, as the number of opportunities grows, local investors are starting to enter the market.

Organisations like the *Namibia Business Angel Network* are encouraging successful Namibians to experiment with angel investing. Often, that means teaching them not only about opportunities for high returns, but also tech, more generally. Entrepreneurs approaching business angels need to keep this relative inexperience in mind. Often, it means being more patient and underscores the importance of finding the right investor, who will help a company with introductions and mentoring, based on relevant industry experience.

More information: *https://naban.com.na*

FOUNDATIONS

Foundations are non-profit charitable organisations that are founded with an initial endowment, typically made by an individual or business. Foundations tend to have a specific goal or sector of interest, and they fund other charities, NGOs, projects and companies that work towards that goal. Alternatively, the foundations may also operate projects in their sectors of interest, if they have the capacity to do so.

The amount of funding they make available varies drastically, based on the foundation's endowment. Large foundations can fund millions of dollars' worth of projects, though the vast majority are much smaller.

In order to get funding from these investors, companies will need to go through an application process. Some foundations only accept applications from companies and projects who they have invited to participate; so it is important to know who to approach within the foundation to get an invitation. Foundations will typically look for how closely a company's mission and activities match the desired outcomes the foundation wants to achieve. For this reason, when approaching foundations, it is important that start-ups focus on the impact of their business in their funding application.

Typical funding instrument: *Grant*

Typical funding amounts: *< N$1 million (US$60k)*

Non-financial benefits: *Access to foundation network*

CROWDFUNDING PLATFORMS

Typical funding instrument: *Grant, Debt + Equity*

Typical funding amounts: *< N$1 million (US$60k)*

Non-financial benefits: *Access to large pool of early adopters, marketing*

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

- **Donation-based:** the crowd donates money to a cause, individual, project or business, without expectation of any financial or non-financial return.
- **Reward-based:** the crowd gives money to an individual, project or business, in exchange for a non-financial reward. The rewards are generally either items like shirts or stickers, or an early version of a product (essentially, a pre-sale via crowdfunding).
- **Lending-based:** the crowd lends money to an individual or business, with expectations of getting the principal back with interest.
- **Equity-based:** the crowd invests in a business, with hopes of sharing in the business’s success as it grows.

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

Start-Up Namibia Looks to Support Namibian Start-ups

Conditions for setting up and scaling start-ups are currently inadequate in Namibia. Support structures for start-ups are in their very early, albeit promising, stages. *Start-Up Namibia* is thus working towards improving conditions for the establishment and growth of start-ups in selected regions in Namibia. The project has created new opportunities for jobs in the start-up sector and mobile centres are being set up in various regions throughout Namibia, to aid in providing necessary services.

Start-ups have the potential to drive the creation of new jobs in Namibia and can have a fundamental impact on overall economic productivity. Start-ups can also contribute to economic growth by spurring innovation and injecting competition. The combination of innovative technical solutions and traditional industries opens new opportunities. Start-ups that develop and offer digital products and services to the market have the potential to be key growth drivers. However, tech-oriented and non-tech start-ups need demand-based and tailored support. To achieve the main goal of the project, Start-Up Namibia is carrying out the following activities:

1. Building a Start-up Incubation and Innovation Centre on the premises of the Bokamoso Entrepreneurial Centre in Windhoek. The Centre will incubate start-ups and serve as a "one-stop-shop" for all the needs a start-up faces in its ideation, establishment and growth phases. In addition, mobile outreach units will serve start-ups in three regions in Namibia. The Centre will be run as an independent entity with a sustainable business model.
   The Start-up Centre in Windhoek, as well as the mobile outreach units in the selected regions, will provide business development services to start-ups. This will strengthen entrepreneurial capacity and reduce the rate of failed businesses.
2. The project is working on improving access to financial services to start-ups by providing start-up capital and growth financing. Improving access to financial information and funding sources will enable the medium- to long-term financing of products and business development, as well as strengthening the performance of start-ups.
3. Cooperation with partners such as other start-up incubators and innovation centres, universities, financial institutions and associations will expand the service offerings of the Start-up Centre and build the Namibian start-up ecosystem.

More information: *https://startupnam.org*

PUBLIC / SEMI-PUBLIC FUNDERS

Typical funding instrument: *Grant, Equity + Debt*

Typical funding amounts: *< N$5 million (US$300k)*

Non-financial benefits: *Mentorship, access to new investors*

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

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

Because they are backed by the government, they enjoy trust among entrepreneurs and project owners and can be the first port of call when they look for capital.

There are various types of public/semi-public funders in Namibia, including the *Development Bank of Namibia*, as well as Start-Up Namibia, a new initiative to support the start-up ecosystem. As these funders are eclectic, it is difficult to come up with specific criteria on how to approach them. In general, however, these funders may be more open to providing grants or concessionary loans, which makes them a good choice for earlier-stage companies or those focused on impact.

BANKS

Banks are licensed financial institutions that are able to make loans and take deposits, among other services. In developed economies, banks often step in to provide capital to start-ups and SMEs. In emerging markets, however, commercial banks tend to shy away from the SME sector, seeing it as risky and costly; they tend to work with large firms. The same applies to Namibia.

In recent years, the government has stepped in to incentivise banks to work more closely with SMEs. One example of this has been the *Small and Medium Enterprises Credit Guarantee Scheme*, which provides participating banks with a 60% guarantee on loans made to SMEs that meet specific requirements. The Credit Guarantee Scheme provides SMEs with good prospects for success and a viable business plan, but without the necessary collateral to obtain a loan, with a reduced collateral requirement. Currently, only *First National Bank of Namibia* and the *Development Bank of Namibia* are participating in the credit guarantee scheme, although additional commercial banks are expected to join the scheme in the near future.

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

Banks can be an efficient source of capital, but most will charge high interest rates, given the risk associated with start-ups. A start-up should make sure that they calculate how much they will need to pay every month and consider carefully whether that is something their company can afford.

Typical funding instrument: *Debt*

Typical funding amounts: *< N$10 million (US$600k)*

Non-financial benefits: *None*

IMPACT INVESTORS

Typical funding instrument: *Grant, Equity + Debt*

Typical funding amounts: *< N$10 million (US$600k)*

Non-financial benefits: *Mentorship, connections*

Impact or social investment refers to funds that invest with the intention to create a positive social or environmental impact. In addition to the social impact, these investors aim to earn a financial return on these investments, or at least to attempt to recover the funds invested. The expected rate of return for these investments is sometimes below the market rate.

Impact investors are an eclectic group looking to invest capital with the intent of generating positive social impact beyond merely financial returns. They include high net worth individuals (HNWIs), family offices, foundations, banks, pension funds, impact-focused VCs and angels and development finance institutions (DFIs). As social and environmental impact is key for these funders, it is important for entrepreneurs to show not only how their company will work toward achieving these aims, but also how they will measure and prove the impact they want to achieve. That is one of the downsides of accepting impact investment; measurement can be highly onerous.

Namibia's impact investment scene is only just emerging, with most investors holding the view that investing in Namibia's companies (as long as they do not actively damage the environment or cause social ills) will probably result in a positive impact.

Environmental Investment Fund

The *Environmental Investment Fund* (EIF) is a fund created by an Act of Parliament, with the overall aim to mobilise and allocate funding to activities and projects which promote the sustainable use and efficient management of natural resources in Namibia.

The Fund is a strategic delivery vehicle for Namibia's international commitments towards various environmental conventions, such as the *Convention on Biodiversity* (CBD), the *United Nations Framework Convention on Climate Change* (UNFCCC), the *United Nations Convention on Combating Desertification* (UNCCD) and other relevant conventions, declarations and protocols.

The Fund's role in all of these strategic initiatives converges on mobilising financial resources for targeted investments in economic activities that are technologically and environmentally sound and that promote climate-resilient development pathways. The Fund finances projects and organisations using two funding instruments, grants and debt:

1. The EIF offers grants to qualifying entities. The EIF provides such grants to civil society organisations, the private sector and individuals within Namibia. The purpose of the grants is primarily to fund activities and projects that protect the fragile Namibian environment, maintain biodiversity, promote innovative approaches to environmental management and enhance the economic development of the country.
2. Additionally, the EIF offers green concessional loans. This is a soft-lending product offered by the EIF to companies and individuals for environmental-based enterprises. The features of a green concessional loan are as follows:
   - Interest rates of up to prime minus 4.27%
   - Long repayment periods of up to 10 years
   - Grace periods of up to 12 months.

More information: *https://www.eif.org.na*

CORPORATES

Typical funding instrument: *Grant, Equity + Mezzanine*

Typical funding amounts: *< N$10 million (US$600k)*

Non-financial benefits: *Office space, mentoring*

Large firms often support entrepreneurs, projects and SMEs financially. There are various motivations for corporates to fund businesses. One is to ensure they stay up to date on what innovative start-ups are doing in relevant sectors and to get an opportunity to invest in those companies early on. Another is to spend money on *corporate social responsibility* (CSR) funding. Additionally, corporates can run start-up pitches and competitions.

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

While corporates can be a great partner for a start-up, the start-up owners should make sure that they protect their intellectual property (IP) before opening up any business secrets.

Sanlam Bridge Programme

The *Sanlam Bridge Programme*, formerly known as the Sanlam Innovation Works Competition, offers start-up grant seed funding for ventures at an early stage of development that address key issues in innovation.

The programme selects five start-ups, who each receive a grant of N$50 000 (US$3k) from Sanlam as a capital injection. The money is intended to be used to assist the businesses with the setting up and expanding of their respective ventures. Business development support and mentoring are also provided during the programme period. Based on the progress of the businesses over the period, a winner is selected and is awarded an additional N$25 000 (US$1.5k).

More information: *https://www.sanlam.com/namibia*

VENTURE CAPITAL FIRMS

Typical funding instrument:
Equity + Mezzanine

Typical funding amounts:
N$4 million – N$50 million (US$240k – US$3 million)

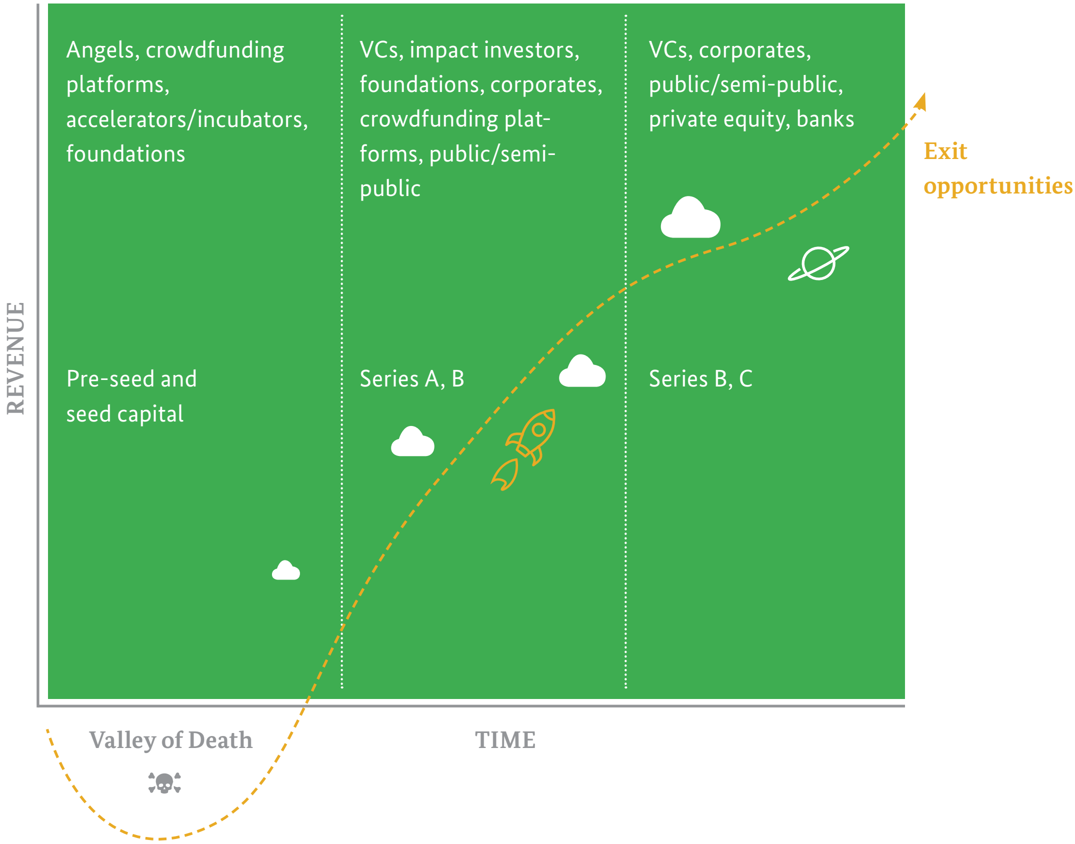
Non-financial benefits: *Mentorship, access to office space, recruiting and help with setting up governance and business processes*

Venture capital (VC) is a type of private equity and refers to investments made in exchange for equity in early-stage businesses. VCs are focused on funding, developing and expanding early-stage businesses.

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

VCs provide several services in addition to providing capital. They play an important role in guiding the company through the later rounds of raising capital, can help formulate and implement a business's strategy and can aid in appointing the management team. Given their influence on an early-stage business, however, VCs can be overly controlling and may influence decisions in a way that benefits them more than the business in the long term.

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



PRIVATE EQUITY FIRMS

Typical funding instrument:
Equity
Typical funding amounts:
> N$20 million (US$1.2 million)

Non-financial benefits: *Mentorship, business connections, recruiting help, help setting up governance and business processes*

Private equity (PE) firms invest directly in private companies. They tend to focus on companies that are more mature than those in VCs' remit. PE firms are often structured as a limited partnership, with institutional investors and/or high net worth individuals providing funds for partners to manage. As PE firms invest in more mature companies, they tend to invest much larger amounts than VCs.

This makes them an imperfect fit for smaller firms. Private equity is a catch-all term that captures many types of firms; venture capital, for example, is a subset of PE. In Namibia, PE investors typically participate in deals via acquisitions of minority stakes, management buy-outs and restructurings. As PE funds tend to make large equity investments, they are typically fairly hands-on in the management of the companies. They usually focus on larger, more established companies where they feel they can improve operations, thus making them more profitable.

How to Connect with Funders

In Namibia, getting start-up funding can be difficult. Entrepreneurs can struggle to find out how to contact funders when they figure out who they would like to approach. Here are a few tips from investors and entrepreneurs.

1. Personal introductions are best. Start-ups should do research and find out how they may be able to be introduced to an investor. Because the start-up scene is still emerging in Namibia, there are probably only a few degrees of separation between the start-up and the investor.
2. Seek out portfolio companies. Start-up founders should find out who the investor has already backed and reach out to those start-ups. Most will be happy to share their experiences and put the founder in touch with investors if the idea is well developed.
3. Enter accelerator/incubator/mentoring programmes. Connecting to investors is one of the key reasons start-ups apply to these programmes, and they can be good for facilitating introductions. They should make sure that the programme is related to the start-up's sector, so the investors will be relevant.
4. Networking events take place around Windhoek. These can be by invitation only, (in which case the start-up founder can reach out to the organiser) or open to the public. Even if the right investor is not found, the people who the founder will meet can bring them closer to getting funding.
5. Cold outreaches are a last resort. If founders have done their research and cannot find a connection, one of the founders should send a brief but informative email with a pitch deck attached, emphasising the start-up's track record in the email (products sold, users signed up, etc.).

Chapter III.
Raising Capital

Chapter III: Raising Capital

STAGES OF START-UPS AND TYPICAL FUNDING NEEDS AT EACH STAGE

We break down the stages of a start-up's lifecycle; the typical funding needs at each stage and who to approach for capital

See page 60

START-UPS 101

Here, we discuss what makes start-ups appealing to investors, which will allow a start-up to better understand what funders look for when they are evaluating companies

See page 61

WHEN TO FUNDRAISE

When should entrepreneurs approach potential investors? In this section, we help entrepreneurs with thinking about the timing of raising capital

See page 64

WHAT YOU'LL NEED IN YOUR PITCH DECK

Every entrepreneur needs to put together a pitch deck to present to investors; we highlight the most important components that should be included

See page 66

MIND THE VALUATION

Valuing a start-up is one of the hardest and most contentious aspects of fundraising; we introduce the concept and examine several valuation methods

See page 70

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

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

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

Different Stages of Start-ups and Typical Funding Needs at Each Stage

STAGE	IDEATION	BUILDING	PROTOTYPE	PROOF OF CONCEPT	GROWTH
Description	Pre-product and revenue, only idea	Working on developing a product or service and hiring team	Finished prototype in users' hands, getting feedback	Refining product, reaching a larger audience	Early market success, expansion and growth to new geographies or new products
Approximate Funding Needs	N$0 – N$500k (US$0 – US$30k)	N$50k – N$1m (US$3k – US$60k)	N$100k – N$3m (US$6k – US$180k)	N$200k – N$5m (US$12k – US$300k)	N$500k – N$5m+ (US$30k – US$300k+)
Potential Investors	Angel investor networks, incubators, friends/family members, grant-making foundations	Accelerators, angel investor networks, crowdfunding platforms, public/semi-public grants, foundations	Seed-stage venture capital firms, impact investors, crowdfunding platforms, corporates, public/semi-public grants	Seed-stage venture capital firms, corporates, crowdfunding platforms, impact investors	Venture capital firms, private equity firms, banks, impact investors, public/semi-public funders

This chart breaks down start-up stages, the typical funding amounts that each stage requires, and the potential types of investors to approach at each stage.

Start-ups 101: What Makes a Start-up Appealing to Investors?

Before we get to the fundraising, the following is a brief overview of the signs of a successful start-up. These are things that an investor will want to see when thinking about putting money into a company.

According to Sam Altman, one of the most experienced start-up mentors in the world, there are four essential components to a start-up: **the idea, the product, the team, and the execution**. Luck plays a big role, too, but that is clearly not something that is within the control of the founders.

Ideas

Ideas are key to setting a company's vision and creating a compelling story around the start-up. Many companies end up pivoting as they develop their product, moving away from the company's founding ideas and establishing new ones. Be that as it may, creating a unified vision for the start-up is not only a good way to focus everyone in one direction, it also makes it easier to sell the vision of the company to investors.

Product

Once a start-up has a good idea, it builds a product around it. this is what customers actually use or buy when they are interacting with a company. A successful company will be able to translate a good idea into a great product and will listen earnestly to early users, taking into account their feedback and understanding how the product is being used (regardless of how it was intended to be used). Indeed, it's not just the product that investors are examining. They also consider the product-market fit by asking whether the product satisfies a demonstrable need in the market.

Team

One of the most important success factors for any start-up is hiring the right team. The first few employees of a company will often make or break the company. A start-up should look to hire only when they are desperately in need of new employees and recruit from personal networks first, asking friends and acquaintances to put them in touch with high performers they have worked with. Start-up founders should not be afraid to give their first employees a relatively large chunk of equity, as they will be the ones who will make the company succeed, and founders should also not be afraid to quickly fire people who are not working out.

Execution

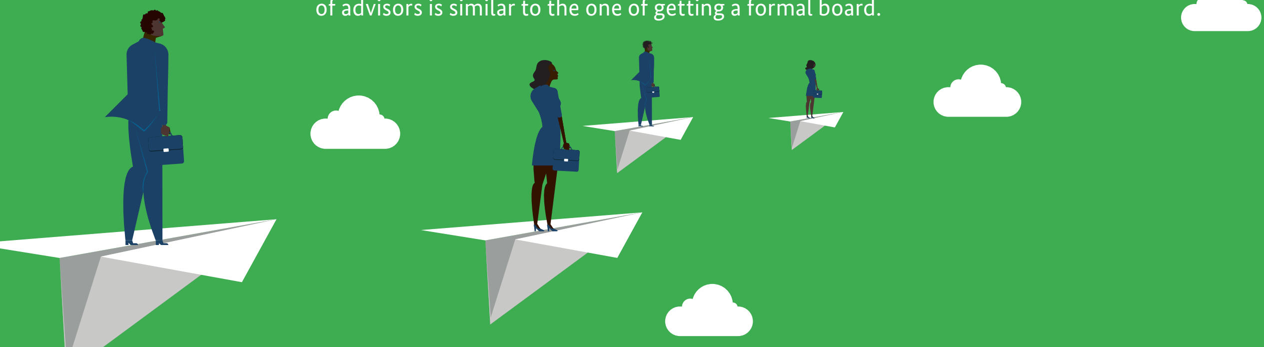
Execution means putting everything together. This is the crucial aspect of the CEO's job: making sure that the team is focused, motivated and growing. It means managing the team in a way that maximises the employees' efforts and manages disagreements among team members. It also means setting clear, measurable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

Putting Together a Board of Directors

As is stated throughout this guide, networking is crucial for businesses in Namibia. One reason is that it can help a start-up to find people who it can put on its board of directors. The board is responsible for the overall direction of the company and will help the start-up make important decisions, so it is key to get people who are engaged and have a good track record. The start-up's founder(s) will be on the board, along with (most likely) its investors. After that, the founder(s) will be able to invite several other individuals to sit on the board — try to make this an odd number so there are no ties during voting. Here are some tips on putting together a board:

1. **Do your research** – much like founders want to screen the companies/individuals who invest in their business, they also need to screen potential members of their board. They should look out for what other businesses they are involved in and whether there may be potential conflicts of interest and ask those businesses about how engaged the person is.
2. **Find advisors in the market** – board members are typically busy with other projects and will tire of traveling long distances to attend meetings. So, founders should make sure that the board is made up of people who are near their target market and who will be able to allocate reasonable amounts of time to the start-up.
3. **Focus on the value-add** – the board members should bring a tangible value-add to the business. As one investor put it, board members should add value in one of two ways: deep industry experience in the start-up's sector or deep functional experience in an area that is crucial to the start-up's business (e.g., sales, finance or operations).
4. **Take advice seriously** – founders being humble and taking feedback and constructive criticism is key to keeping the board on their side. It is also a quality of successful entrepreneurs. One board member said that one of his or her key responsibilities is to question everything the founder thinks and does, as his or her employees may not feel comfortable questioning their boss.

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



When to Fundraise

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

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

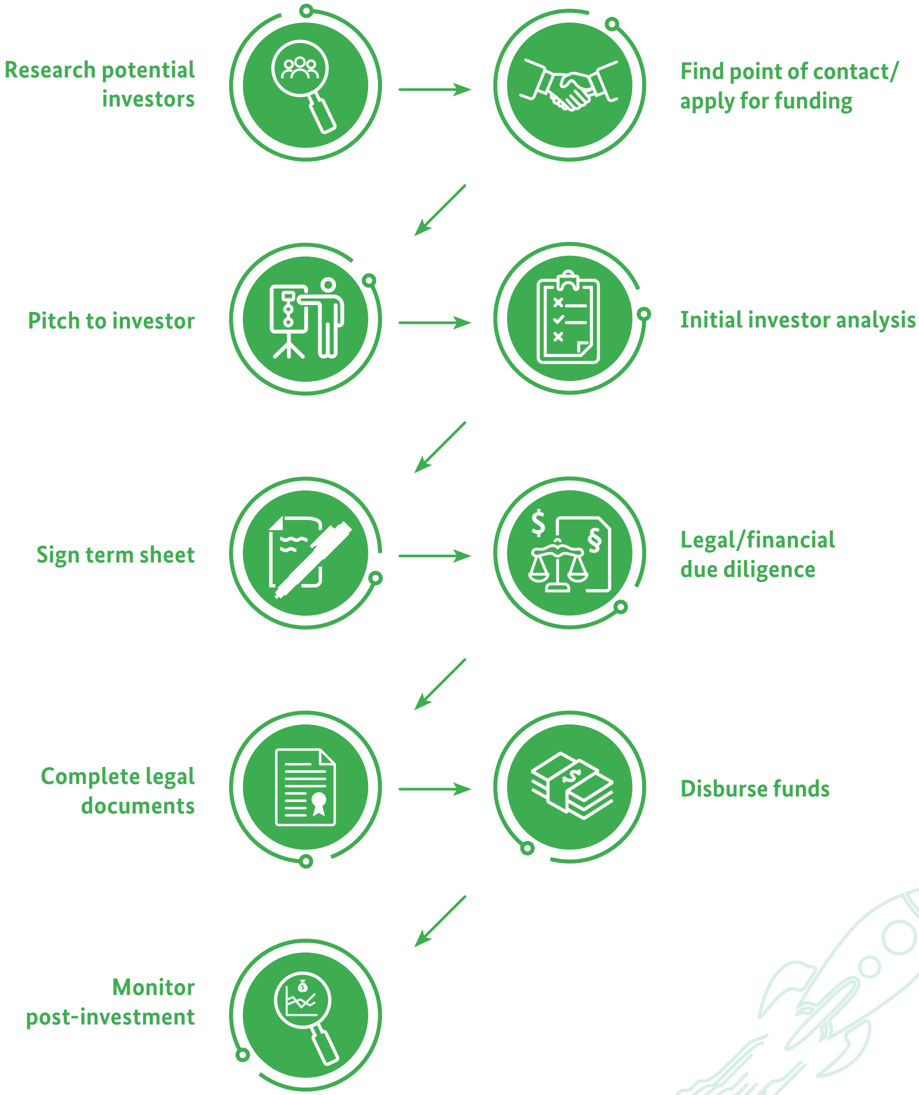
The decision on when to fundraise also depends on the founders' connections and experience in the start-up industry. If they have exited several companies in the past and have connections to investors, then the timing of the fundraising process will be different than for someone who is a first-time founder.

Most, however, are not experienced entrepreneurs and do not have the ability to bootstrap the company indefinitely. That means they will need to seek investors sooner or later. The good news is founders can raise money fairly early on in a start-up's journey. As long as they have a strong idea, and do some work around putting together a pitch deck that explains how this idea will become a viable business, they may be able to approach (relatively small) investors. It typically takes three to six months to raise funding from investors; sometimes, a lot less or a lot longer. Depending on how much money the start-ups have in the coffers, the founders will probably need to start looking for capital at least six to nine months before they find themselves strapped for cash.

Start Small

One thing for founders to keep in mind is that it is better to aim low and raise more than they had planned than aim high and lose face when they do not quite meet their goal. Ideally, they will only need to raise funding once from outside investors before they reach profitability; however, this is rare. More realistically, they are likely to raise money for the next one to two years and will need to fundraise again after that.

Typical Negotiating Process With Investors



What is Needed in a Pitch Deck?

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

As this guide is geared more toward younger start-ups and first-time entrepreneurs, it will focus on the documents the start-up will need to show when going to investors.

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

Brief 'One-Pager'

The one-pager is an important document that every entrepreneur should spend time to get just right. This should be a mini-business plan and should include a succinct overview of what the business is, what problem it is solving and how the start-up plans to turn the idea into an appealing product. Include charts, images (including the company logo) and graphs as much as possible; but the entrepreneur should not forget to clearly articulate, in writing, the purpose of the business and how they plan to execute it. This is a document that could be left behind, so the entrepreneur should make sure to balance substance with visual appeal.

Pitch Deck

The second document every entrepreneur will need to prepare is a pitch deck. Singularity Investments, which invests in businesses in Africa and North America, recommends 10-12 slides in the following format:

- → What do you do in 30 seconds (the elevator pitch)
- → The Problem
- → Your Solution (+ 1 slide here if you need it)
- → Market Fit
- → Market Size
- → Business Model
- → Defensibility and IP
- → Competition
- → Distribution
- → Team
- → Money/Milestones
- → Financials (only if it adds value)

Additional slides investors may want to see include traction to date, use of funds, investment instrument sought, and exit route.

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

Remember that as soon as the start-up raises money, expectations will shift. It is no longer just the founders' money and time. Investors will expect increased reporting and tracking, as well as formalised recordkeeping and the like. Founders should not be unreasonable, and they should not make empty promises but should come across as optimistic, hopeful, hungry and ready for the increased scrutiny of the business.

What to Include in Financial Projections?

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

1. **Key assumptions** – what is the cost of acquiring a customer? The product price? Increase of goods sold per month or year? Customer retention rate? Projected employee costs? Attainable market size? The founders should think through their business, create a list of key assumptions and be able to walk the investors through their logic. They should make sure that the assumptions are realistic and grounded in reality. To take it one step further, the founders should create a base case of assumptions; a downside case, in which business is slower than expected, and a home run case, where business is better than expected; and assign a probability to each.
2. **Cash flow statement, balance sheet and income statement** – these three documents are linked to one another, so the founder(s) should think of them as a package. They are meant to provide a snapshot of the business, as well as create a basis for future projections.
3. **Use of funds** – investors will want to understand how, specifically, the start-up plans to use their capital to grow their business. The founder(s) should be intentional here and should specify how they plan to use the money, and how they will get the start-up to either break even or move on to the next fundraising effort.

Three Fundraising Tips

1. **Create something unique.** Some start-ups come up with new features to add to existing solutions, but do not actually build something that is truly new. Investors will know the difference between a genuine innovation and a product with new features added.
2. Have a good understanding of the market. Founders should truly understand the market situation. Importantly, they should know how to make money from solving problems in the market. Some start-ups have false assumptions and struggle to gain traction.
3. Show commitment to solving a problem. Some of the most successful entrepreneurs have a proven track record of working on solving problems — at school, in their past jobs and in the start-ups they create. Investors like to see someone who is committed to solving problems.

Key to Raising Money Successfully: Telling Your Story

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

1. **Introduction** – Here, investors will want to understand who the founders are and the motivation driving them and, therefore, their company. They should be ready to answer questions about their leadership skills. Many investors will put money into founders, rather than their company, so founders should make sure that they are clear in why they started the company and what they hope to achieve.
2. **Market** – Founders should know their market; know who they are selling to and what problems the start-up is solving currently. If the start-up has a track record of sales, great. If not, founders should be ready to answer questions about why someone will pay them to solve a perceived problem. Founders should set lofty, but achievable, goals and use concrete examples to illustrate how they intend achieving them.
3. **Future growth** – The details here will differ based on how advanced the company is. If the company has not sold a product yet, then founders need to make clear, provable assumptions about how many they aim to sell in the coming months, how much each unit will cost to produce, and how many units they need to sell before they reach the break-even point. While they should be able to tell a growth story, most investors will want to understand their process of thinking and how they come up with their projections, rather than what the specific numbers are — for early-stage start-ups, these are educated guesses.
4. **Investment ask** – Founders should not just ask for a random number; they should do their research and explain how the funding will get the start-up to the next key milestone. This should not be an investment in people or machinery, but the outcome of that investment.
5. **Finish** – Founders should use the opportunity to showcase how their company is aligned with the investor they are pitching to. Research on the funders will help a lot here. If he or she prioritises impact, talk about the potential social or economic benefits of the company. If one of the partners has experience in the field, the founder should explain what connections they would like the potential investor to facilitate. Investors want to be seen as smart money, so talking to them about why they would be good partners could be a good way to get them to warm up.

Start-ups, Your Valuation Matters!

Overview

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

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

There are many online resources available to entrepreneurs that will help them to better understand how valuation works. *In the box on the right*, we provide a basic example to introduce the concept and to explain why it is important.

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

Various methodologies are used to come up with a company valuation. The key ones include *discounted cash flow (DCF), multiples based,* and *assets-based methodologies.*

Valuing Your Start-up

Imagine a fictitious entrepreneur has an idea for an e-commerce company. He or she discusses it with a friend, and the two of them decide to set up a company around it: Widgets Ltd. The two go about working on the company for a month, developing a clearer strategy and business plan, as well as a website design to show potential investors. Because they have committed the same amount of time on the idea, they decide that it is fair to split ownership of the company in half. They issue 1,000 company shares and take 500 shares each, meaning each one owns 50% of the company. After spending some time working on their idea and the pitch deck, they approach several angel investors, one of whom is interested. He or she decides to invest N$100,000 (US$6k) in the company, to help the founders set up a functioning website and to begin building up a pipeline of products they want to sell on their site. In exchange, he or she gets 100 shares that the founders issue to the angel. So, he owns 100/1,100 shares (9.1%), while the founders now own 500/1,100 (45.45%) each. Because the angel's N$100,000 (US$6k) investment bought him 9% of the company, the post-money valuation is N$1,100,000 (US$66k). At this point, the price per share is N$1,000 (US$60) (N$1,100,000/1,100).

A couple of months go by and Widgets Ltd begins to attract media attention and customers. Things continue to go well, and several VCs become interested in investing in the company. The start-up's founders are feeling bullish about their prospects and decide they need to raise N$1,000,000 (US$60k) to keep the company going for the next 6 months. They turn to an early-stage VC, who agrees to invest the money in exchange for 500 shares. That gets the VC 500/1,600 shares (31.25%) and values the company at N$3,200,000 (US$192k). The price per share after this investment rises to N$2,000 (US$120) = (N$3,200,000/1,600). That means if the angel investor wanted to (and was able to) cash out, he or she would have made a 100% return in just a few months — that helps to explain why investing in start-ups can be so lucrative and why it is attracting so much interest.

DCF (Discounted Cash Flow) Model

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

Multiples Model

The multiples approach compares similar start-ups to obtain the valuation. This would mean if one start-up is similar to the start-up being valued in terms of sector, size, business model, etc. and with sales of N$2m (US$120k) the start-up is valued at N$10m (US$600k). That implies a value-to-sales multiple of 5 (N$10m/N$2m). If the start-up is truly similar to the start-up being valued, this multiple can be used to value the start-up. Assuming the start-up being valued had sales of N$4m (US$240k), its valuation would therefore be N$4m x 5 = N$20m (US$1.2m).

Net Assets Model

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

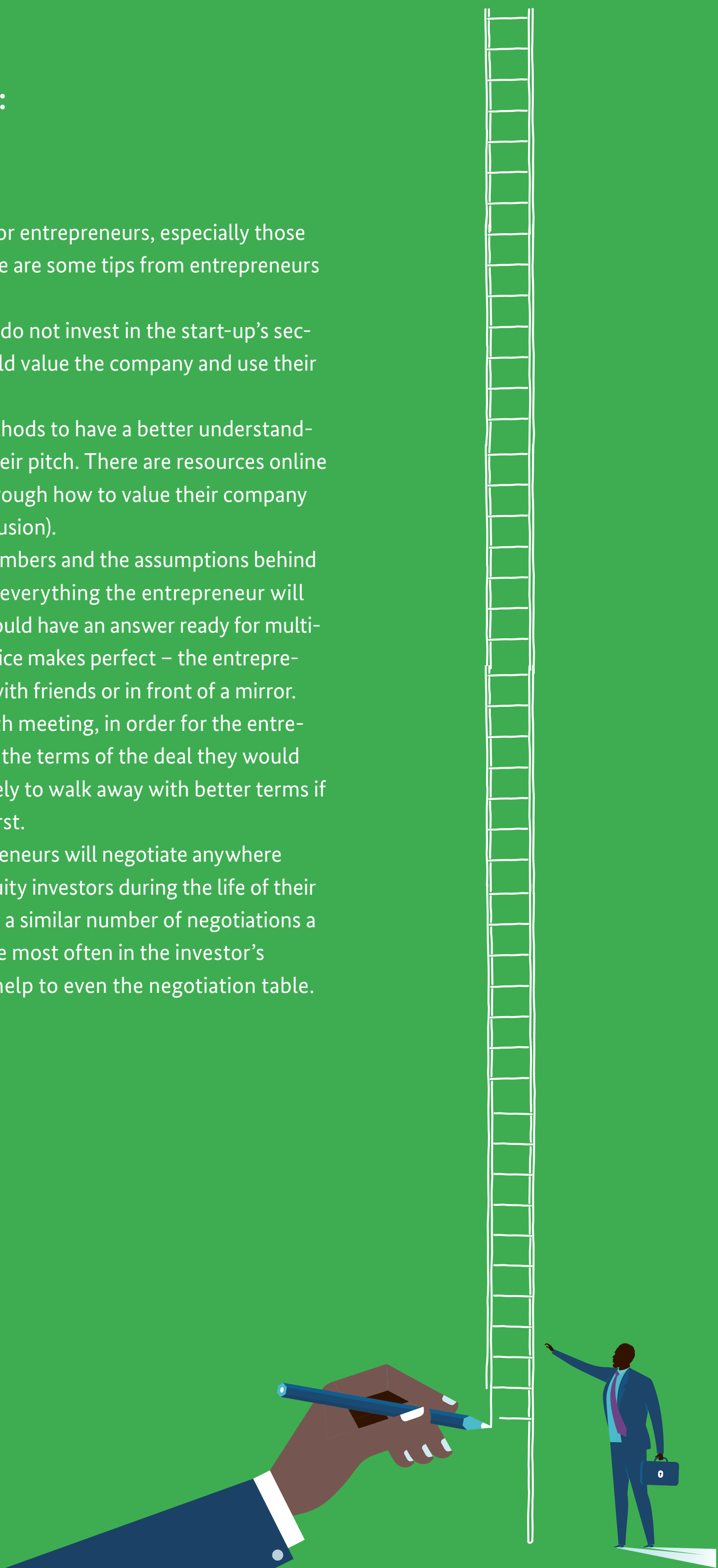
It is important for each entrepreneur to note that the final price in a deal is a combination of the valuation and negotiation between the investor and entrepreneur.

A start-up should not raise more than it can handle! Investors warn against raising too much money too quickly. If the start-up's valuation is high early on in the company's lifecycle, investors will expect it to show similar (if not faster) growth when the start-up raises money again in the future. If the start-up cannot justify a rise in value, it may need to settle for a down-round – an investment that results in a lower company valuation than previous rounds. That not only leads to unhappy investors but can also seriously hurt employee morale.

Negotiating with Investors: Tips from Entrepreneurs

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

- → Speak to objective (i.e., those who do not invest in the start-up's sector) investors about how they would value the company and use their estimate.
- → Run through several valuation methods to have a better understanding of how they might structure their pitch. There are resources online that will walk the entrepreneur through how to value their company (see a list of resources in the conclusion).
- → Be able to explain the projected numbers and the assumptions behind them. Investors will push back on everything the entrepreneur will tell them, so the entrepreneur should have an answer ready for multiple scenarios of the business. Practice makes perfect – the entrepreneur should go through the pitch with friends or in front of a mirror.
- → Bring a draft term sheet to the pitch meeting, in order for the entrepreneur to anchor the investors to the terms of the deal they would like – the entrepreneur is more likely to walk away with better terms if they put their cards on the table first.
- → Get external advice – most entrepreneurs will negotiate anywhere between one to five times with equity investors during the life of their start-up. A typical investor handles a similar number of negotiations a week. This means that the odds are most often in the investor's favour, and a good advisor could help to even the negotiation table.



Chapter IV.
Namibia’s Investment Scene

Chapter IV: Namibia's Investment Scene

A BRIEF HISTORY

How did Namibia's start-up ecosystem develop into what it is today? We take a look at some of the biggest developments that led to its rise

See page 78

REALITIES ON THE GROUND

Start-ups in Namibia find it extremely difficult to attract funding and investment. We explore the funding challenges facing Namibian start-ups

See page 75

INVESTOR SCENE GROWING, BUT FROM A SMALL BASE

We look at the growth of capital available to start-ups, how it has grown over the past decade, and what to look out for among Namibia's investors

See page 76

PITCHING TO IMPACT INVESTORS

Impact investing is taking off in a big way in the country — we look at how impact investors are different from more traditional types

See page 85

Background

Namibia is largely a semi-arid country with a long coastline on the South Atlantic, whose economy is mainly reliant on mineral extractive industries. The country's natural mineral riches and a small population of about 2.5 million (2019) have made it an upper-middle-income country.

Political stability and sound economic management have helped reduce the rate of poverty. However, this has not yet been translated into job creation and extreme socio-economic inequalities persist, despite generous public spending on social programmes by the government.

Namibia has a mobile phone penetration rate of over 100%, with 2.89 million mobile connections in January 2020, a figure equivalent to 115% of the total population. However, internet connectivity lags behind the mobile phone penetration rate. There were 1.28 million internet users in Namibia in January 2020, which is equivalent to 51% of the population. There are, however, efforts being made by mobile service providers to improve mobile and broadband connectivity across the country. However, this continues to be a challenge given the vastness of the country and its low population density.

A Brief History

Given the size of Namibia's population and market, start-ups often face a challenge in gaining sufficient traction. Support structures for start-ups are in their very early stages, although there are a number of initiatives that exist to support start-ups to succeed.

Over the past few years, a number of incubators and co-working spaces to support start-ups have been founded to various degrees of success. Unfortunately, just like start-ups, these spaces often lack funding to fully support start-ups or to survive. The most successful incubators have been funded by foreign donors, but they will face challenges when their funding is cut.

At present, there have been very few successful Namibian start-ups, but there are a number of promising start-ups who have a good chance of succeeding if they are provided with the right type of support. Apart from providing a physical space to operate from and training to entrepreneurs, start-up incubators provide very little funding for growth. Start-ups struggle to attract early-stage capital from existing structures because of underdeveloped funding markets which are not set up to cater for them as they do not provide patient capital or have the risk appetite to invest in start-ups. As the Namibian start-up ecosystem is still in its infancy, it is still too early to tell if it will be able to produce successful start-ups which will add value to the Namibian economy.

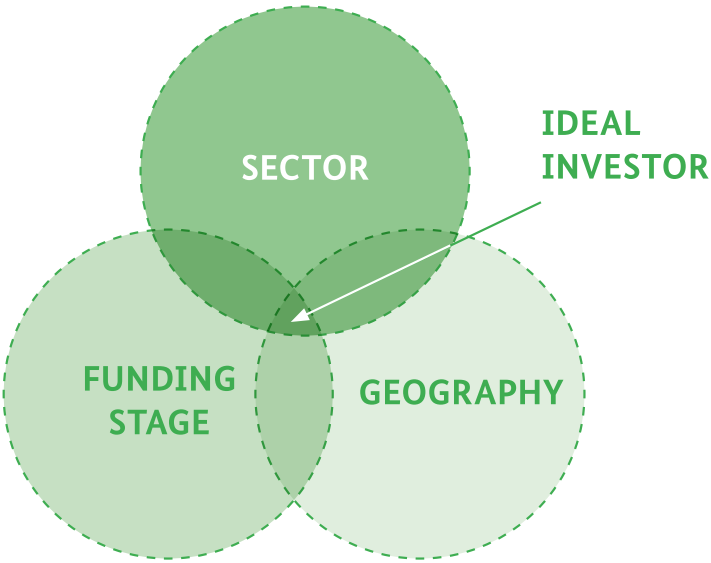
Much of the start-up activity is focused in the Namibian capital of Windhoek, with very little being done to support start-ups in other regions. Initiatives like Start-Up Namibia, which aims to improve the start-up ecosystem in Namibia, are looking to set up a presence in a number of Namibian towns to support start-ups outside Windhoek.

Realities on the Ground

Financing in Namibia's private business sector is highly dependent on bank financing. Namibian commercial banks follow orthodox lending practices, meaning that businesses are generally required to provide collateral on a one-for-one basis for loans extended to them, a practice known as secured lending. Banks are also highly regulated entities and the type of financing they can extend to start-ups is limited, given that unsecured lending is very risky, and banks are not allowed to provide equity financing.

Bank finance typically suffers from two major shortcomings when it comes to business finance, especially for start-ups. Firstly, collateral is generally required by the bank as security, which means that businesses are generally required to possess assets before they can borrow to grow their asset base. Secondly, taking out a loan requires making regular payments to the bank, generally from the date at which the loan is granted, to meet the principal and interest obligations of the loan. Interest payments are commonly linked to the prevailing level of interest rates in the economy which can rise and fall in unpredictable ways. This means that an important component of a firm's costs, i.e., debt repayments, is effectively beyond the firm's control. Together, the need for collateral and the fixed nature of debt obligations mean that bank finance is often inaccessible or inappropriate for newer businesses, as they need patient capital in this phase of their development.

Namibia also lacks start-up equity investors: one reason for this problem is the lack of local investors in the market, especially for early-stage start-ups that are looking for under N$1 million (US$60k) in investment. This is probably due to a lack of experience of investing at this stage, as well as the relative absence of success stories. Another factor is the lack of institutional investors at this stage. These type of investors often avoid committing capital at this stage due to the risk involved. Therefore, in order for more Namibian start-ups to succeed, more should be done to encourage investment at this stage.



An ideal investor will invest in companies based on location, sector and funding stage.

Credit Guarantee Scheme

The Namibian government has recognised the need to provide financing without the burden of collateral to entrepreneurs and has introduced the Credit Guarantee Scheme. The Credit Guarantee Scheme will ensure that SMEs and start-ups with bankable business plans, but that lack collateral, are able to access funding from lending financial institutions. Unfortunately, the scheme will only provide a collateral cover of up to 60% for bankable SMEs and start-ups.

The Bank of Namibia has made a financial contribution of N$70 million (US$4.2m) towards the implementation of the SME Financing Strategy, of which N$50 million (US$3m) will go directly towards the capitalisation of the Credit Grantee Scheme.

Spotlight on Female Founders

One group that is anecdotally overlooked when it comes to fundraising is female founders. Women often need to fight against negative perceptions and stereotypes, in addition to overcoming the many other challenges entrepreneurs face daily. Furthermore, female entrepreneurs may not have access to the networks and subnetworks of potential mentors and partners that are often crucial in helping entrepreneurs to develop, which is something Future Females Namibia is looking to remedy. *Future Females Namibia*, an initiative that inspires and supports female entrepreneurs with opportunities to connect and collaborate with each other, and access much needed resources. Additionally, the organisation is looking to promote younger female voices to showcase a new generation of entrepreneurs in Namibia. Female entrepreneurs need to become more comfortable with networking and turning connections into funding or business partners. Visibility is key, as people will invest in female-owned businesses if they have seen them around and have read about their start-ups.

More information: *https://futurefemales.co*

Investor Scene Growing, but From a Small Base

The proliferation of tech start-ups has led to more business support organisations entering the scene. These range from grant-making bodies such as Start-Up Namibia and the UNDP Impact Investment Facility that provide grant funding towards start-ups, based on set criteria, to incubators and accelerators that run training programmes for entrepreneurs and sometimes give funding at the end of the programme, to early-stage investors and later-stage private equity investors. Examples of early-stage investors include the Namibia Business Angel Network and unlisted investment entities such as EOS Capital, which has a partial allocation towards investing into early-stage start-ups. Later-stage private equity investors are mainly funded by the Government Institutions Pension Fund, as the nature of pension funds is to invest in low-risk assets in order to protect pension fund savings in the long term. Investment requirements into unlisted companies tend to be very strict, limiting the number of companies that receive investments from these funds.

Despite the number of investors entering the market, however, there remains a gap in terms of funding for early-stage start-ups, particularly those looking to raise N$1m (US$60k) and below. The later-stage funders can invest N$4m (US$240k) and upwards, as long as the business matches their criteria and has promise, but they are unable to invest in smaller start-ups. The greater allocation of unlisted investments to later-stage investments, as opposed to early-stage investments, where there is a greater need, is a result of the industry asset allocation being driven by pension funds and insurance legislation that mandates that a certain portion of pension funds and insurance investments be allocated to unlisted investments. As these industries are traditionally risk averse they have tended to invest in later-stage investments.

This has made accelerator and incubator programmes more important, and it has meant a big role for angel investors to play in filling the gap. While the number of such investors is growing, the demand for money still outstrips supply, meaning that investors have more negotiating power and generally get to shop around before they find a start-up in which they want to invest.

The Namibian start-up ecosystem has also struggled to come up with a solution to adequately match start-ups to the right type of investor. That has led some entrepreneurs to chase after investors that may not be a good fit. This can be damaging to a company. The ideal investor should be able to offer a start-up time and access, in addition to money. If an investor has never been active in a start-up market, he or she is unlikely to be able to provide the connections that can make or break a business; and if the investor does not know anything about the market, the advice he or she provides will be limited.

Namibia Business Angel Network

One organisation that is attempting to bridge the equity funding gap for start-ups is the Namibia Business Angel Network (NABAN). NABAN is an angel investor network whose members invest their personal funds in innovative early-stage companies, helping them grow through knowledge, networks and capital.

NABAN aims to champion angel investing into Namibian start-up and early-stage companies. These companies often have great potential but are at too early a stage for venture capital investment, are not generating enough cash flow to be able to repay bank debt and also often need some mentoring. NABAN aims to link those entrepreneurs to investors who have the risk appetite to invest at that stage and can hopefully mentor and assist the investee companies to succeed.

More information: *https://naban.com.na*

Universities' Interest in Entrepreneurship

Technology and IT companies have been around for a long time in Namibia. However, this current wave of start-ups is benefiting from an increased interest in start-ups around the world, as well as better access to information, thanks to the internet and a growing support system (hubs, investors, news coverage, etc.) that did not exist in the past.

One emerging trend is universities interest in entrepreneurship. Two of the leading academic institutions in Namibia offer entrepreneurship programmes. The table below shows these programmes.

Institution	Programme Name *URL*
University of Namibia	Diploma in Entrepreneurship and New Venture Management *https://www.unam.edu.na/faculty-of-economic-and-management-science/management-science/undergraduate-qualifications/entrepreneurship-and-new-venture-management*
Namibia University of Science and Technology	Bachelor of Entrepreneurship *https://www.nust.na/?q=programme/fms/bachelor-entrepreneurship*

Pitching to Impact Investors

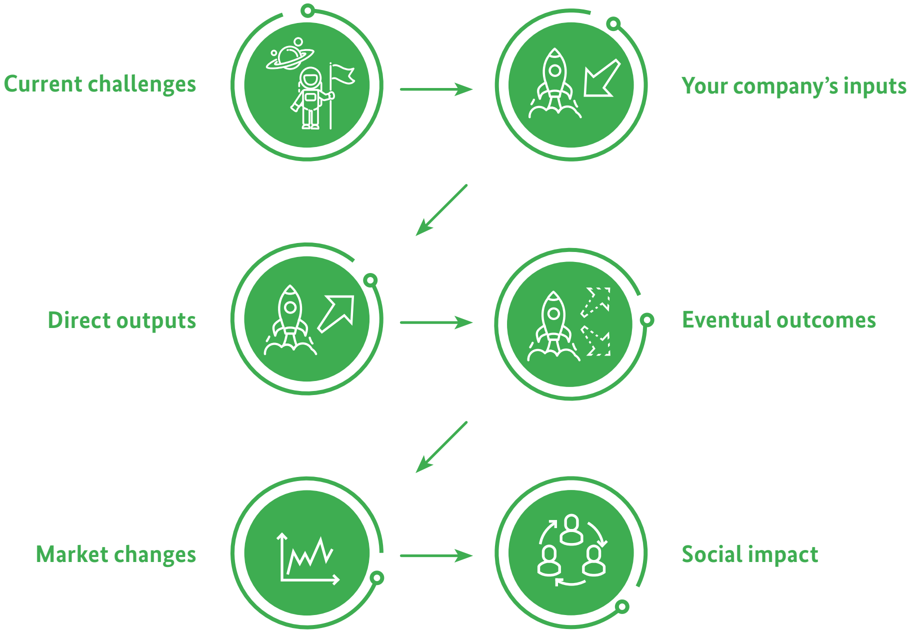
Impact investors are funders who seek to effect positive social or environmental change, in addition to making a financial return. They vary widely in their emphasis on impact. Some will screen out investments that have the potential to make a negative impact but will not specifically look to invest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

Others have a much more specific view on what counts as impact and will ask entrepreneurs to report the impact metrics they agree upon. Some will forgo potential financial returns as long as the company's social and environmental impact is high enough; others will not sacrifice financial returns. Typically, when approaching impact investors, entrepreneurs need to prepare the same documents as they would for other funders.

Additionally, entrepreneurs will need to show how they plan to effect positive social/environmental change. The first task will be to choose which metrics to track. Often, this will be a natural fit – if the company is involved in renewable energy, for example; tracking the number of households affected and the amount of CO_2 emissions produced makes sense.

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

Typically, however, such a start-up shows the following causalities:



Additionally, the start-up should integrate impact into its financial model. Just as the start-up makes assumptions about annual customer growth, customer retention rate, etc., it can also estimate how much impact each additional customer/product will bring. Above all, investors want to see how the company's actions affect the bottom of the pyramid (BOP) — the poorest citizens in a country.

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

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

Pitching Effectively

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

❶ **Traction so far.** A good idea will typically not be enough for investors to put money into a start-up. They want to see what the start-up has achieved. 'Has anyone parted with their money for the start-up's product or service?' is how one investor put it. If the start-up is not there yet, the founders should get letters of interest from interested businesses, or should show how many active users the business has. Simply put, investors want to see positive signals from the market showing that the start-up's product or service is in demand and meets a true need.
- How many units has the start-up sold?
- How many sign-ups does the start-up have?

❷ **What makes the start-up's team special?** Investors often look at the entrepreneur more closely than the businesses the entrepreneur has started. After all, investing in a company means forming a partnership that will last years. If an investor is not sold on the team, they will not invest in the business no matter how much potential the idea has.
- Why is the start-up's team uniquely positioned to solve this market problem?
- What is the team's experience in this field?

❸ **Know the market well:** Investors will ask about the market. They will ask why the start-up is focusing on the segment and the potential challenges in the future. Founders need to be able to answer their questions knowledgeably, backing up their assertions with hard data. Importantly, investors are looking not only at how well the founders know the market, but also at how well they know how to make money in the market.
- *Has anyone else tried to solve this problem? How is the start-up's solution different?*
- *What are the challenges the founders foresee in the future, and how will they navigate around them?*

❹ **The entrepreneur's track record:** If the founders are first-time entrepreneurs, they will not be able to show what their previous companies have done, but they should be able to talk about what they have done since they graduated from school – how they did, what companies they have worked for and what problems they tried to solve. Investors will often do reference checks, so entrepreneurs should keep up with old contacts who may be asked to vouch for them.
- *What has the entrepreneur done in this space already?*
- *Does the entrepreneur have people who will vouch for him or her?*

❺ **The founder's thinking process is important.** Investors understand that as a start-up, projecting growth numbers is difficult; at best, it is an educated guess. While founders should ground their financial projections in reality, the most important thing about the numbers is being able to clearly talk through them and explain the hypotheses.
- *How do the founders justify their growth plans?*
- *How did the founders evaluate the size of the market?*

Advice from a Namibian Private Equity Fund Head

Below is advice given by **Josephat Mwatotele (JM)** who is the Chief Executive Officer of *Ashburton Investments Namibia*. Ashburton Investments provides private equity investment management through a fund known as Stimulus Investments Limited (SIL), that is recognised as the forerunner in private equity in Namibia. Stimulus Investment Limited's portfolio is valued at N$682 million (US$41.1 million) and includes investments in Cymot, Khomas Solar Saver, Namibia Media Holdings, Nashua, Neo Paints, Plastic Packaging and Walvis Bay Stevedoring.

From experience, what are the most common mistakes made by entrepreneurs when they come to seek funding?

JM:
1. A full understanding of the market conditions and market trends – research is not fully done.
2. Ambitious financial projections with no substantiated key assumptions.
3. A lack of contingency planning for alternative scenarios.

What are the main considerations you make before investing in a company?

JM:
1. If the company has a competent management team with a skill set relevant to the business.
2. Willingness of the management team to take on the risk of an equity holder by providing their own capital contribution.
3. Level of groundwork done (research) and resources to put into the business to get it off the ground from own sources by the current shareholders and management.

What advice would you give to entrepreneurs looking for an investment into their business in order to improve their chances of acquiring funding?

JM:
1. They should take into account the above factors.
2. Entrepreneurs should have a good understanding of their value proposition and the gaps in the market their product will fill.

What are the red flags you look for before investing into a business?

JM:
1. A lack of passion, drive and commitment from the owners.
2. A lack of a full understanding of the business/product and marketplace.
3. Scalability of product/service.
4. Opportunity to leverage technology.

Which interventions do you believe are necessary in Namibia in order to improve the number and quality of businesses applying for funding at your institution?

JM:
1. Financial management skills/mentorship and market research assistance for entrepreneurs.
2. Project preparation assistance and packaging for entrepreneurs.

Chapter
Investor Directory

V.

Chapter V: Investor Directory

The following is a list of funders that invest in start-ups and early-stage companies in Namibia. While this is not an exhaustive list, it does provide a good start for entrepreneurs who are looking to raise money for their ventures, with extensive information about each funder. The data collected comes from publicly available sources and self-reporting.

The firms are separated by the funding type provided.

EQUITY

Company Name	**Eos Capital (Pty) Ltd**
Brief Description	Unlisted Investment Manager
Website	*www.eoscapital.com.na*
Year Founded	2015
Fund Name 1	**Allegrow Fund (Pty) Ltd**
Brief Description of Fund	Special Purpose Vehicle holding unlisted investments on behalf of investors.
Fund Objective	Allegrow has been set up with the sole purpose of holding unlisted investments on behalf of Investors. It will invest in Namibian companies which have the potential to grow rapidly and will provide them with the capital and management support needed to unlock their full potential, through its agreement with its Unlisted Investment Manager.
Website	*www.eoscapital.com.na*
Year Founded	2014
Country/Focus	Namibia
Average Investment Size	Between N$10m and N$90m (US$600k-5.4m)
Sectors of Interest	Consumer services, information and communication technology (ICT) and general industrials; optionality to invest in attractive enterprises in other sectors.
Average Time to Close a Deal	Fluctuates between 2-3 months to over a year, depending on due diligence findings.
Type of Capital	Growth Equity; Private Equity; Leveraged Management Buy-out (MBO); Shareholder Loan (SHL); Mezzanine Funding.
Average Time to Exit	Can stay invested for up to 5 years, depending on portfolio company performance and finding the right exit buyer.
Type of Exit Sought	Buy-out to a larger player; listing on the Namibian Stock Exchange (NSX).

NIDIF
NAMIBIA INFRASTRUCTURE DEVELOPMENT

Fund Name 2	**Namibia Infrastructure Development and Investment Fund (Pty) Ltd**
Brief Description of Fund	Special Purpose Vehicle holding unlisted infrastructure investments on behalf of investors.
Fund Objective	To generate significant medium- to long-term yield within a rigorous risk management framework. The company aims to deliver these objectives by investing in a diversified investment portfolio of unlisted equity securities of private infrastructure companies operating in Namibia, subject to and in accordance with the investment strategy and operational policies, as outlined in the company's investment plan.
Website	*www.eoscapital.com.na*
Year Founded	2019
Country/Focus	Namibia
Average Investment Size	N$1bn (US$60m)
Sectors of Interest	Soft infrastructure – health and healthcare services; education and skills development – and hard infrastructure – energy, water and sanitation, transport and logistics and ICT.
Average Time to Close a Deal	Fluctuates between 2-3 months to over a year, depending on due diligence findings.
Type of Capital	Growth Equity; Private Equity; Leveraged Management Buy-out (MBO); Shareholder Loan (SHL); Mezzanine Funding.
Average Time to Exit	Can stay invested for up to 5 years, depending on portfolio company performance and finding the right exit buyer.
Type of Exit Sought	Buy-out to a larger player; listing on the Namibian Stock Exchange (NSX).

EQUITY

Selection Criteria	Should be a Namibian-owned company with high growth potential; company should be at least 3 years and older; Pre-Covid EBITDA in excess of N$5 million (US$300k).
Management Control	Ideally strong management team in place (unless case of bolt-on), otherwise the applicant requires at least one board seat to provide strategic input and support.
Investor Vision	To assist struggling Namibian businesses with patient capital and strategic management support, to help them grow and realise their full potential.
Entrepreneurship Experience	Ideally strong entrepreneurship experience to reduce risk exposure. An alternative is to provide management support to assist young founders.
Technical Experience	Similarly, ideally strong technical experience is required to reduce risk exposure, but they can also provide strategic support to balance shortcomings from young founders.
Services Offered Additional to Funding	Experienced management and strategic support to gain market traction and sustained growth; networking to existing portfolio companies.

STIMULUS
investments limited

ASHBURTON INVESTMENTS

Company Name	**Stimulus Private Equity (Pty) Limited**
Brief Description	Private Equity Fund
Website	*www.ashburtoninvestments.com*
Year Founded	2004
Fund Name	**Stimulus Investments Limited**
Brief Description of Fund	Stimulus targets traditional private equity opportunities in promising Namibian businesses with the potential to deliver superior returns.
Fund Objective	Deliver superior returns by focusing on expansion capital and investment in cash flow positive companies who are leaders in their industries.
Website	*www.ashburtoninvestments.com*
Year Founded	2004
Country/Focus	Namibia across all regions
Average Investment Size	N$25 million (US$1.5m) for minority equity stakes
Sectors of Interest	All sectors – generalist fund
Average Time to Close a Deal	2-3 months
Type of Capital	Equity capital
Average Time to Exit	10 years
Type of Exit Sought	Management buy-in/out

EQUITY

Selection Criteria	Companies with a competitive advantage in key markets.
Management Control	Appointment to the board and relevant board committees.
Entrepreneurship Experience	Yes, this is an important consideration.
Technical Experience	Experienced management teams are a key requirement.
Services Offered Additional to Funding	Strategic management support to management teams.

MERGENCE
UNLISTED INVESTMENT MANAGERS (NAMIBIA)

Company Name	**Mergence Unlisted Investment Managers (Namibia) (Pty) Ltd**
Brief Description	Mergence Unlisted Investment Managers (Namibia) acts as a responsible steward of investments and aims to preserve investment capital.
Website	*www.mergence.com.na*
Year Founded	2014
Fund Name	**Mergence Namibia Infrastructure Fund Trust**
Brief Description of Fund	The Mergence Namibia Infrastructure Fund Trust aims to invest in a diversified combination of both unlisted debt and unlisted equity of infrastructure assets that will result in superior risk-adjusted returns, while supporting the development of both social and economic infrastructure services.
Fund Objective	To acquire and hold unlisted investments in Namibia as a long-term investor in order to derive income and capital gains.
Website	*www.mergence.com.na*
Year Founded	2014
Country/Focus	Namibia
Average Investment Size	N$10 million (US$600k)
Sectors of Interest	Economic infrastructure (transport, utilities, communication and renewable energy) within the logistics, tourism, manufacturing and agricultural sectors and private equity projects for expansion purposes.
Average Time to Close a Deal	6-8 weeks
Type of Capital	Equity and Debt
Average Time to Exit	10 years
Type of Exit Sought	Yield investors or existing shareholders

EQUITY

Selection Criteria	Companies with a strong growth potential.
Management Control	Board seat/s
Investor Vision	To be an impact investor, improving the level of infrastructure in Namibia.
Entrepreneurship Experience	Knowledgeable in the field with a proven track record.
Technical Experience	Technical partner is compulsory.
Services Offered Additional to Funding	Strategic partnership

Company Name	**IJG Capital (Pty) Limited (IJG)**
Brief Description	NAMFISA-registered unlisted investment manager with total funds under management of N$413 million (US$ 24,8 million).
Website	*https://ijg.net*
Year Founded	2007

Fund Name	**Namibia Infrastructure Finance Limited (NIFCO)**
Brief Description of Fund	Renewable energy investment holding company co-administered by Old Mutual Investment Group (Namibia) and IJG.
Fund Objective	Holding company for renewable energy investments in Namibia.
Website	*https://ijg.net*
Year Founded	2017
Country/Focus	Namibia
Average Investment Size	N$15-100 million (US$900k-6 million)
Sectors of Interest	Renewable energy, including utility-scale, commercial and industrial.
Average Time to Close a Deal	2-6 weeks to finalise valuation, term sheet and investment approval. 3-6 months to implement, including technical and legal due diligence.
Type of Capital	Equity and quasi-equity (junior loan funding), including vendor finance.
Average Time to Exit	No fixed timeframe and may hold to maturity (i.e., until expiry of off-take agreements).
Type of Exit Sought	No fixed timeframe and may hold to maturity (i.e., until expiry of off-take agreements).

EQUITY

Selection Criteria

Criteria include:
- Permitting and licencing substantially complete
- Land and water rights secured, including servitudes (if required)
- Bankable off-take agreement in place with creditworthy off-takers
- Bankable and insurable equipment (Tier 1 manufacturers)
- Bankable and insurable designs
- Limited recourse project finance
- Risk-reflective equity return

Management Control

- Minimum 25% shareholding and board representation and may take control
- For equity stakes <51%, require minority protections, including in relation to financing, capitalisation and strategic decision-making and the appointment of management and material contractors (technical advisor, legal advisor, operator, etc.)

Investor Vision

Responsible, climate-resilient equity investing in compliance with industry-standard ESG requirements.

Entrepreneurship Experience

No strict requirement, assessed based on project bankability.

Technical Experience

Can be outsourced to reputable technical advisors.

Services Offered Additional to Funding

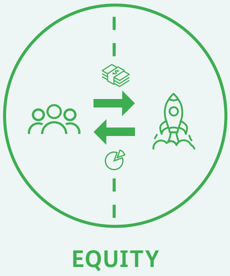
- Financial decision-making support
- Financial management accounting outsourcing
- Limited-recourse debt raising
- Active co-development (including competitive bidding) in partnership with technical and investment partners

Company Name	**Old Mutual Investment Group Namibia (OMIGNAM)**
Brief Description	Asset managers
Website	*www.oldmutual.com.na/old-mutual-investment-group*
Year Founded	1997
Fund Name	Old Mutual has the following alternative investment Funds under management: **Tunga, EIF, MIDINA, NIEIF** and other direct investments, as well as a property portfolio.
Brief Description of Fund	Each fund has its own mandate and, accordingly, its own investment views.
Fund Objective	Make an impactful contribution and deliver a good return as per the individual agreed mandate for each fund.
Website	*www.oldmutual.com.na/old-mutual-investment-group*
Year Founded	2003
Country/Focus	Namibia
Average Investment Size	Varies from +-N$10 million up to N$200 million (US$6-12 million).
Sectors of Interest	Per individual mandated from infrastructure, which can include health care and renewable energy.
Average Time to Close a Deal	From +-4-6 months
Type of Capital	Equity and Debt
Average Time to Exit	+-3 years or more
Type of Exit Sought	Buy-out or moving from one fund to another fund

EQUITY

Selection Criteria	Funds look at mandate fit, return, possible exit, impact, empowerment, benefit to the economy, money to be invested and life period of the investment horizon.
Management Control	Yes, sometimes – depending on the share to be bought, but at minimum board representation and/or possible veto rights.
Investor Vision	Be successful in all phases of an investment.
Entrepreneurship Experience	N/A
Technical Experience	Yes
Services Offered Additional to Funding	Yes – sometimes

Company Name	**Ariya Bridge Capital (Pty) Ltd**
Brief Description	Unlisted Investment Manager with a focus on infrastructure projects and businesses within the clean and renewable energy, ICT, water and sanitation, and bulk municipal services and civil works sectors.
Website	*www.ariyacapital.com*
Year Founded	2015
Fund Name	**Ariya Bridge Trust Fund**
Brief Description of Fund	Sector focus: clean and renewable energy, ICT, water and sanitation, bulk municipal services and civil works.
Fund Objective	Make unlisted investments in accordance with the investment policies of the fund.
Website	*www.ariyacapital.com*
Year Founded	2015
Country/Focus	Namibia
Average Investment Size	N$20 million (US$1.2 million)
Sectors of Interest	Clean and renewable energy, ICT, water and sanitation, bulk municipal services and civil works sectors.
Average Time to Close a Deal	90 days
Type of Capital	Debt, Mezzanine and Equity
Average Time to Exit	4-7 years
Type of Exit Sought	Trade sale, secondary buy-out and initial public offering.



Selection Criteria	Investment mandate fit
Management Control	Board seat
Investor Vision	Alignment to Investment Plan
Entrepreneurship Experience	Experience is critical, though guidance can be offered.
Technical Experience	Technical experience within the sector of funding is important.
Services Offered Additional to Funding	Corporate governance, make operational improvements to enhance operations, restructure company debt.

DEBT

Company Name	**First National Bank (FNB) Namibia**
Website	*https://www.fnbnamibia.com.na*
Department	FNB SME Division
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Products	Term Loans, Asset-based Finance, Overdraft Facilities, Contract and Tender Financing
Sectors of Interest Various	Equipment/infrastructure, growth/expansion, restructuring/mergers
Type of Capital	Debt
Additional Services	Mentoring in cooperation with SMEs COMPETE
Firms Funded	Start-ups, SMEs

Standard Bank

DEBT

Company Name	**Standard Bank Namibia**
Website	*https://www.standardbank.com.na*
Department	Standard Bank SME Enterprise Division
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Products	Business Current Account with Overdraft, Business Revolving Credit Plan, Vehicle and Asset Finance, Guarantee by Bank, Invoice Discounting, Property Finance or Business Mortgage Loans
Target Areas of Funding	Equipment/infrastructure, growth/expansion, restructuring/mergers
Type of Capital	Debt, Owners Contribution, Equity
Additional Services	Mentoring/Training
Firms Funded	Start-ups, MSMEs

Bank Windhoek

DEBT

Company Name	**Bank Windhoek**
Website	*https://www.bankwindhoek.com.na*
Department	Business Banking
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less Note: Interested businesses are encouraged to please provide key financial information, such as Personal and Business Financial Statements, Business plan, Cash Flow Projections. All Loans will be subject to final Credit Approval.
Products	Transactional banking, Article Finance, Commercial Property Finance, Term Loan/Commercial Loan, Guarantee, Banking Advisory Services, Sustainability Funding, and Business Credit Cards (for businesses with a minimum annual turnover of N$3 million (US$180k)).
Target Areas of Funding	Commercially viable activities
Type of Capital	Debt
Additional Services	Business Banking i-Lounge, Digital Market Place (a partnership with BCX and Microsoft), Integrated Point of Sal (POS) services, E-commerce
Firms Funded	SMEs and Start-ups (pending a suitable business plan)

DEBT

Company Name	**Business Financial Solutions**
Website	*www.namprofund.com.na*
Fund Name	**Namibia Procurement Fund**
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Products	Short-term Working Capital Finance, Operating Finance Leases, Asset-backed Finance Leases, Performance Guarantees
Target Areas of Funding	Agriculture, equipment/infrastructure, exports, growth/expansion, innovation/research, restructuring/mergers
Type of Capital	Debt
Additional Services	Mentoring/Training
Firms Funded	Start-ups, SMEs

NEDBANK

DEBT

Company Name	**NEDBANK**
Website	*https://www.nedbank.com.na*
Department	SME Division
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Products	Business Account with Overdraft, Business Loans, Asset-based Finance, Commercial Property Finance, Contract Finance
Target Areas of Funding	Starting a company, growth/expansion, restructuring/ mergers
Type of Capital	Debt
Additional Services	None
Firms Funded	Start-ups, SMEs

Development Bank of Namibia

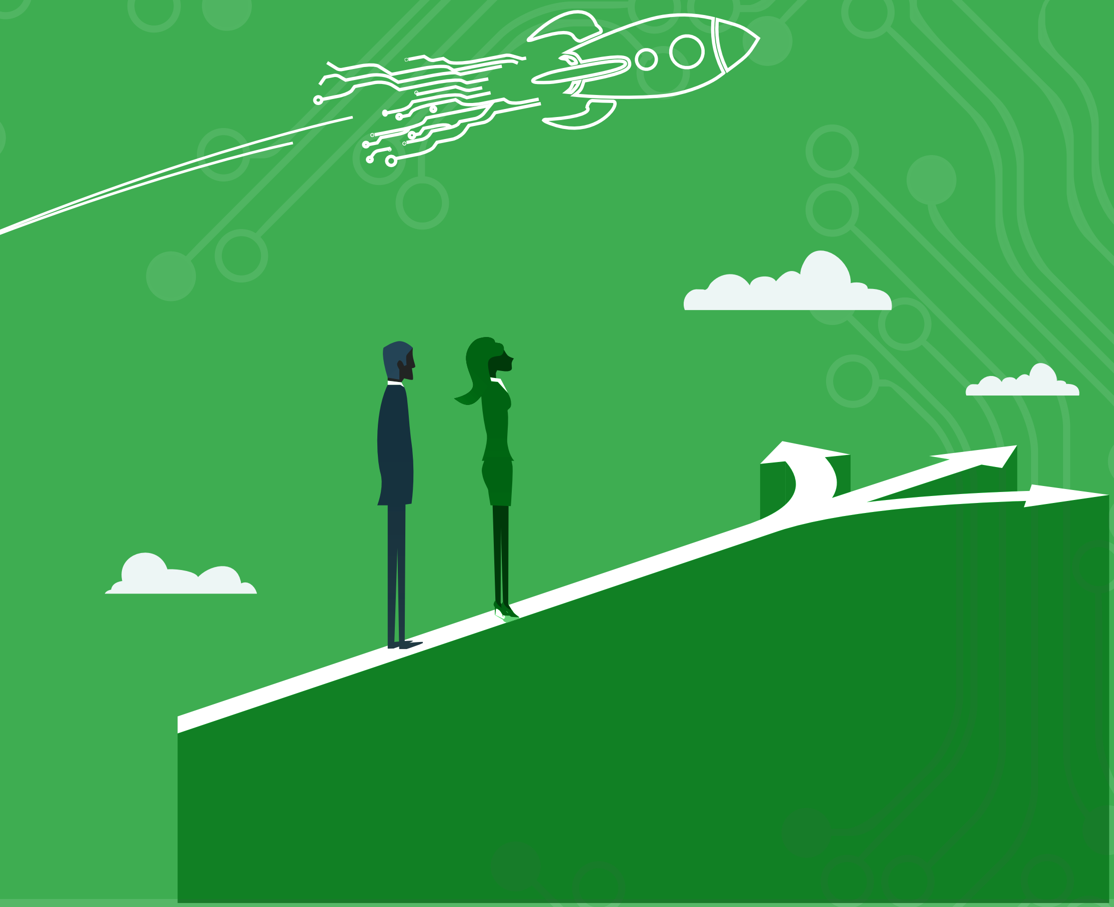
DEBT

Company Name	**Development Bank of Namibia**
Website	*https://www.dbn.com.na*
Department	SME Finance
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Loan Size	Minimum N$50k and a maximum of N$1 million (US$3-60k) for the skills-based products; for the rest of the products, the loan size depends on the business plan.
Products	Skills-based Finance for Young Professionals, Skills-based Finance for Young Artisans, Instalment Sales Agreements, Business Loans, Commercial Property Development Finance, Performance guarantees, Contract Finance, Trade Finance
Target Areas of Funding	Manufacturing, tourism, transport and logistics, business services, retail and wholesale outlets, commercial property, construction, franchises, private educational institutions
Type of Capital	Debt
Additional Services	Mentoring/Training
Firms Funded	Start-ups, SMEs

Environmental Investment Fund of Namibia | ensuring sustainability

GRANT

Company Name	**Environmental Investment Fund of Namibia**
Website	*https://www.eif.org.na/sdgif*
Fund Name	**SDG Impact Investment Fund**
Qualifying Criteria	Businesses that have an annual turnover of N$10 million (US$600k) or less
Grant Size	Up to N$650k (US$39k)
Products	SDG Impact Facility
Target Areas of Funding	Sustainable agriculture, nutraceutical, artisan
Type of Capital	Grant
Additional Services	Mentoring/Training
Firms Funded	Start-ups, SMEs



Chapter
Conclusion

VI.

Chapter VI: Conclusion

Raising money for a start-up is not easy. It will take enormous amounts of patience, determination and persistence. Nevertheless, it is also an extremely rewarding process that will teach the founder a lot about themselves, their business and their market.

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

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

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

Key Takeaways

1. Entrepreneurs should do research on the investors they approach: they should find someone who is a truly good fit.

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

3. Enter accelerator/incubator programmes: while they may not be a great tool for every entrepreneur, they will help them to gain exposure and learn how to think about their business.

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

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

6. Do not raise too much money too quickly: if founders cannot keep raising their company's valuation in future rounds, they will likely sputter and burn out.

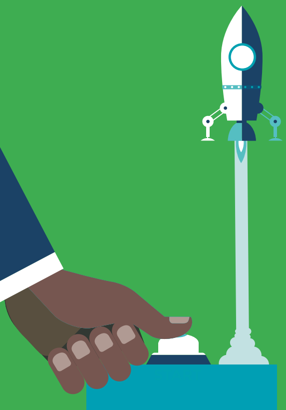
7. Local versus international investors: there has been an uptick in interest among international investors in Namibia – entrepreneurs should find out how they are different and if they are a better fit.

8. Consider impact investors: this may be a good fit with a company, or it may not; before they approach impact investors, entrepreneurs should consider carefully whether they have the capacity to report the metrics these types of investors will want to see.

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

Useful resources to learn more:

BVCA's List of Document Templates
https://www.bvca.co.uk/Policy/Tax-Legal-and-Regulatory/Industry-guidance-standardised-documents/Model-documents-for-early-stage-investments
EBAN's List of Document Templates, Including Term Sheet
https://www.eban.org/knowledge-center/
Financial Literacy Initiative
http://www.fli-namibia.org/business-finance/
IRIS Metrics Overview for Impact Investors
https://iris.thegiin.org/metrics/
Khan Academy Videos on Start-up Valuation
https://www.khanacademy.org/economics-finance-domain/core-finance/stock-and-bonds/venture-capital-and-capital-markets/v/raising-money-for-a-startup
Paystack's Y Combinator Application
https://paystack.com/blog/company-news/paystacks-y-combinator-application
Sample Capitalisation Table
https://www.cooleygo.com/documents/sample-cap-table-pro-forma/
Sequoia Capital Business Plan Template
https://www.sequoiacap.com/article/writing-a-business-plan
The Lean Canvas
https://leanstack.com/is-one-page-business-model
Valuation Methods Overview
https://www.techinasia.com/talk/9-method-startup-valuation
YCombinator's List of Resources, Including Document Templates
https://www.ycombinator.com/library



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Make-IT in Africa

Registered offices
Bonn and Eschborn

Friedrich-Ebert-Allee 40
53113 Bonn / Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn / Germany
T +49 61 96 79-0
F +49 61 96 79-11 15
E info@giz.de
I www.giz.de

Author
Jesaya Hano-Oshike

Editor
Christina Pfandl

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Postal address of BMZ headquarters /
Bonn and Berlin

Dahlmannstr. 4
53113 Bonn / Germany
T +49 228 99 535-0
F +49 228 99 535-3500

Stresemannstraße 94
10963 Berlin / Germany
T +49 30 18 535-0
F +49 30 18 535-2501

E poststelle@bmz.bund.de
I www.bmz.de

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