

Ethiopia

Impact Investing Landscape Mapping



Report Details and Acknowledgment

This research was funded by the Government of Japan, in partnership with GSG Impact. It was undertaken by ACE Investment and Impact Advisors as part of a collaborative effort to map and strengthen Ethiopia's impact investment ecosystem. The study reflects a shared commitment to advancing inclusive growth, private sector innovation, and sustainable development through evidence-based insights and strategic stakeholder engagement.

Report Overview and Context

This report presents a comprehensive analysis of Ethiopia's impact investment landscape, providing an overview of the country's macroeconomic context, policy environment, and the emerging trends shaping both the supply and demand for impact capital. It explores the structure of the ecosystem across key dimensions, capital supply, enterprise demand, intermediation, policy and regulation, and market development, while identifying opportunities and challenges that influence the flow of impact-oriented investments. Drawing on consultations with ecosystem stakeholders, desk research, and sectoral insights, the report offers practical recommendations to strengthen coordination, increase capital mobilization, and enhance investment readiness within Ethiopia's entrepreneurial landscape.

In Ethiopia's context, intermediaries and capital suppliers are not distinct categories but rather part of a fluid and adaptive financial ecosystem. Roles often overlap as organizations evolve to address persistent market gaps. For example, advisory firms, accelerators, and funds may serve simultaneously as intermediaries facilitating transactions, providing technical assistance, or structuring deals while also acting as capital suppliers through direct investments or blended financing mechanisms. Likewise, market enablers such as incubators, development institutions, and financial actors frequently assume multiple, intersecting roles, influencing the enabling environment, bridging investors and entrepreneurs, and occasionally providing capital themselves.

Aligned with the GSG Impact definition and five-pillar framework, this study adopts a contextualized approach that reflects the interconnected and evolving nature of Ethiopia's impact investment landscape. The report emphasizes that the country's ecosystem is still at an emerging but fast-maturing stage, characterized by growing collaboration between public and private actors, innovative financing mechanisms, and a gradual alignment of investment practices with national development priorities.

Acknowledgements

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List of abbreviations

Abbreviation	Signification
ANDE	Aspen Network of Development Entrepreneurs
CRGE	Climate Resilient Green Economy
DFI	Development Finance Institution
EASE	Ethiopian Association of Start-up Ecosystem
EIB	European Investment Bank
EIC	Ethiopian Investment Commission
EIH	Ethiopian Investment Holdings
ESOs	Enterprise Support Organisations
ESG	Environmental, Social and Governance
ESX	Ethiopian Securities Exchange
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GSG	Global Steering Group for Impact Investment
HGER	Homegrown Economic Reforms
IFC	International Finance Corporation
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprises
NBE	National Bank of Ethiopia
ODA	Official Development Assistance
PE	Private Equity
PPP	Public-Private Partnership
SDG	Sustainable Development Goals
SOE	State-Owned Enterprise
UNDP	United Nations Development Programme
VC	Venture Capital

About GSG Impact

GSG Impact builds impact economies. We do this by working to embed social and environmental impact at the heart of every political, investment, business and consumption decision.

We connect global leaders, governments, investors, regulators and social innovators, so that together we can build the infrastructure and incentives for social and environmental impact to be central to all decision making.

GSG Impact is the cornerstone of the wider GSG Impact Partnership – a global network of 43 National Partners representing

48 countries:

more than half in emerging markets.



If you want to know more about GSG Impact, visit gsgimpact.org

The GSG Impact Partnership is a global community committed to driving **improved social and environmental conditions** for people around the world.

About ACE Investment and Impact Advisors

ACE Advisors is an Ethiopia-based management consulting firm specializing in investment advisory, private sector development, and impact-driven strategy design. The firm works at the intersection of business, development, and policy, supporting governments, development partners, and private enterprises to unlock sustainable economic growth. ACE Advisors provides a wide range of services, including research and analytics, project design and implementation, investment facilitation, and capacity development.

With a strong track record in ecosystem mapping, entrepreneurship support, and impact investment advisory, ACE Advisors has become a trusted partner for organizations seeking to strengthen Ethiopia's investment landscape. Its multidisciplinary team combines expertise in economics, finance, and development management to generate data-driven insights and practical solutions tailored to local contexts.

Beyond advisory work, ACE Advisors actively contributes to building an enabling environment for startups and SMEs, supporting initiatives that advance inclusive finance, gender-lens investing, and innovation-driven enterprise growth. The firm's approach integrates analytical rigor with on-the-ground experience, ensuring that every intervention contributes meaningfully to Ethiopia's broader goals of sustainable development and private sector competitiveness.

ACE Advisors works at the intersection of business, development, and policy, supporting governments, development partners, and private enterprises to unlock **sustainable economic growth.**

Section 1

Executive Summary

Ethiopia's impact investment ecosystem remains nascent but demonstrates increasing momentum driven by growing investor interest, emerging intermediaries, and policy reform initiatives. This landscape mapping identifies key ecosystem actors across the five pillars of impact investing: capital supply, capital demand, intermediaries, policy and regulatory institutions, and market builders.

The report also maps how impact investment can help Ethiopia close its large development and SDG financing gaps, and what it would take to build a coherent ecosystem around that agenda. It draws on desk research, comparative analysis, and consultations with government, DFIs, financiers, intermediaries, and enterprises to assess capital supply and demand, intermediation, regulation, and market enablers, and to propose a practical roadmap for action.

Where is Ethiopia now?

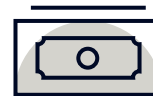
Ethiopia is a fast-growing but fragile economy in the middle of deep reforms. Growth has averaged 7–8% in recent years and the 10-Year Development Plan and Homegrown Economic Reform Agenda signal a strategic shift toward private-sector-led, green and inclusive growth. Yet double-digit inflation, foreign-exchange shortages, high debt and pockets of instability continue to weigh on investor confidence and public finances.

The government estimates a financing need of roughly USD 257–397 billion to meet national priorities by 2030, and around USD 608 billion to achieve the SDGs—far beyond what public budgets, aid, and traditional FDI can provide.

Where could Ethiopia be by 2030, and what blocks that?

By 2030, Ethiopia could position itself as a leading “impact frontier” market in Africa: a large, fast-growing economy with a coordinated impact ecosystem, functional capital markets (ESX), and impact capital flowing into priority sectors such as agriculture, clean energy, manufacturing, digital services, and youth employment. Impact investment could become a core tool for closing the financing gap and creating jobs, especially through MSMEs and startups.

But this trajectory is blocked by macro and FX instability and debt distress, regulatory uncertainty and limited impact-specific incentives, shallow domestic finance and scarce long-term, catalytic capital, weak investment readiness and “missing middle” finance for SMEs and startups, fragmented coordination among government, donors, DFIs, investors and intermediaries, and poor data, limited ESG/impact reporting and underutilized diaspora and blended finance.



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What 5–7 levers matter most?

From the recommendation section, the most important levers to shift the system over the next 3–5 years are to create a national coordination platform, build data and pipeline infrastructure, professionalize enterprise support and ecosystem capacity, use digital and innovative finance to unlock the "missing middle", and expand ESG and impact reporting.

The findings of this report support the establishment of a coordinated national platform that can strengthen ecosystem collaboration, promote policy dialogue, and catalyse capital mobilisation.

This report provides a comprehensive overview of Ethiopia's impact investing ecosystem, with the objective of mapping key actors, assessing market dynamics, identifying structural barriers, and defining priority actions to mobilise capital toward impact. The analysis is based on a combination of desk research, stakeholder consultations, and ecosystem mapping, covering capital providers, enterprises, intermediaries, and policy actors. The report examines both the supply and demand of capital, the enabling environment, and the broader support infrastructure, with the aim of informing practical ecosystem-building interventions.

Ethiopia's impact investing market is at an early but evolving stage, shaped by strong development needs, increasing policy attention, and growing engagement from development finance institutions (DFIs) and catalytic capital providers. The ecosystem is characterised by a relatively concentrated capital base, limited domestic investor participation, and emerging but underdeveloped intermediation structures. While there are clear signs of momentum, including policy reforms and increased investor interest, the market remains constrained by structural inefficiencies that limit the effective deployment of capital, particularly to small and growing businesses.

A central feature of the ecosystem is its heavy reliance on international capital, with DFIs and foreign investors playing a dominant role in financing impact-oriented activities. At the same time, significant domestic capital pools remain largely untapped, including pension funds, insurance companies, and local financial institutions. This imbalance is compounded by a persistent mismatch between capital supply and demand, particularly for growth-stage SMEs, as well as a weak pipeline of investment-ready enterprises and limited intermediation capacity.

While ongoing policy reforms signal a positive trajectory, foreign exchange constraints, regulatory limitations, and fragmented ecosystem coordination continue to affect investor confidence and capital flows. In addition, inconsistent impact measurement practices and limited market transparency reduce the ability to effectively track and scale impact investments.



Ethiopia's impact investing market is at an early but evolving stage, shaped by strong development needs and growing engagement from catalytic capital providers.

Key Insights, Implications, and Priority Areas

Key Insight	Implication for Impact Investing	Priority Areas for Action
Impact capital is dominated by DFIs and international investors	The ecosystem is highly dependent on external capital, creating vulnerability to FX constraints and global funding cycles	Develop blended finance structures to crowd in domestic capital and reduce reliance on foreign investors
Domestic institutional capital remains largely untapped (pension funds, insurance, banks)	Significant pools of capital are not being mobilised toward impact due to regulatory, risk, and capability constraints	Engage regulators and asset owners to unlock domestic capital allocation into impact-aligned instruments
Persistent “missing middle” for SMEs	Growth-stage enterprises lack access to appropriately structured financing, limiting scale and job creation	Design targeted SME financing vehicles (e.g. blended funds, guarantees, revenue-based financing)
Weak pipeline of investment-ready enterprises	Capital cannot be deployed efficiently due to lack of investable opportunities	Establish SME investment readiness and pipeline development platforms
Underdeveloped intermediation (local fund managers, advisors, TA providers)	Limits deal origination, structuring, and execution capacity in the market	Strengthen local fund management and intermediation ecosystem through capacity building and partnerships
FX constraints and regulatory barriers remain significant	International investors face challenges in capital deployment and repatriation, reducing attractiveness of the market	Advocate for targeted policy reforms and develop risk mitigation mechanisms (e.g. guarantees, local currency solutions)
Impact measurement practices are fragmented and inconsistent	Reduces investor confidence and limits ability to track and demonstrate outcomes	Develop a national impact measurement framework or observatory to standardise approaches
Ecosystem coordination remains fragmented across actors	Duplication of efforts and inefficient resource allocation	Create a national coordination platform in order to align stakeholders and strengthen the ecosystem

Implications for Ecosystem Development

To unlock the full potential of impact investing in Ethiopia, the ecosystem will need to transition from externally driven capital flows toward a more balanced and locally anchored model, supported by stronger intermediation, improved pipeline development, and targeted policy support. A national coordination platform has a critical role to play in convening stakeholders, coordinating initiatives, and catalysing practical solutions that address these structural gaps and enable capital to flow more effectively toward impactful enterprises.

Section 2

The Upcoming Ethiopia NP

Ethiopia is in the early stages of establishing its National Partner (NP) for Impact Investment, an initiative aligned with GSG Impact's broader effort to expand the global network of National Partners (NPs). The envisioned platform seeks to create a coordinated national structure that aligns public and private sector efforts to mobilize impact capital, promote inclusive entrepreneurship, and advance sustainable development priorities.

To initiate this process, a National Impact Dialogue was convened to assess the readiness of Ethiopia's ecosystem for structured engagement in impact investing. Following this, steps are now being taken to form a multi-stakeholder task force, which will lay the groundwork for establishing the Ethiopia NP. This taskforce will comprise representatives from government institutions, private investors, development partners, ecosystem enablers, and civil society organizations, reflecting the collaborative and cross-sectoral nature of the platform.

Once operational, the Ethiopian NP will function as a national coordination and advocacy body.

The core objectives of the Ethiopia NP are to:



Map and analyze Ethiopia's impact investment landscape to identify key gaps and opportunities.



Strengthen linkages between capital suppliers, intermediaries, and enterprises to enhance investment readiness and deal flow.



Promote a conducive policy and regulatory environment that attracts both local and international impact investors.



Support the development of impact measurement and reporting frameworks aligned with global standards.



Foster collaboration and knowledge exchange to position Ethiopia as a growing hub for sustainable and inclusive investment in Africa.

While the task force is currently being established, the initiative signals Ethiopia's strong commitment to embedding impact investing within its broader economic and development agenda. The Ethiopia NP will ultimately serve as a unifying platform bridging policy, capital, and entrepreneurship to drive measurable social, environmental, and economic outcomes for the country.

Section 3

Objective and Methodology

Objective

The primary objective of this study is to map and analyze the landscape of impact investing in Ethiopia, identifying both structural gaps and emerging opportunities that can guide coordinated action.

Specific Goals

- Clarify how impact investing is understood and practiced in the Ethiopian context
- Provide a baseline overview of actors (investors, businesses, policymakers, enablers) active in impact-aligned finance
- Estimate the flow of capital across sectors, geographies, and types of enterprises
- Identify barriers and policy bottlenecks limiting the growth of the ecosystem
- Spotlight sectors, instruments, and practices with potential for scale
- Assess convergence or fragmentation between public, private, and philanthropic efforts to promote impact-aligned finance
- Offer targeted recommendations to inform national strategy development, including capital mobilization, investment readiness, ecosystem development, and policy alignment



Research Methodology

This study adopts a mixed-methods approach, combining qualitative and quantitative tools to provide a comprehensive analysis of Ethiopia's impact investment landscape. The methodology integrates desk research, stakeholder consultations, comparative benchmarking, and validation exercises to ensure robust and actionable insights.

1 Desk Research

A review of existing literature, reports, databases, and datasets relevant to impact investing in Ethiopia and comparable contexts. This included analysis of government policy documents, donor and multilateral assessments, ecosystem mappings, regulatory and financial inclusion studies, and market reports.

2 Stakeholder Consultations and Key Informant Interviews

Semi-structured interviews were conducted with 15 stakeholders across the five pillars of the impact investment ecosystem: supply of capital, demand for capital, government, intermediation, and market builders/enablers. Stakeholders were selected to represent a mix of actors, investment stages, sectors, and institutional types. The interviews aimed to validate the ecosystem and landscape mapping by generating qualitative insights on stakeholder perspectives, financing needs,

policy barriers, partnership gaps, and opportunities for impact-driven investments. The findings informed context-specific recommendations, practical strategies, and policy implications.

3 Comparative Ecosystem Review

Ethiopia's ecosystem was benchmarked against peer African economies (e.g., Senegal, Kenya, Rwanda) to identify strengths, blind spots, and high-potential models that could be adapted to the Ethiopian context.

4 Validation Workshops and Co-Creation Sessions

These were organized with key stakeholders (task force, public sector, private capital actors) to present findings, test recommendations, and align around priority interventions.

5 Analytical Tools and Frameworks

The analysis employed ecosystem mapping, stakeholder matrices, capital gap diagnostics, and impact readiness assessment frameworks. Triangulating data from desk research, interviews, and workshops ensured reliability, validity, and actionable recommendations.

Section 4

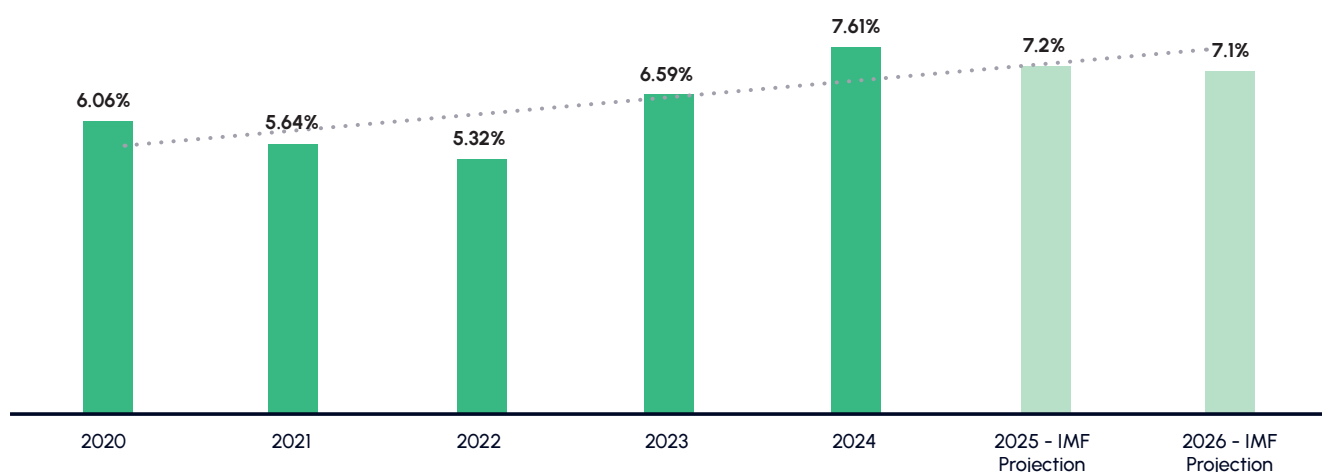
Introduction and Context

Ethiopia is undergoing a significant economic transition marked by ambitious public sector reforms, the liberalization of key markets, and growing interest in private capital to drive development. Ethiopia's economy expanded by 8.1% in 2023/24, building on 7.2% growth in 2022/23. This performance reflects a combination of recovery in key sectors, increased foreign direct investment, and supportive macroeconomic conditions. Looking ahead, growth is expected to moderate slightly as the economy stabilizes, with continued emphasis on investment-led expansion and structural reforms.

The Homegrown Economic Reform Agenda and the 10-Year Perspective Development Plan (2021–2030) have set the stage for structural transformation, aiming to expand job creation, boost productivity, and improve service delivery. Yet, limited access to long-term and inclusive finance continues to constrain enterprise growth and social innovation. Impact investing, the mobilization of capital to generate measurable social and environmental benefits alongside financial returns, has emerged as a promising tool to fill financing gaps in strategic sectors such as agriculture, clean energy, health, and youth employment. However, the Ethiopian impact investment landscape remains nascent, fragmented, and poorly documented, with limited coordination between actors, policy gaps, and a lack of catalytic intermediaries.

With a population of over 125 million and annual GDP growth projected at 6.5–7.2% in 2025, the country offers access to one of Africa's largest emerging markets. Strategic positioning within the Horn of Africa also enables investors to tap into neighboring markets such as Kenya, Sudan, Djibouti, and South Sudan, while AfCFTA (Africa Continental Free Trade Area) participation provides preferential trade across the continent.¹

Figure 1: GDP Growth (%)²



¹ Ethiopia's investment outlook: key drivers and incentives

² World Bank data 2024, IMF projections 2024

Many developing countries, including Ethiopia, are increasingly aware of the role of foreign direct investment (FDI) as an engine of growth in their economies.³ For decades, a significant portion of the country's development was financed through traditional aid, FDI, commercial bank loans, and founders' personal contributions, typically concentrated in large state projects or personal savings rather than formal impact capital. In the absence of an efficient financial market, firms continue to rely heavily on internal funds and informal sources such as family and friends, a trend consistent with World Bank (2015) findings that highlight the foundational role of traditional finance in Ethiopia's nascent ecosystem.

Innovative financing is becoming essential for sustaining growth and meeting development goals. Despite being one of Africa's fastest-growing economies over the past two decades, the country faces persistent challenges, including high unemployment, limited access to finance, and mounting fiscal pressures. According to government estimates, Ethiopia will require between **USD 257–397 billion** to meet its national development priorities between **2023/24** and **2029/30**, and approximately **USD 608 billion** to achieve the **Sustainable Development Goals (SDGs)** by **2030**.⁴ The prevailing traditional financing sources, such as aid, remittances, and public budgets, are insufficient to close this gap, hence vouching for **impact investment** as an urgent priority.

Broadly defined, this approach directs money into projects intended to generate measurable positive outcomes for local communities and the environment. It also offers investors a viable financial return, as well.

In a country grappling with persistent challenges like poverty, food insecurity, unemployment, and climate vulnerability, impact investment offers a powerful alternative to traditional financing. It is a hybrid model that marries the market-based solutions of business with the mission-driven ethos of philanthropy, creating a new frontier for sustainable development.⁵



Ethiopia will require approximately

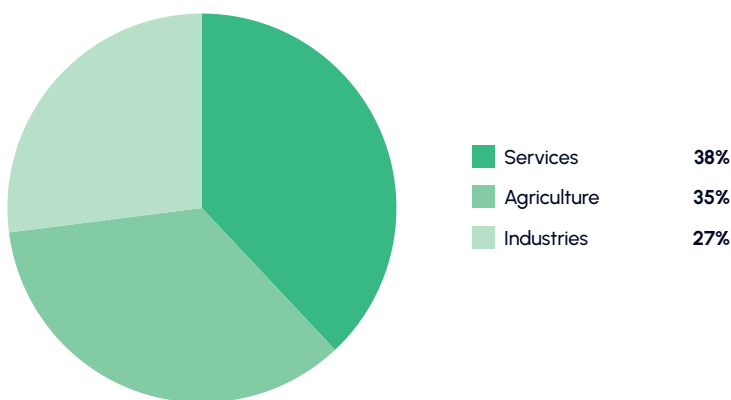
USD 608 bn

to achieve the Sustainable Development Goals (SDGs) by 2030.

Macro-Economic and Development Overview

Ethiopia's economy remains highly dependent on agriculture, which contributes around one-third of GDP and employs more than **70%** of the labor force.⁶ However, growth has also been supported by emerging sectors such as manufacturing, renewable energy, and digital services.

Figure 2: Sectoral Share of GDP (%)⁷



³ The major factor and trend of foreign direct investment in Ethiopia

⁴ African Development Bank

⁵ Addis Fortune, Impact Investing Bridges Ethiopia's Poverty Gap, Profit Divide

⁶ The World Bank in Ethiopia- Country Overview

⁷ Ministry of Planning and Development, EFY 2025/26 Annual Plan, August 2025

According to UNDP, the country's youth-dominated demographics, with over **70%** of the population under **30**, provide both an opportunity and a challenge. This demographic shows a dynamic labor force that could drive entrepreneurship, but also indicates a source of rising unemployment if job creation lags behind. The report noted that **Ethiopia's** Human Development Index value for **2023** was **0.497**, positioning the country at **180 out of 193** countries and territories, with the human development category being low.⁸

At the same time, Ethiopia's development trajectory is influenced by a dynamic political and security environment. While progress has been made toward stabilization and reform, periodic localized disruptions have affected investor confidence and economic activity in some areas. Continued efforts to strengthen peace, institutional stability, and governance will be essential to translating the country's demographic potential into sustained, inclusive growth and long-term investment confidence.

Overall, the country's macroeconomic and development context is defined by rapid population growth, significant economic reforms, and persistent challenges related to poverty, climate change, and macroeconomic instability. The country's vision, outlined in its **Ten-Year Development Plan (2021-2030)**, is to become an "African Beacon of Prosperity" by transitioning from a state-led, agriculture-dominated economy to one driven by the private sector and higher-value industries.⁹

BOX 1

Ethiopia's Ten-Year Development Plan (2021–2030)

Ethiopia's Ten-Year Development Plan (2021–2030) is a strategic national framework designed to guide sustainable economic growth, structural transformation, and equitable wealth creation. The strategy recognizes the interlinked roles of agriculture, manufacturing, mining, trade, services, and tourism, and how these sectors collectively support the country's infrastructure development. Building on the short-term reform measures under HGER 1.0, the plan strategically positions the private sector as a primary driver of growth and highlights the

importance of strong public-private partnerships to ensure sustained economic progress and national prosperity.

As a long-term strategy, the plan aims for comprehensive and inclusive development that extends beyond economic performance alone. It is anchored on ten strategic pillars: **Quality Economic Growth, Productivity, Technological Capability, Sustainable Development Financing, Private Sector-Led Growth, a Resilient Green Economy, Institutional**

Transformation, Gender and Social Inclusion, Access to Justice, and Regional Peacebuilding. Priority strategic areas include diversifying the economy, advancing the financial sector, capitalizing on the demographic dividend, expanding quality infrastructure, promoting sustainable urban development, and strengthening peace, justice, and inclusive institutions. These pillars and priorities guide strategic decision-making and resource allocation, shaping Ethiopia's broader development trajectory.

However, the current macroeconomic environment is fragile, with inflation exceeding 30 percent in both 2023 and 2024 before easing and projected to decline to around 20 percent in 2025, persistent foreign exchange shortages, and constrained fiscal space.¹⁰ External inflows, such as foreign direct investment (FDI), official development assistance (ODA), and remittances, remain vital, but have fluctuated due to political instability, global shocks, and policy shifts. These conditions highlight the urgent need for **new, sustainable financing models** that mobilize private capital toward social and environmental priorities.¹¹

⁸ UNDP Ethiopia Human Development Report 2023.

⁹ Ethiopia 2030: The Pathway to Prosperity (Ten-Year Development Plan 2021-2030).

¹⁰ UNDP Quarterly Economic Profile 2025

¹¹ Ethiopia - Country Strategy Paper 2023-2027 and 2022 Country Portfolio Performance Review

Ethiopia is one of Africa's fastest-growing economies, yet it remains one of the most underdeveloped. It has a large and young population of over 126 million people, with 42.4 percent below the age of 15 and 26.5 percent aged 15–29, implying that nearly 70 percent of the population is under the age of 30. This demographic dividend presents both a huge potential workforce and a significant challenge to create enough jobs, particularly as the youth population (ages 15–29) is projected to increase by nearly one-third by 2030.¹²

The government has launched a series of bold, **Homegrown Economic Reforms (HGER)** to address long-standing issues like foreign currency shortages, high inflation, and public debt.¹³

Major Economic Reforms in Ethiopia

Table 1: **Major Economic Reforms in Ethiopia**

Theme / Reform	Description	Time Frame
Tax Reform	Implementation of a new tax policy to expand the base, improve collection, and enhance efficiency. The government aims to increase the tax-to-GDP ratio to 10% by 2027/28 (up from 6.5% in 2024/25) as part of IMF program commitments.	Reform framework launched 2023–2024; implementation 2024–2028
Foreign Exchange Market Reform	Exchange rate liberalization: moving from a fixed regime to a market-based exchange rate system to close the gap between official and parallel markets. Removal of central bank commissions and distortions to improve liquidity. Elimination of rules governing banks' allocation of FX, improved retention of FX, and operationalization of non-bank forex bureaus. Removal of current account restrictions.	Major FX liberalization initiated 2023–2024; phased rollout 2024 onward
Monetary Policy Reform	The National Bank of Ethiopia is shifting toward an interest-rate-based monetary framework to stabilize inflation and reduce reliance on direct central bank deficit financing.	Transition began 2023; operational reforms 2024–2025
Market Liberalization	Privatization of state-owned enterprises, including banking sector reforms, allowing foreign investor entry. The transport and logistics sector is opening to private investment. Trade sector liberalization: to encourage domestic and foreign private participation. Energy sector reform: plans to increase installed power generation from 4,500 MW to 17,052 MW by 2029/30, promote Public-Private Partnerships (PPPs) and Power Purchase Agreements (PPAs), revise tariff rates, and implement a new energy policy.	Initial reforms 2019; accelerated 2023–present
Financial Market Development	Launch of the Ethiopian Stock Exchange (ESX) to mobilize domestic and foreign investment. Plans include listing Ethio-telecom and operationalization of the domestic debt market.	Legal framework 2021–2023; ESX launched 2025
Private Sector Liberalization	Strategic sectors such as telecommunications, energy, and finance opened to private investment, exemplified by Safaricom Ethiopia entering the market in 2022.	Telecom liberalization 2021–2022; broader opening 2023 onward

Overall, Ethiopia's ambitious reforms signal a clear intent to stabilize the economy and unlock private sector-led growth. Yet, the country's demographic pressures, fiscal vulnerabilities, and structural gaps underscore that sustaining progress will require not only sound macroeconomic management but also innovative financing approaches, such as impact investment, to bridge the development and SDG financing gaps.

¹² UNFPA ETHIOPIA COUNTRY PROGRAMME EVALUATION 2020-2025

¹³ A Homegrown Economic Reform Agenda: A Pathway to Prosperity (FDRE, 2020)

Development Context & Sectors

Ethiopia's development is still heavily reliant on a few key sectors, but the government's long-term strategy aims for a more diversified and resilient economy.

Agriculture

This is the backbone of the economy, contributing the largest share to GDP and employing over 70% of the workforce. Key agricultural products include coffee, cereals like teff and wheat, oilseeds, and pulses. While the sector is crucial, it is vulnerable to climate change, which has caused severe droughts and food insecurity.¹⁴

Industry and Manufacturing

The government has made a concerted effort to foster industrialization, developing industrial parks to attract foreign investment in textiles, leather, and agro-processing. As a result, the sector's production capacity and domestic market share have increased from **46%** to over **61%** and **40%-50%**, respectively, by **late 2024** and **early 2025**.¹⁵ While this sector is growing, its contribution to GDP is still relatively small, and it hasn't yet driven the widespread structural transformation needed to lift the country into middle-income status.¹⁶

Services

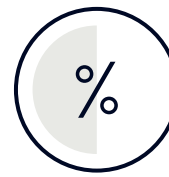
This sector, including transport, finance, and telecommunications, is a growing contributor to GDP. Some of the recent key measures include

- A **2022** law opening digital financial services to foreign direct investment,¹⁷
- A **2019** proclamation liberalizing the telecom sector,¹⁸ and
- A new banking law ratified in late **2024** to allow foreign banks into the Ethiopian market.¹⁹

These changes are part of a broader effort to create a competitive market, improve efficiency, and overcome economic challenges such as declining FDI and a sovereign default in **2023**.

Human Capital

While significant progress has been made in expanding basic education, Ethiopia's Human Capital Index remains low. In 2020, the index was **0.38**, indicating that a child born in Ethiopia today will achieve only **38%, a fraction**, of their development potential.²⁰ This key bottleneck to long-term economic growth calls for improvement in the quality of education and health services to build a more productive workforce capable of driving innovation.



Contributing the largest share to GDP and employing

> 70%

of the workforce, agriculture is the backbone of the economy.

¹⁴ [Challenges of Smallholder Farming in Ethiopia and Opportunities by Adopting Climate-Smart Agriculture.](#)

¹⁵ [Ethiopian Investment Holdings.](#)

¹⁶ [Accelerating Ethiopia's structural \(United Nations, 2022\)](#)

¹⁷ [Liberalization of the Digital Financial Services to Foreign Direct Investment.\(Aman & Partners\)](#)

¹⁸ [UN Trade and Development.](#)

¹⁹ [The New Banking Business Proclamation and Its Implications \(Dablo Law Firm\).](#)

²⁰ World Bank

Section 5

Analysis of the Impact Investment Ecosystem

Impact Investing involves deploying capital with a deliberate intention to generate positive social and/or environmental outcomes alongside a financial return. It requires investors to actively measure and manage the impact of their investments, using data to improve effectiveness, and to direct capital toward organizations or projects whose primary mission is to address social or environmental challenges or serve underserved populations.

GSG Impact defines the foundations of a functioning Impact Economy through a 5-Pillar Model. In an Impact Economy, social and environmental impact is embedded into all decisions—across consumption, employment, business operations, and investment. According to GSG Impact, this requires five interconnected pillars that together enable the effective flow of impact capital and support the growth of impact-driven solutions. The five pillars are:

PILLAR 1 Supply of Impact Capital

The sources of funding that intentionally deploy capital to generate positive impact alongside financial return. This includes pension funds, banks, foundations, insurance firms, and individual investors.

PILLAR 2 Demand for Impact Capital

These are the users of capital, which includes organizations and enterprises developing solutions to social and environmental challenges and requiring funding to scale. These include social enterprises and impact-driven businesses.

PILLAR 3 Intermediaries

These enable the exchange of impact capital between the supply and demand sides. These include private equity funds and public stock exchanges.

PILLAR 4 Ecosystem Enablers

Supporting institutions that strengthen the overall market infrastructure by providing research, data, advisory services, legal expertise, and impact measurement standards. These include financial advisors, academic institutions, and networks.

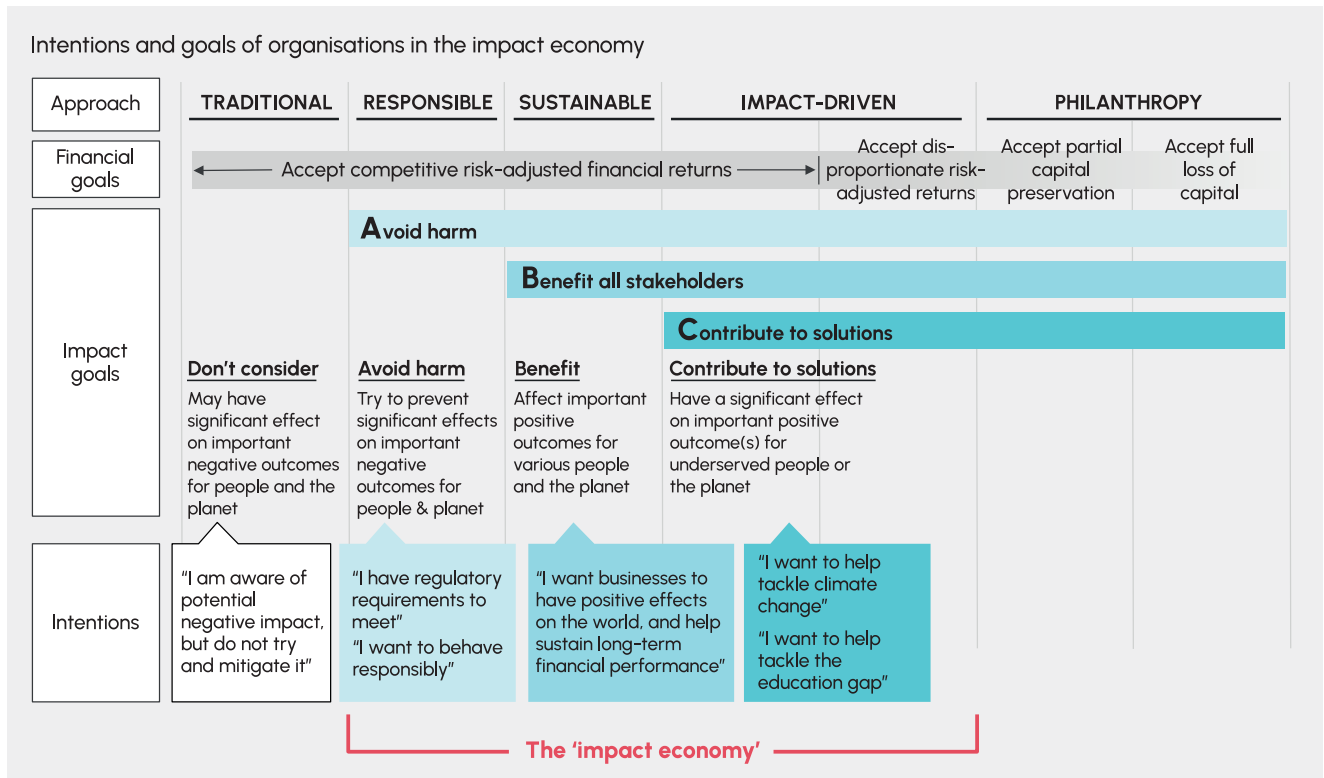
PILLAR 5 Government (Policy & Regulation)

The catalyst for impact economies by acting as market participant, investing for measurable outcomes, market regulator, creating incentives and enforcing transparency, and market facilitator, building ecosystem infrastructure, convening stakeholders, and reducing barriers to support impact-focused initiatives.

Capital Supply and Sources of Impact Finance

The supply of impact capital represents the range of funding sources available to support impact-driven initiatives, including investors and institutions willing to deploy financial resources with varying expectations for financial return and social/environmental impact.

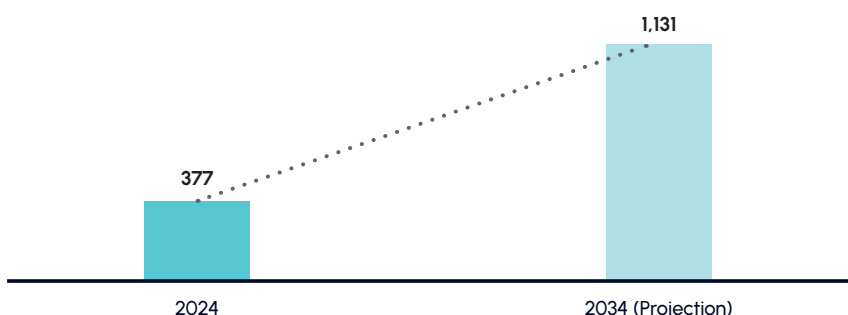
Figure 3: The Spectrum of Capital²¹



The Global Supply of Impact Capital

Globally, the impact investing market demonstrates robust growth, with the Global Impact Investing Network (GIIN) estimating over \$1.571 trillion USD in assets under management (AUM) across more than 3,907 organizations²². The Market size is expected to be worth around USD 1,131.0 Billion By 2034, from USD 377 billion in 2024, growing at a CAGR of 11.6% amid surging ESG demand from institutions and high-net-worth individuals. This reservoir of purpose-driven capital, primarily private equity, debt, and funds targeting climate, healthcare, and agriculture, offers frontier markets expanding opportunities through catalytic and blended finance models.

Figure 4: Impact Investing AUM (USD Trillion)²³



²¹ Impact Engine

²² UK National Advisory Board on Impact Investing, The Rise of Impact Report, October 2017

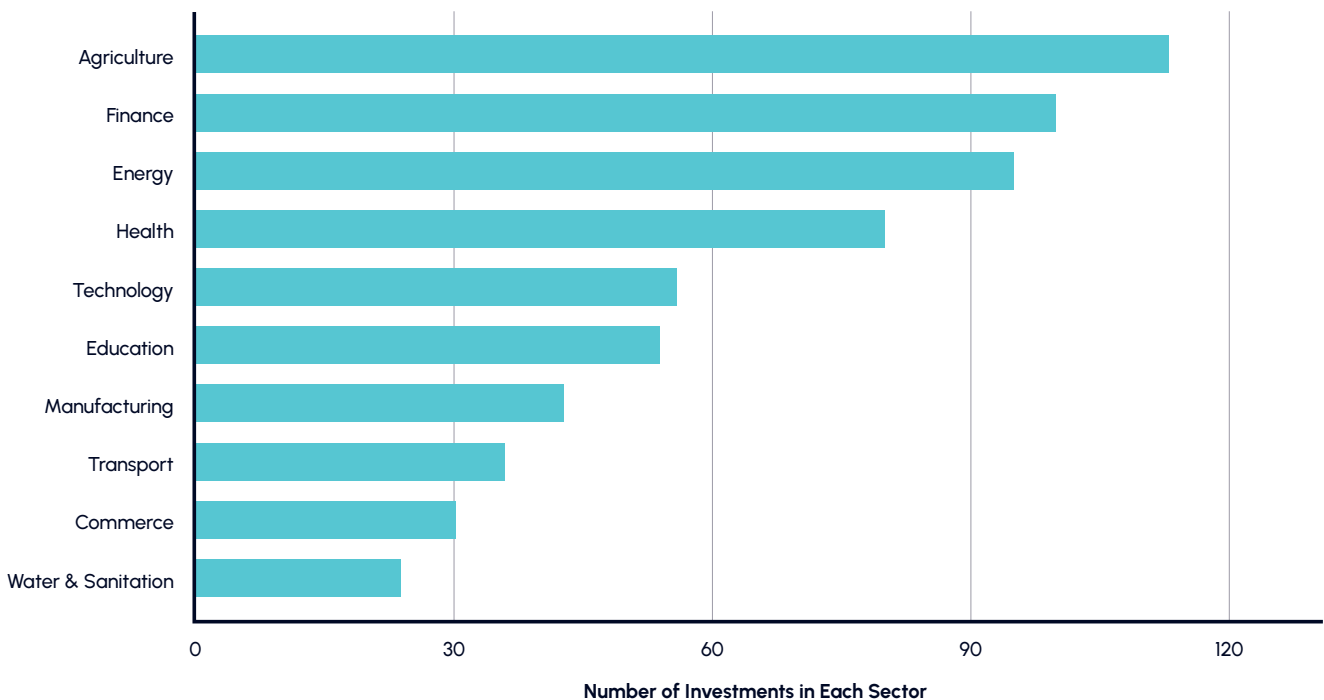
²³ GIIN Sizing the impact investing market 2024

Regional Supply Trends

Sub-Saharan Africa accounts for 12% of global impact investment flows, according to a report released on June 7, 2024, by the Foundation for Studies and Research on International Development (FERDI), which is higher than the share of foreign direct investment (FDI) that sub-Saharan countries receive (3%).

Almost 85% of impact investors operate as independent private entities, and while they employ a range of financing tools such as equity, mezzanine funding, debt, and guarantees, equity accounts for roughly 50% of all investments²⁴. The sectors drawing the most impact capital in Africa include agriculture, finance, energy, health, and technology, mirroring both the continent's core development priorities and the strong business opportunities within these fields.

Figure 5: Impact Investors' top 10 sectors in Africa²⁵



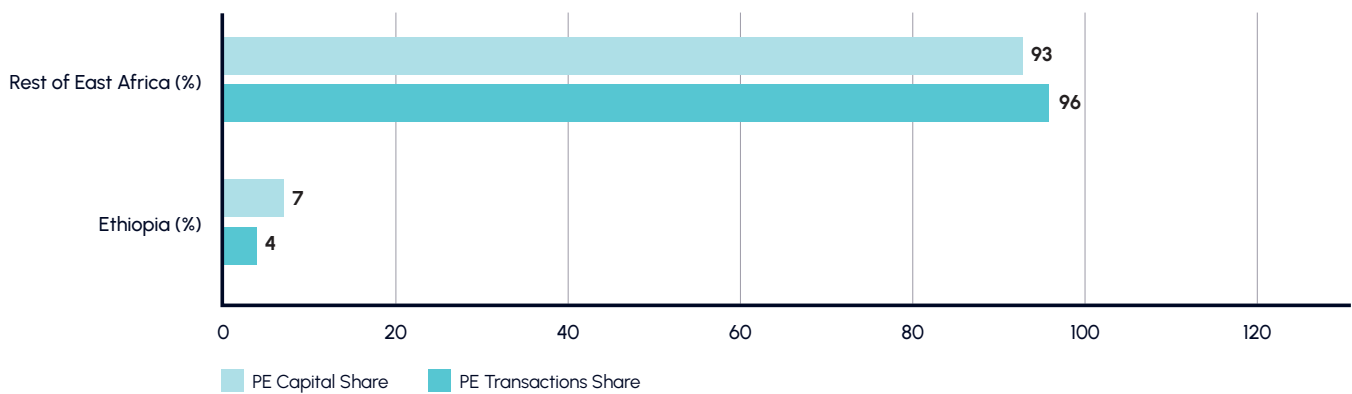
Supply Sources and Trends in Ethiopia

Ethiopia is currently at an early stage of developing its formal impact investing ecosystem, lagging behind more mature regional markets such as Kenya and South Africa. Historically, Ethiopia has captured only a small fraction of regional impact capital: data from the 2007-2015 period shows the country secured only 4% of private equity (PE) transactions recorded across the East African region, accounting for just 7% of the total capital distributed.

²⁴ Impact Investing in Africa: a 2024 Analytical Map

²⁵ ferdi-report-2024-impact-investing-in-africa-a-2024-analytical-map

Figure 6: Ethiopia Share of East Africa Private Equity (2007–2015)²⁶



For impact investors, the current environment represents a crucial inflection point and opportunity. The country is currently embarking on comprehensive macroeconomic and policy reforms, including moving toward a market-determined exchange rate and prioritizing private sector engagement. The Ethiopian Investment Commission (EIC) has specifically acknowledged this gap and shifted its approach to a highly targeted investment promotion model that is aligned with the principles of impact investment, signaling a strategic readiness to attract mission-driven capital.

Ethiopia’s financial ecosystem has witnessed significant evolution over the past decade, driven by regulatory reforms, technological adoption, and increased engagement with both domestic and international investors. The financial system comprises a diverse set of actors, including banks, microfinance institutions, insurance companies, mobile money providers, private investors, and development partners. These actors collectively aim to improve access to capital, foster financial inclusion, and stimulate economic growth.

The financial supply in Ethiopia can be categorized into four pillars: Domestic Public, Domestic Private, International Public, and International Private. Each pillar serves different segments of the economy and provides distinct financial products and services.

Table 2: Capital Sources by Type and Origin

	Public	Private
Domestic	Tax revenues (direct, indirect, non-tax); Public-private partnerships (PPPs); Pension funds; State-owned enterprises (SOEs); Sovereign wealth funds; Government borrowing	Commercial banks; Microfinance institutions (MFIs); Insurance companies; Capital markets; Venture capital; Private equity; Domestic NGOs, foundations, philanthropists; Corporate contributions aligned with sustainability
International	Official Development Assistance (ODA) grants and loans; Multilateral development bank financing; South-South and triangular cooperation; Climate finance; Publicly guaranteed international borrowing	Foreign Direct Investment (FDI); Portfolio equity; Remittances; International private equity and private funds; International NGOs, foundations, philanthropists; Private borrowing from international lenders; Corporate social responsibility (CSR)

²⁶ Renew capital The Africa Brief 2016

Domestic Public Finance

Domestic public finance in Ethiopia represents government-managed resources aimed at driving economic growth, social welfare, and infrastructure development. This pillar includes mechanisms such as Public-Private Partnerships (PPPs), pension funds, state-owned enterprises (SOEs), and sovereign wealth management through Ethiopian Investment Holdings (EIH). Each of these plays a strategic role in mobilizing capital, improving public service delivery, and fostering private sector participation.

Public-Private Partnerships (PPPs)

Ethiopia has increasingly embraced PPPs to leverage private sector expertise and capital for public service and infrastructure projects. The formalization of PPPs through Proclamation No. 1076/2018 marked a significant step toward integrating private investment into national development. While the PPP framework faces challenges, including complex procedures, limited resources within the Ministry of Finance's PPP unit, and the need for foreign currency convertibility guarantees, recent policy adjustments have addressed these barriers.

Pension Funds

Ethiopia's pension system, managed by the Ethiopian Public Servants Social Security Agency (EPSSSA) for government employees and the Private Organizations Employees Social Security Agency (POESSA) for private sector workers, is a mandatory, contributory system. Employees and employers share contributions, creating a stable funding base.

Significant reforms have strengthened fund management and market participation. Pension funds now can invest beyond Treasury bills, including capital markets instruments, improving financial stability and generating high returns. Between 2017/18 and 2021/22, public pension assets increased by 184%, and private pension assets grew by 207%²⁷, reflecting the enhanced robustness of the pension system and its growing role in domestic capital markets.

Ethiopia's pension system faces challenges despite reforms. Coverage remains limited, mainly focused on formal sector workers, leaving most in the informal sector unprotected and without alternative social pensions. Investment constraints persist, including dependence on short-term, low-yield assets and limited capacity for diversified, skilled fund management. Inflation and demographic pressures create funding sustainability concerns, while transparency and performance measurement standards are insufficient, hindering accountability and long-term effectiveness.

State-Owned Enterprises (SOEs)

SOEs are strategic instruments for addressing market failures and achieving national development goals. Reforms aim to improve efficiency, encourage private sector competition, and attract foreign investment. Examples include issuing Ethiopia's first international telecom license to Safaricom, boosting connectivity and contributing close to \$1 billion to the economy, and tariff adjustments in the power sector that strengthen Ethiopian Electric Power and Ethiopian Electric Utility.

To manage SOE debt and optimize operations, the government established the Liability and Asset Management Corporation (LAMC) and Ethiopian Investment Holdings (EIH). LAMC has transferred approximately 398 billion ETB of SOE debt



Between 2017/18 and 2021/22, there was a

184%

increase in public pension assets and

207%

growth in private pension assets.

²⁷ Ethiopia Homegrown Economic Reform 2.0

to improve financial stability. Overall, challenges remain in privatizing some industries and implementing further market liberalization due to economic shocks, but reforms have laid the groundwork for more sustainable SOEs.

Ethiopian Investment Holdings (EIH)

EIH, Africa's largest sovereign wealth fund with over \$150 billion in assets, consolidates public assets, including nearly 30 SOEs such as Ethiopian Airlines and Ethio Telecom. EIH aims to optimize public asset performance, attract co-investment, and drive long-term socio-economic development.

EIH has played a pivotal role in capital market development, including contributing 75% of the required 1 billion birr to establish the Ethiopian Securities Exchange (ESX). Its mandate includes investing in strategic sectors, stabilizing financial markets, pioneering sustainable financing instruments, and promoting corporate governance and ESG practices. By addressing both operational and financial challenges, EIH exemplifies how Ethiopia can strategically leverage public finance to foster economic growth, market development, and social impact.

Domestic Private Finance

Domestic private finance in Ethiopia is a critical driver of economic growth, job creation, and innovation. Despite ongoing government reforms aimed at enhancing private sector participation, investment in the private sector has remained relatively stagnant, with a noticeable decline in recent years. This stagnation is largely driven by political and security uncertainties, policy inconsistencies, and infrastructural and regulatory constraints. Reviving private investment requires a multifaceted approach that combines economic reforms, political stability, and investor confidence. The private financial ecosystem encompasses commercial banking, capital markets, digital financial services, microfinance, insurance, and early-stage investment such as angel investment and venture capital.

Commercial Banking Sector

Commercial banks are the dominant source of finance, but access to credit is severely restricted for most due to stringent collateral requirements and risk-averse lending. Current reforms are moving toward banking sector liberalization by allowing foreign bank entry, a measure expected to introduce new financial products, enhance risk management, and increase competition, which are benefits contingent upon broader macro-stability.

Additionally, Ethiopia's commercial banks remain highly risk-averse, relying heavily on collateral due to limited credit information, weak financial reporting by enterprises, and macroeconomic volatility. Although some banks have begun lowering collateral requirements and expanding SME-oriented lending, the overall volume of credit to SMEs and women-led enterprises remains modest and poorly segmented. Awareness of impact investing is still nascent, with most financial actors focused primarily on traditional financial performance. Limited capacity to integrate ESG and impact measurement into lending and investment processes reduces the ability of funds and banks to design or deploy impact-aligned products, narrowing opportunities for businesses delivering social or environmental value. Persistent foreign currency shortages force banks to prioritize export-oriented clients and restrict their ability to deploy capital flexibly. Frequent regulatory shifts and liquidity constraints create further uncertainty, inhibiting financial sector innovation and the development of instruments suitable for long-term, impact-aligned investment.



EIH, Africa's largest sovereign wealth fund with over

\$150 bn

in assets, consolidates public assets, including nearly 30 SOEs such as Ethiopian Airlines and Ethio Telecom.

BOX 2

Gender Bond Launch by Enat Bank

Gender-Focused Bank Pioneers Ethiopia's First Gender Bond

Enat Bank S.C., long-recognized for gender-responsive banking, launched the country's first Gender Bond as a market proof-of-concept. Advised by i-Capital Institute Plc, the issuance is structured to align with ICMA's Social Bond Principles and aims to channel long-term, ring-fenced funding to women-owned and women-led enterprises and social infrastructure, including housing, childcare, healthcare, and training programs.

Backed by a shareholder base that is 64% women and led by female executives, the bond builds on Enat's transformational rating under the NBE Gender Financial Inclusion Index and complements the National Financial Inclusion Strategy.

Addressing structural challenges, Ms. Lelise Temesgen, VP of Enat Bank, highlighted:

"Because of liquidity and collateral, we haven't yet reached the scale we want and haven't provided as much access as we aspire to. This bond will bring us liquidity and broaden access, allowing us to

diversify our portfolio and support areas we couldn't fully serve before, such as women's cooperatives, healthcare, and energy, prioritizing sectors identified through our assessments."

Beyond mobilizing capital, the transaction strengthens local capacity on allocation, verification, and reporting—sending a signal to domestic banks, DFIs, and institutional investors that thematic, local-currency social instruments are viable in Ethiopia's emerging capital market.

Digital Financial Services

Ethiopia's digital financial services sector has expanded rapidly following regulatory reforms that opened the market to non-bank mobile money providers, with mobile money accounts rising from under 1 million in 2020 to more than 128 million by the end of 2024 and annual digital transactions surpassing 9.7 trillion Birr (approximately US \$118–\$119 billion, assuming a 2024 average exchange rate of 82 Birr per USD because this rate reflects the average interbank value of the Birr during the year). This USD estimate is for illustrative purposes to give an international perspective; the actual transactions are denominated in Ethiopian Birr.

Figure 7: Capital Sources by Type and Origin²⁸

Mobile Money Accounts (Million)



²⁸ National Bank of Ethiopia-financial stability report 2024

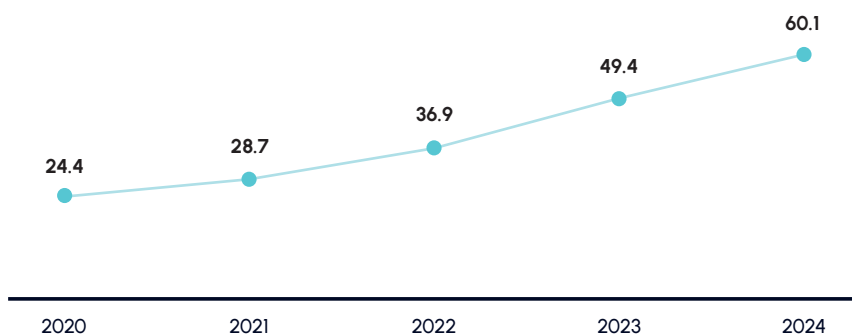
The market is now highly competitive, driven mainly by telebirr's diversified services and strengthened further by the entry of M-PESA in 2023, marking increased foreign participation. Guided by the National Digital Payments Strategy, the National Bank of Ethiopia is now launching NDPS Phase Two (2025–2029), which aims to achieve full interoperability, expand use cases beyond simple transfers, and integrate Fayda Digital ID for seamless KYC. However, the sector's progress toward deeper financial inclusion and a cash-lite economy is still constrained by connectivity and power gaps, liquidity challenges within agent networks in remote areas, and the slow digitization of commercial banks' internal systems.

Microfinance Institutions (MFIs) and Savings and Credit Cooperative Organizations (SACCOs)

MFIs are essential in providing credit and financial services to underserved populations, smallholder farmers, pastoralists, and SMEs. Over five million Ethiopians have accessed MFI loans, although these are mostly microloans. MFIs have expanded significantly, with total assets reaching Birr 58.9 billion (US \$1.21 billion, assuming the average 2021/22 interbank rate of 48.57 Birr/USD because it reflects the official market value of the Birr during that period) and outstanding credit at Birr 36.9 billion (US \$760 million) in 2021/22, marking an increase of 24.6% and 22.2% respectively.²⁹

Figure 8: Total Assets of MFI Sector in Ethiopia³⁰

Ethiopian Microfinance Institution Sector - Total Assets (Billion Birr)



Despite growth in the financial sector, access to credit in Ethiopia remains highly constrained and gender-unequal. In 2021, only 4.25% of women accessed an MFI or bank loan within a 12-month period, compared to 6.3% of men, a wider gap than the Sub-Saharan Africa average, where 13% of women and 16% of men accessed formal credit.³¹ While Ethiopian men are 1.5 times more likely than women to receive a formal loan, the regional ratio is lower at 1.23. Although MFIs serve many female clients, women receive significantly less capital overall: male business owners' access 2.26 times more loan value, largely due to smaller MFI ticket sizes relative to commercial banks. This imbalance reflects systemic barriers, including conservative lending practices, weak data systems, and collateral requirements that disproportionately disadvantage women.

²⁹ National Bank of Ethiopia Quarterly Bulletin Fourth Quarter 2021/22

³⁰ National Bank of Ethiopia-financial stability report 2024

³¹ World Bank, Making Ethiopia's Financial Sector Work for Women, 2024

Microfinance institutions (MFIs) and Savings and Credit Cooperative Organizations (SACCOs) in Ethiopia face multiple, interconnected challenges that limit their growth and ability to serve diverse clients effectively. Limited liquidity and capital constrain their expansion, while regulatory restrictions hinder innovation. High operational costs, especially for reaching dispersed rural clients, further strain their resources. Many MFIs also contend with deteriorating loan portfolio quality driven by economic shocks, conflict, and weak credit-assessment systems. Additionally, shortages of skilled staff in key areas such as risk management and digital finance reduce their capacity to manage risks and adopt modern financial tools.

These institutions also apply conservative lending practices due to substantial capacity constraints, including insufficient data systems and high operational risks. As a result, they rely heavily on collateral requirements similar to commercial banks, and direct the majority of their loans to the trade and traditional sectors, leaving little room for SMEs in the emerging technology sector to access finance. Which often exclude early-stage and innovative enterprises from accessing formal credit. Risk assessments remain basic, and financing decisions focus more on collateral than on business fundamentals. Many enterprises also struggle with poor recordkeeping, insufficient financial statements, and weak governance, reinforcing cautious lending behaviors and limiting opportunities for more nuanced, growth-oriented financing.



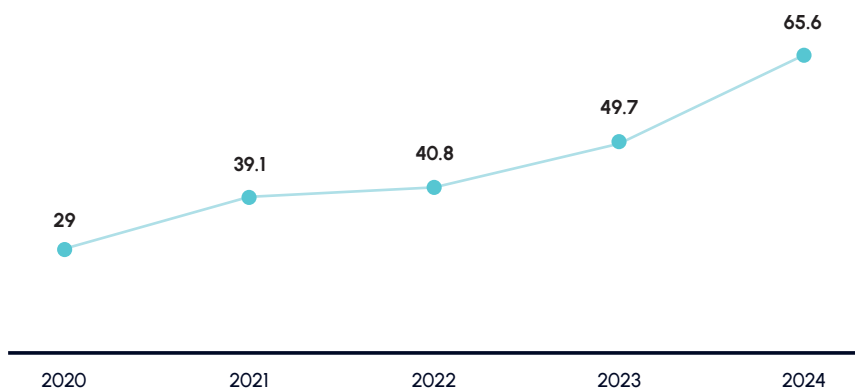
MFIs and SACCOs in Ethiopia face challenges with limited liquidity and capital constraining their expansion and regulatory restrictions hindering innovation.

Insurance Markets

The money generated by Ethiopia's insurance industry, which is expanding in volume (General premiums at nearly Birr 38 billion, approximately US \$463 million with an average interbank exchange rate of 82 Birr per USD), is heavily restricted and channeled into short-term, liquid assets due to National Bank of Ethiopia (NBE) regulations, preventing insurers from becoming major, long-term investors. A six-fold increase in the minimum capital threshold has also forced most of the 18 insurers to divert operational cash to meet the new requirement by the 2027 deadline, causing liquidity strain and starving investments in crucial areas like technology and product diversification. While a planned shift to a Risk-Based Capital (RBC) framework is intended to free up funds for long-term national projects, the current regulatory environment and a surge in high-inflation-driven claims (which doubled for the state-owned firm) keeps the sector focused on conservative, low-yield investments to maintain solvency.

Figure 9: Financial Performance of the Insurance Sector³²

Financial Performance of the Insurance Sector - Total Assets (Billion Birr)



³² National Bank of Ethiopia-financial stability report 2024

Angel Investment and Venture Capital

The money generated by Ethiopia's insurance industry, which is expanding in Over the past five years, more than 85 Ethiopian startups have collectively secured about US \$95 million in venture capital funding, an important milestone but still small compared to mature global VC markets and regional leaders like Kenya, which raised US \$880 million in 2023³³. Despite this gap, the African VC market is one of the fastest-growing investment frontiers, and Ethiopia is gradually positioning itself to capture a larger share of this momentum through reforms such as the Capital Markets Proclamation No. 1248/2021, the establishment of the Capital Market Authority and the Ethiopia Securities Exchange offers a new avenue for diaspora investment and institutional investors to channel capital into Ethiopia's growth sectors, and the recently approved Startup Businesses Proclamation. Private equity and venture investors operating in Ethiopia encounter high transaction costs and significant macroeconomic risks, including inflation, foreign-exchange shortages, and exchange-rate volatility. These challenges disrupt supply chains and negatively impact portfolio company performance, particularly for businesses relying on imported inputs, while also reducing valuation certainty. Limited exit options due to the early stage of the capital market and an inactive stock exchange further constrain investor appetite. Moreover, investment literacy and impact finance expertise remain limited among many domestic actors, weakening deal pipeline quality and reducing the investment readiness of SMEs. Weak links between investors and incubation or acceleration programs also limit the effective preparation of enterprises for capital absorption.

Scale-up efforts are further hampered by restricted foreign investor access, persistent foreign exchange shortages, data constraints, regulatory uncertainty, and inflationary pressures. Together, these factors create an environment where investors face substantial risks and operational difficulties, reducing both their willingness and ability to invest at scale.

International Public Finance

International public finance refers to cross-border financial flows provided by public (i.e. governmental or official-sector) entities, often with development, humanitarian, climate, or public-policy objectives rather than strictly profit³⁴.

Official Development Assistance (ODA)

These are concessional grants or low-interest loans from donor governments or official agencies, aimed at promoting economic development and welfare in recipient countries.

Ethiopia continues to receive substantial ODA. For example, in the most recent reporting period, ODA commitments to Ethiopia from development partners amounted to roughly US \$4.1 billion, split between grants (about half) and concessional loans. These funds support a wide range of sectors: agriculture, energy, health, infrastructure, humanitarian aid, and public services. As a specific example, in 2023, Ethiopia and the World Bank signed financing agreements totaling US \$745 million to support primary health-care services and flood-management / disaster-risk projects.



ODA commitments to Ethiopia from development partners amounted to roughly

USD 4.1 bn

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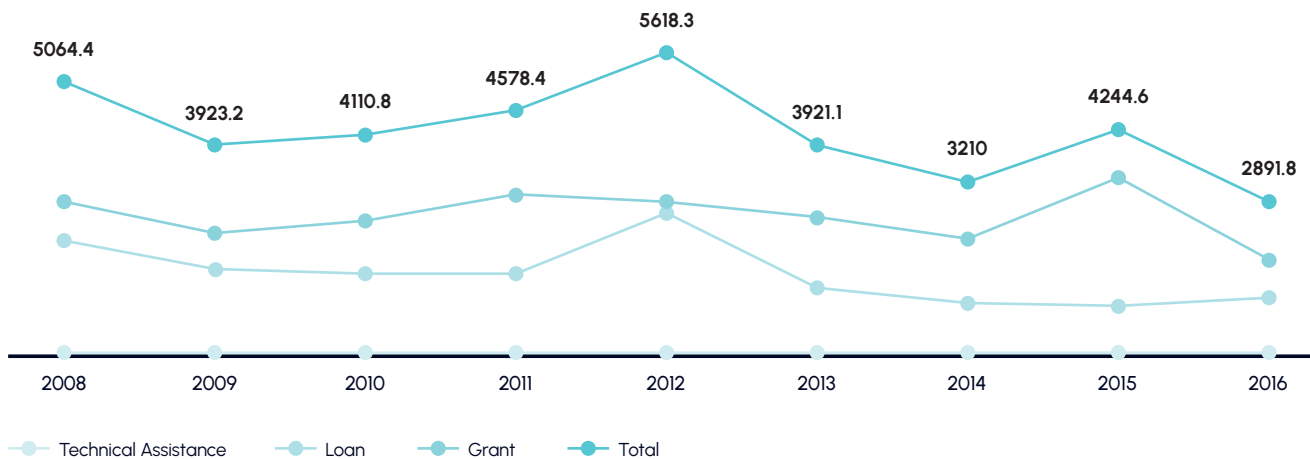
³³ Lucidity Insights

³⁴ The Roles of Public and Private Development Finance, Sustainable Development Solutions Network

However, according to the 2024 Country Focus Report by African Development Bank (AfDB), total ODA inflows declined by 42% in 2021/22 compared to 2019/20, while foreign loans reportedly fell by 98% in 2023/24 relative to 2019/20, underscoring a sharp contraction in concessional financing available to the government. This decline occurs at a time when Ethiopia still faces a substantial financing gap to meet its long-term development and climate-resilience objectives

Figure 10: **Development Assistance by Funding Type**³⁵

Development Assistance by Funding Type, EFY 2008–2016 (Million USD)



The contraction of international public finance is undermining Ethiopia's impact investment landscape: reduced concessional capital limits the availability of blended-finance tools that traditionally de-risk private investment; shrinking public budgets—illustrated by agriculture's share of ODA falling from 31% in 2021/22 to just 2% in 2023/24—erode the public co-funding and sectoral infrastructure that impact investors rely on; and heightened macroeconomic instability, including debt distress, foreign-exchange shortages, and credit-rating downgrades, increases perceived risk and weakens investor confidence.

Multilateral Development Bank (MDB) financing

These are public loans, grants, guarantees, or equity from entities such as the World Bank, regional development banks, and other multilateral institutions.

Ethiopia receives support through concessional financing from institutions such as the World Bank via its low-income window (the International Development Association, IDA). More recently (2025), the World Bank approved a US \$1 billion "Development Policy Operation" (mix of grant and concessional credit) to support Ethiopia's economic reforms and shift to a more inclusive, private-sector-led growth model³⁶. These funds often underpin infrastructure, energy, urban development, institutional strengthening, and reforms, all critical for long-term development.

³⁵ DPG Ethiopia 2024

³⁶ World Bank Group

Climate / Sector-specific Public Finance

Ethiopia has started tapping into multilateral / public-international efforts to finance green and sustainable development. For example, studies on climate public investment in Ethiopia discuss mobilizing climate finance through MDBs, bilateral donors, and funds to promote renewable energy and sustainable infrastructure. Climate funds frequently offer grants and concessional tranches that can anchor private co-investment in renewable energy, regenerative agriculture, water management, and resilience technologies.

Ethiopia also has access to innovative instruments such as nature-for-debt swaps, green bonds, resilience bonds, and forest bonds. While these instruments remain underutilized, they could significantly expand the pool of impact-aligned capital if regulatory capacity and project-structuring capabilities improve.

However, the contraction of international public finance is weakening Ethiopia's investment landscape in several ways. The shrinking and increasingly uncertain external financing from official creditors is reducing concessional capital for de-risking private investment, shrinking the pipeline of investment-ready enterprises.

As the government relies more on domestic borrowing, private-sector credit is crowded out, interest rates rise, and liquidity for private investment falls. Sovereign default and credit-rating downgrades heighten perceived risk, discouraging international impact investors. Simultaneously, reduced concessional funding weakens public-sector support and infrastructure, making it harder for impact-oriented enterprises to operate, scale, or achieve developmental goals.

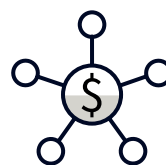
International Private Finance

International Private Finance (IPF) refers to funds originating from private-sector actors abroad rather than governments or multilateral institutions. International private finance encompasses cross-border flows from private entities, including foreign investors and diaspora remittances, that contribute to economic development, job creation, and capital formation. For Ethiopia, these flows complement domestic finance and international public funding, supporting sectors such as infrastructure, manufacturing, agriculture, and services. While private capital brings opportunities for growth, it is sensitive to macroeconomic stability, regulatory frameworks, and investor confidence, making the alignment with impact investment objectives particularly relevant.

Foreign Direct Investment (FDI)

Ethiopia's FDI inflows, reaching \$4 billion in FY 2024/2025 (up 5.6% YoY), driven by reforms liberalizing manufacturing, agriculture, ICT, and trade sectors, with investment permits surging and industrial parks converting to special economic zones boosting exports. FDI net inflows stood at 2.4% of GDP in recent years. UNCTAD's World Investment Report 2025 highlights Ethiopia's appeal through sector openings and EIC digitization, attracting investors from China, Turkey, and Europe.

A key strategic element of the reform is the transition of Industrial Parks into Special Economic Zones (SEZs), governed by a new SEZ Proclamation. This move converts 14 parks (both state-owned and private) into zones offering more flexible regulatory frameworks and competitive incentives, with the goal of boosting exports and import substitution. Complementing these policy shifts, the EIC has fully digitized its core services, streamlining registration, licensing, and post-investment support to reduce bureaucratic friction and enhance investor confidence. Reflecting strong international confidence in the reform trajectory, investments continue to be drawn primarily from countries like China, Türkiye, Saudi Arabia, and various European nations.



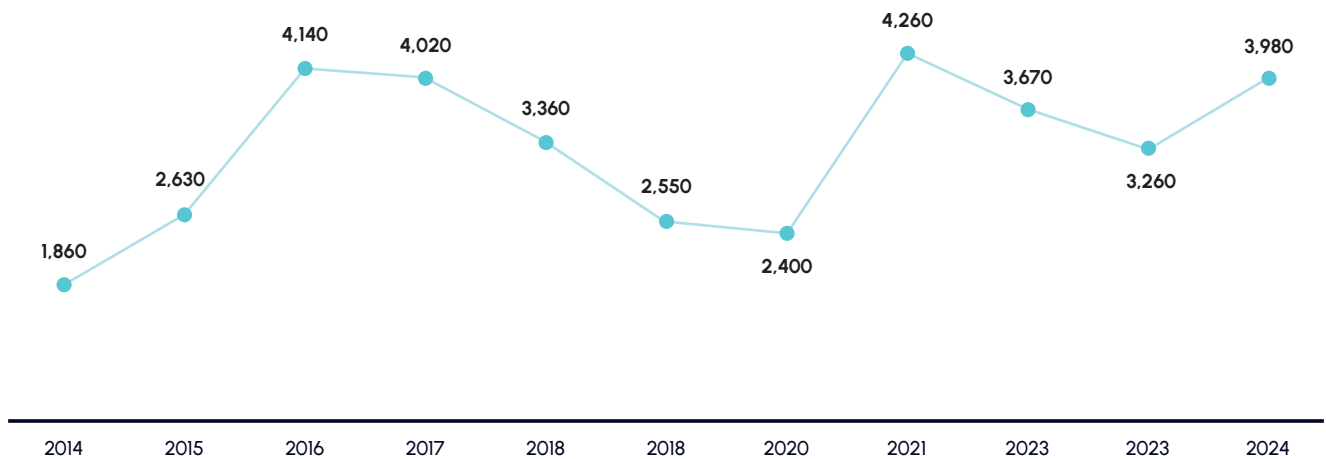
Ethiopia's FDI inflows, reaching

\$4 bn

in FY 2024/2025 (up 5.6% YoY), driven by reforms liberalizing manufacturing, agriculture, ICT, and trade sectors.

Figure 11: Ethiopia's Foreign Direct Investment³⁷

(in Millions USD)



While established projects show strong growth, the investment environment is complex, necessitating a deeper look at persistent obstacles that temper the success of the reforms. Key obstacles include the loss of preferential US market access under AGOA, causing a sharp export decline and factory closures, alongside heavy dependence on Chinese investment and trade, which risks economic vulnerability. Foreign exchange shortages and monetary instability further hinder foreign investors by limiting profit repatriation and input imports. Institutional weaknesses, such as restrictive land policies and bureaucratic hurdles, also discourage investment. Additionally, Labor issues within industrial parks, including high turnover due to low wages and reliance on imported inputs rather than local suppliers, further constrain sustainable industrial growth.

Remittances

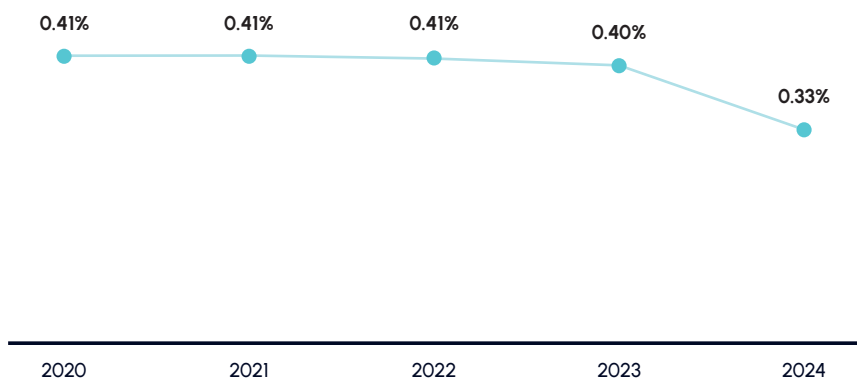
Ethiopia's remittances exceeded \$6 billion in FY 2023/24 (50% YoY growth), with \$5.1 billion in the first nine months of the current year³⁸, fueled by diaspora foreign currency accounts (\$25.2M deposits from 18,889 accounts) and NBE efforts curbing informal channels, positioning them as a top forex source (2% GDP) alongside FDI and coffee for household support in education, healthcare, and SMEs.

The Ethiopian Diaspora Trust Fund (EDTF) channels flows into impact investments and philanthropy, while digital platforms project \$602M in 2025, enhancing formal allocation to reserves, real estate, and economic resilience. Challenges include low remittance-to-GDP ratio (0.33%), hawala dominance evading tracking/FX reserves, post-liberalization volatility, slow transactions, Limited access to formal financial services in rural areas restricts the integration of remittance flows into broader economic development and limited diaspora investment incentives, amplifying informal risks and underutilization for scalable impact.

³⁷ Balance of Payments database, International Monetary Fund (IMF)

³⁸ ENA Ethiopia, Ethiopian Diaspora Service

Figure 12: Remittances Received (% of GDP) - Ethiopia³⁹



International Private capital (Equity, Credit, and Debt)

Private equity represents sophisticated, long-term growth capital provided by foreign investors, structured funds, or institutional investors to modernize, scale, and professionalize medium-sized enterprises (SMEs) in Ethiopia. PE funds typically focus on sectors that stimulate domestic consumption, employment, and strategic economic priorities, including agro-processing, light manufacturing, and services. These investors often take minority or significant equity positions to drive operational and strategic improvements, implement environmental, social, and governance (ESG) standards, and support financial sustainability. Pioneering firms, such as Schulze Global Investments (SGI Frontier Capital), established Ethiopia's first private equity investments in 2010, while structured funds like Cepheus Growth Capital Partners manage dedicated funds (e.g., \$100 million fund, including a \$10 million commitment from the European Investment Bank) targeting growth-stage Ethiopian companies.

Private equity supply can be sourced from two main channels: external funds provided by DFIs, institutional investors, or foreign capital, or internally generated capital from the PE firms themselves. The latter represents direct investment into local enterprises without intermediation, while externally sourced funds often rely on local intermediaries or fund managers to deploy capital effectively. Despite its potential, private equity faces constraints in Ethiopia, including high transaction costs, regulatory uncertainty, limited exit opportunities, and macroeconomic instability, limiting its overall scale relative to development finance flows.

Capital Transaction Dynamics

The mobilization of impact and growth capital in Ethiopia is not just constrained by availability, but by the dynamics that shape how capital flows through the system at each stage of the investment lifecycle. These dynamics reflect persistent structural challenges that disproportionately affect small and medium enterprises (SMEs) and early-stage ventures

1 Origination – Discovery and Pipeline Visibility

Investors face high search costs due to a lack of centralized, verified deal flow. Without a reliable platform to access vetted impact-ready SMEs, investors often rely on informal networks, causing many promising enterprises, especially outside Addis Ababa, to remain invisible to capital allocators. This contributes to a "Disorganized Large vs. Ready Small" paradox, where smaller opportunities exist

³⁹ World Bank Data 2024

but remain undiscovered. Evidence shows that Ethiopian startups have significant funding challenges, with average funding rounds around \$240,000 and a limited investor network reach, exacerbating the discovery gap for impact investors.⁴⁰

2 Structuring – Instrument and Product Mismatch

Financial products in Ethiopia's market are heavily weighted toward rigid equity investments or traditional bank debt, which often require high collateral and are unsuitable for small business models. SMEs and early-stage firms lack access to tailored structures such as revenue-based financing or mezzanine debt, resulting in a mismatch between investor instruments and enterprise needs. World Bank studies confirm the existence of a pronounced "missing middle," where SMEs are significantly more credit-constrained than both micro and large firms.⁴¹

3 Risk Allocation – Protection and Incentive Gaps

Risk-sharing mechanisms that would allow capital to be deployed more confidently are underdeveloped. Private investors frequently face the same risk exposure as development finance institutions (DFIs), without first-loss buffers or partial credit guarantees to mitigate potential losses. This structure disincentivizes investment into smaller deals and contributes to excessively cautious lending practices among local banks. In Ethiopia, only a small share of commercial bank loans reaches SMEs, reflecting this misalignment; as of recent reports, around 2 % of total bank lending goes to SMEs, far below regional peers.⁴²

4 Deployment – Execution Delays and Regulatory Friction

Even once deals are agreed, executing investment commitments is slowed by lengthy administrative processes, regulatory compliance requirements, and foreign exchange (FX) constraints. Ethiopia's financial sector has historically limited intermediation capabilities, contributing to delays in capital movement. These delays create opportunity costs for both investors and enterprises and reinforce perceptions of elevated execution risk.⁴³

Financing Instruments in Ethiopia

While the Ethiopian ecosystem utilizes traditional instruments such as grants, concessional loans, commercial debt, and equity, there is limited adoption of innovative or blended instruments commonly used globally to de-risk investments and mobilize private capital for social and environmental impact.

The table below presents a comparison of instruments currently used in Ethiopia versus global standard instruments, highlighting key gaps that constrain the development of a robust impact investing ecosystem.

⁴⁰ Ethiopian Startup Funding: Challenges Explained, Tech IN AFRICA

⁴¹ The World Bank Ethiopia Small and Medium Enterprises Finance Project, 2020

⁴² Capital Markets in Ethiopia, access to finance and its potential for SMEs, 2023

⁴³ The World Bank Ethiopia Small and Medium Enterprises Finance Project, 2020

Table 3: Financing Instruments in Ethiopia

Pillar	Players / Capital Source in Ethiopia	Instruments Currently Used in Ethiopia	Global / Standard Instruments Typically Available	Gaps / Limitations in Ethiopia
Domestic Public	Government, PPPs, SOEs, Pension Funds, EIH	Grants, concessional loans (via PPPs), equity in SOEs, pension fund investments, guarantees (limited)	Grants, concessional & non-concessional loans, equity, quasi-equity, guarantees, credit-enhancements, green/social bonds, blended finance, project bonds	Limited issuance of thematic / ESG bonds; low use of blended finance to leverage private capital; restricted diversification of pension fund investments; few risk-sharing instruments to de-risk private sector; PPP uptake slow and bureaucratic; low transparency and standardized performance metrics
Domestic Private	Commercial banks, MFIs, insurance, venture capital, digital financial service providers	Senior/commercial debt, microfinance loans, equity/VC (limited), insurance-linked instruments, digital finance products	Senior debt, subordinated debt, equity, quasi-equity, mezzanine finance, venture debt, insurance-linked bonds, blended finance, co-investment structures	Long-term financing limited; high collateral requirements; venture capital still small; insurance sector constrained by short-term liquidity rules; limited integration with thematic or impact-oriented instruments; lack of structured blended finance deals to support high-impact sectors
International Public	Donor governments (ODA), MDBs, climate funds	Grants, concessional loans, technical assistance, results-based finance, guarantees (some)	Grants, concessional & soft loans, guarantees, equity, results-based financing, blended finance, green/social bonds, debt swaps, project bond enhancements	Declining ODA and concessional capital; slow disbursement; limited use of innovative instruments (green bonds, debt swaps, project bonds); instruments often project-specific rather than catalytic for private co-investment; weak alignment with domestic private sector needs
International Private	FDI, diaspora remittances, foreign VC / angel investors	FDI (equity, reinvested earnings), diaspora remittances, equity/venture capital, non-concessional loans	Equity, quasi-equity, debt, mezzanine finance, blended finance, guarantees, ESG bonds, securitized instruments, diaspora bonds	Highly sensitive to macro instability; FX and repatriation challenges; institutional bottlenecks (land, labor, policy); limited access to structured impact instruments; diaspora funds underutilized for scalable impact; few credit-enhancement or blended finance mechanisms to de-risk private investment

CASE STUDY 1

IFC Local Currency Loan to VisionFund Microfinance Institution (VFMFI)

In a landmark deal in 2025, the International Finance Corporation (IFC) announced a partnership with VisionFund Microfinance Institution S.C. (VFMFI)⁴⁴,

Ethiopia's largest privately held MFI. The transaction details are as follows:

Key Data for IFC LCY Loan to VisionFund Microfinance

Detail	Specification
Investor Type	DFI (IFC)
Sector	Financial Services (MSME Lending)
Total Commitment	\$30 Million equivalent
Initial Tranche	\$10 Million equivalent
Instrument	Senior Unsecured Deliverable Ethiopian Birr (ETB) Loan (LCY Debt)
Key Impact Focus	Expanding credit access for MSMEs, strong focus on women-owned businesses (at least 50% proceeds), and rural economies.

The provision of this financing marks the first-ever local currency loan to an Ethiopian financial institution from an international investor. The deal is supported by the IDA Private Sector Window's Blended Finance Facility (BFF) and Local Currency Facility (LCF). The deployment of LCY debt is essential because it directly addresses the principal supply barrier: FX risk. By

deploying local currency, the investment enables VisionFund to expand credit access without exposing its operations or the beneficiaries (MSMEs) to the severe foreign exchange scarcity that characterizes the market. This structure serves as a critical model for mobilizing capital into the financial sector for highly developmental outcomes.

⁴⁴ International Finance Corporation

CASE STUDY 2

Cepheus Growth Capital Partners Fund

Cepheus Growth Capital Partners (Cepheus) is a private equity firm that provides long-term growth

capital to companies focused on scaling up and modernization.

Key Data for Cepheus Growth Capital Partners Fund

Detail	Specification
Fund Type	Private Equity (Equity funds in ACP regions)
Fund Size	\$100 Million (Target)
EIB Commitment	\$10 Million USD
Instrument	Equity (Growth Capital, significant minority positions)
Sector Focus	Generalist, emphasizing manufacturing, agro-processing, and services
Recent Deal Examples	Joytech (Food Products, 2024); JP Textile Ethiopia (2021)

Cepheus demonstrates how institutionalized, equity-based impact capital is essential for achieving structural transformation. Equity investment, unlike debt, provides patient capital necessary for improving management systems and operations. By targeting domestic consumer sectors (food products), these

private equity transactions are inherently geared toward capturing the rising middle-class consumer market and are somewhat insulated from the immediate pressures of export-driven FX cycles, although their eventual exit strategy remains reliant on improvements in capital market liquidity.

Key Factors and Barriers Affecting Capital Supply

Despite high economic potential, the primary factors constraining the supply of impact capital in Ethiopia are systemic macroeconomic and institutional risks that disproportionately increase the perceived risk premium for external investors.

1 Limited Availability of Long-Term, Patient, and Thematic Capital

Ethiopia has very few investors able to provide long-term financing and patient capital. Most available capital is short-term, risk-averse, and unsuitable for impact ventures.

2 Regulatory and Policy Constraints

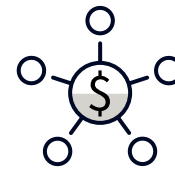
Restrictions on foreign currency, capital movement, licensing, banking rules, and investment approvals discourage both domestic and foreign impact investors. Policy unpredictability increases perceived risk and slows deal flow.

3 Macroeconomic Instability and Market Risk

High inflation, foreign exchange shortages, debt pressures, and political uncertainty raise the risk profile for investors. These macro factors reduce investment appetite, complicate returns, and deter long-term commitments.

4 Limited Capacity and Absence of Standardized Impact Taxonomies

Financial intermediaries, fund managers, and many enterprises lack the investment structuring skills and risk assessment expertise required to close complex impact deals. This gap is exacerbated by the absence of a National Impact Taxonomy, a standardized “dictionary” that defines what qualifies as a sustainable or social investment in Ethiopia. Many domestic capital suppliers may already be providing socially beneficial capital, but they cannot systematically label, measure, or report it. This lack of a common language leads to suboptimal product design and misaligned incentives. Without a standardized framework to benchmark outcomes, the ecosystem suffers from a “visibility vacuum,” where high-quality deals are mislabeled or overlooked, ultimately eroding investor confidence and limiting the development of a robust, investment-ready pipeline.



The absence of a National Impact Taxonomy leads to a visibility issue where high-quality deals are mislabeled or overlooked.

5 Fragmented and Underdeveloped Financial Markets

Ethiopia’s capital markets remain early-stage, with limited private equity activity, weak secondary markets, low liquidity, and minimal diversification of financial products, reducing channels through which impact capital can flow.

6 Declining and Limited Concessional Public Funding

Donor shifts, fiscal pressures, and reduced concessional flows have decreased the availability of catalytic funding needed to de-risk investments. Limited grant-funded technical assistance, guarantees, and first-loss capital weaken the pipeline for blended finance solutions.

7 Weak Integration Between Domestic and International Capital

Domestic financial actors (banks, pension funds, insurance companies) and international impact investors operate largely in parallel. Limited co-financing mechanisms, unfamiliarity with international standards, and misaligned incentives restrict capital flows.

8 Limited Transparency, Data, and Market Information

There is insufficient reliable data on impact enterprises, investment returns, sector performance, and socio-economic outcomes. The lack of market intelligence makes due diligence difficult and increases perceived uncertainty.

9 Fragmented Coordination Among Ecosystem Actors

Government bodies, donors, DFIs, investors, accelerators, and intermediaries function in silos with minimal collaboration. There is no unified platform for aligning priorities, harmonizing instruments, or coordinating pipeline development—leading to duplicated efforts and missed opportunities.

10 Limited Adoption of Innovative Financing Models

Models such as blended finance, outcome-based financing, guarantees, and risk-sharing mechanisms are rarely used. Limited understanding and regulatory constraints prevent wider adoption of these catalytic approaches.

11 Underutilized International Private Capital

Large global impact funds, institutional investors, and climate finance platforms remain underexposed to Ethiopia. High perceived risk, information gaps, and structural barriers limit their participation.

12 Limited Diversification and Flexibility of Domestic Public Finance

Public financing tools (subsidies, guarantees, matching funds, tax incentives) are limited and inflexible. Lack of instruments that crowd in private capital reduces opportunities for leveraging domestic resources.

13 Underdeveloped Domestic Private Finance

The local private investment landscape, angel networks, family offices, and venture financiers remain small, risk-averse, and focused on collateral-based lending rather than equity or flexible capital. This limits the depth of the domestic impact investing market.

14 Systemic Gender Bias in Capital Allocation

The supply of impact capital is constrained by entrenched gender disparities in formal lending, with capital allocation mechanisms favoring male-led enterprises. Despite strong demand and participation by women entrepreneurs, existing financial intermediation models fail to adequately segment, size, and channel capital to women-led businesses.

Demand for Impact Capital

Globally, MSMEs comprise about 90% of all businesses and more than 50% of employment. A report estimates that for 119 Emerging Market and Developing Economies (EMDEs) around the world, there is a potential demand for MSME finance of US\$10.3 trillion as of 2019. This compares to the credit supply of US\$4.6 trillion. Consequently, there exists a financing gap attributed to formal MSMEs in EMDEs of US\$5.7 trillion, which is equivalent to 19 percent of the gross domestic product (GDP) and 20 percent of the overall private sector credit supplied by banks to these economies. This report also estimates that among formal MSMEs, 40 percent in EMDEs are credit-constrained, of which 19 percent are fully credit-constrained, and 21 percent are partially constrained. When gender-disaggregated by ownership and management, women-MSMEs (W-MSMEs) face a finance gap of US\$1.9 trillion, representing 34 percent of the MSME finance gap⁴⁵.

Similar to the global context, the demand for capital in Ethiopia is immense, driven by rapid demographic growth, high unemployment, and structural gaps across development sectors (SDGs). AfDB estimated Ethiopia needs \$257–397 billion over 7 years to meet national priorities. In this context, SME/entrepreneurial growth is seen as key to jobs, where Ethiopia needs 2.5M new jobs per year, with current unemployment at 8% overall (27% youth), so growth of SMEs could alleviate poverty.

Ethiopia's private-sector economy is dominated by micro and small enterprises (MSEs), numbering roughly 800,000, yet only about 130,000 currently have access to credit. This leaves an estimated \$4.2 billion financing gap for SMEs. Between 2020 and 2024, surveys showed that 1,500–2,000 enterprises sought growth capital of \$50,000–\$1 million each, representing a total demand of \$300–500 million over five years.⁴⁶

Table 4: Definition of MSMEs

Column	Sectors	Capital (ETB)	Jobs
Micro	Services	<50,000	<6
	Industry	<100,000	
Small	Services	50,000–500,000	6 - 30
	Industry	100,000–1,500,000	
Medium		500,000–7,500,000	31 - 100 ⁴⁷

⁴⁵ MSME Finance Gap, IFC, 2025

⁴⁶ Transforming the financial service market for MSMEs in Ethiopia. The case of Enterprise Partners

⁴⁷ World Bank, SME Finance in Ethiopia: Addressing the Missing Middle Challenge

Formal SMEs contribute up to 40% of GDP in emerging economies, and this figure increases when informal enterprises are included. In addition, a vast informal microenterprise sector operates outside official registration. Informal businesses in urban Ethiopia are predominantly small, unlicensed, household-run enterprises with no formal registration or accounting systems, typically employing fewer than ten people. They are largely owned by women (56%) and young people, with most owners heading households. Literacy levels are moderate about 69% can read and write, but access to relevant technical or vocational training is very limited, with fewer than 10% having received such training. Financing remains a major barrier: initial capital needs are extremely low, and formal financial institutions play almost no role, as over 86% of these businesses were started with 10,000 ETB or less, often below 500 ETB for a significant share.⁴⁸

At the same time, Ethiopia's tech and startup ecosystem, though still nascent, is rapidly expanding. According to Dealroom Data (Startup Data Hub), around 562 startups were identified by 2024, of which 516 had received funding. The average funding per startup remains small (\$0.24 million), with only one company ever surpassing \$42 million. Most startups are based in Addis Ababa, which generated \$87 million in ecosystem value between 2021–2023. Major growth sectors include e-commerce, fintech, and agtech.

Sector Focus and Alignment with Policy

Ethiopian SMEs operate across agriculture, industry, and services, with formal MSMEs predominantly concentrated in services and manufacturing. In contrast, Ethiopia's national development strategies, including successive Growth and Transformation Plans and investment proclamations, prioritize manufacturing, agro-processing, and industrial MSMEs as central engines of job creation, export growth, and structural transformation.

Despite this policy emphasis, access to finance remains uneven across sectors, resulting in misalignment between national priorities and actual investment pipelines. Bank credit continues to favor established service and trading activities, while manufacturing and agro-processing SMEs, particularly those operating outside industrial parks, face persistent barriers to accessing growth capital. Evidence from Ethiopia's manufacturing sector confirms that access to external finance is highly constrained: only about 26% of firms have obtained finance from formal sources, primarily bank loans, often supplemented by informal financing from family or acquaintances.⁴⁹ Access to private equity remains negligible, with only around 1% of firms reporting having received PE financing. High collateral requirements are consistently cited as the main barrier to bank lending, while limited awareness of equity instruments further constrains financing options. Approximately three-quarters of firms that did not seek equity financing reported being unaware of the existence or role of private equity funds.

The misalignment is even more pronounced in agriculture and agro-processing. Although agriculture remains Ethiopia's largest employer and a cornerstone of food security and export earnings, financial institutions are estimated to meet only about 2% of total agricultural credit demand. This severe financing shortfall restricts investment in productivity, value addition, storage, and processing, limiting the emergence of scalable and investment-ready agribusinesses despite strong policy emphasis on agro-industrial development.



Most startups are based in Addis Ababa, which generated

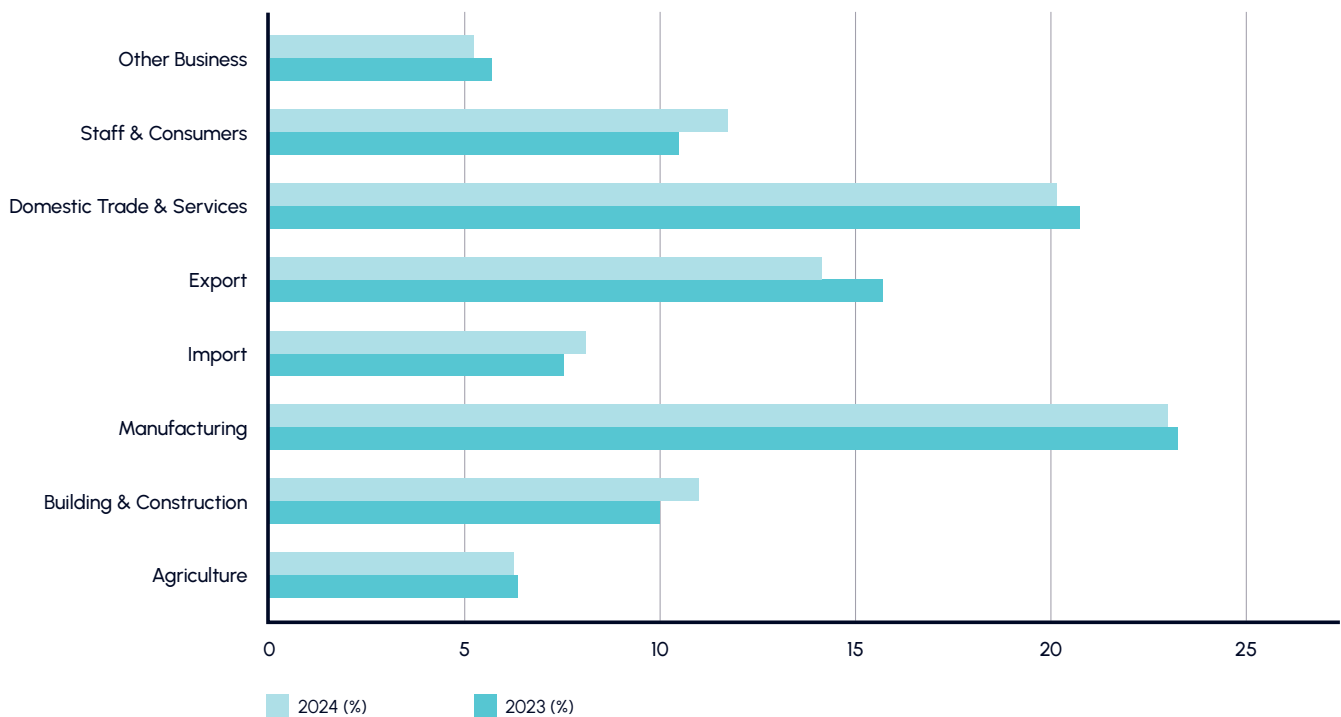
\$87 mn

in ecosystem value between 2021–2023.

⁴⁸ Urban Informal Business Enterprises in Ethiopia, World Bank Group

⁴⁹ The impact of private sector projects in Africa: Studies from the EIB-GDN Program

Figure 13: Bank Credit Allocation by Sector - Share Comparison⁵⁰



Ethiopian startups show similar sectoral misalignment. Health and climate ventures drew \$42 M and \$4 M respectively in 2024, while FMCG and consumer goods received \$26 M, workforce/education services \$4.15 M, and electric mobility \$4 M. Other priority sectors, such as education, food security, and agriculture, remain underfunded. Early-stage ventures dominate, particularly in ed-tech (79 percent) and agri-tech (81 percent), with only a minority of startups post-early growth, highlighting a thin investment-ready pipeline.

Compared with African peers, Ethiopia lags significantly in both funding scale and sectoral coverage. Across Africa in 2021, fintech captured nearly 50 percent of total startup funding (\$1.04 B), e-commerce raised \$326 M, transport \$105 M, logistics \$87 M, ed-tech \$81 M, and agri-tech \$95 M. By contrast, Ethiopian fintech, e-commerce, and agri-tech startups remain small in scale, with limited post-early-stage ventures and total sectoral funding far below continental benchmarks. This divergence illustrates a clear pipeline gap. While African investors concentrate capital in fintech, e-commerce, and logistics, Ethiopian startups are clustered in early-stage ventures with modest funding, leaving high-potential sectors such as agriculture, manufacturing, education, and food security undercapitalized despite policy priorities.

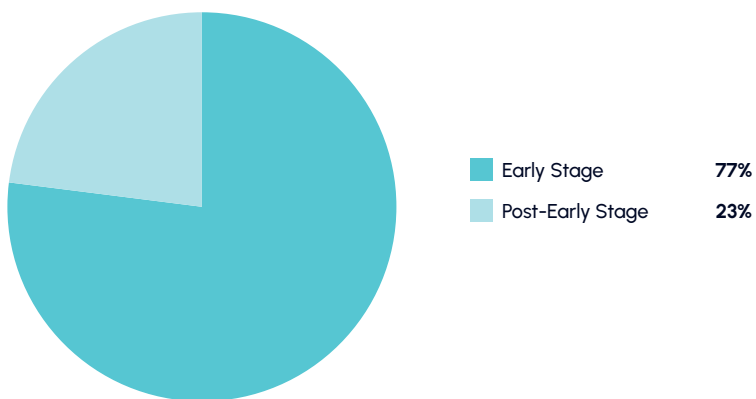
Enterprise Size and Startup Stages

Micro, small, and medium enterprises (MSMEs) in Ethiopia are dominated by micro enterprises, which constitute the vast majority of the roughly 1.2 million total MSMEs. Small enterprises follow but remain fewer, while medium-sized ones are scarce, with limited data on exact national breakdowns beyond sector-specific samples like a 2022 Addis Ababa survey of 400 MSMEs emphasizing micro-scale prevalence with little graduation to small or medium stages due to finance and market barriers.

⁵⁰ National Bank of Ethiopia-financial stability report 2024

A joint study by JICA and MinT found that the vast majority of Ethiopian start-ups—about 77% are still in the early phase of their development. Only a relatively small share has progressed beyond this stage. Among all sectors, transportation and logistics stand out as having the highest proportion of more mature ventures, with roughly 35% of start-ups in this area operating beyond the early stage.

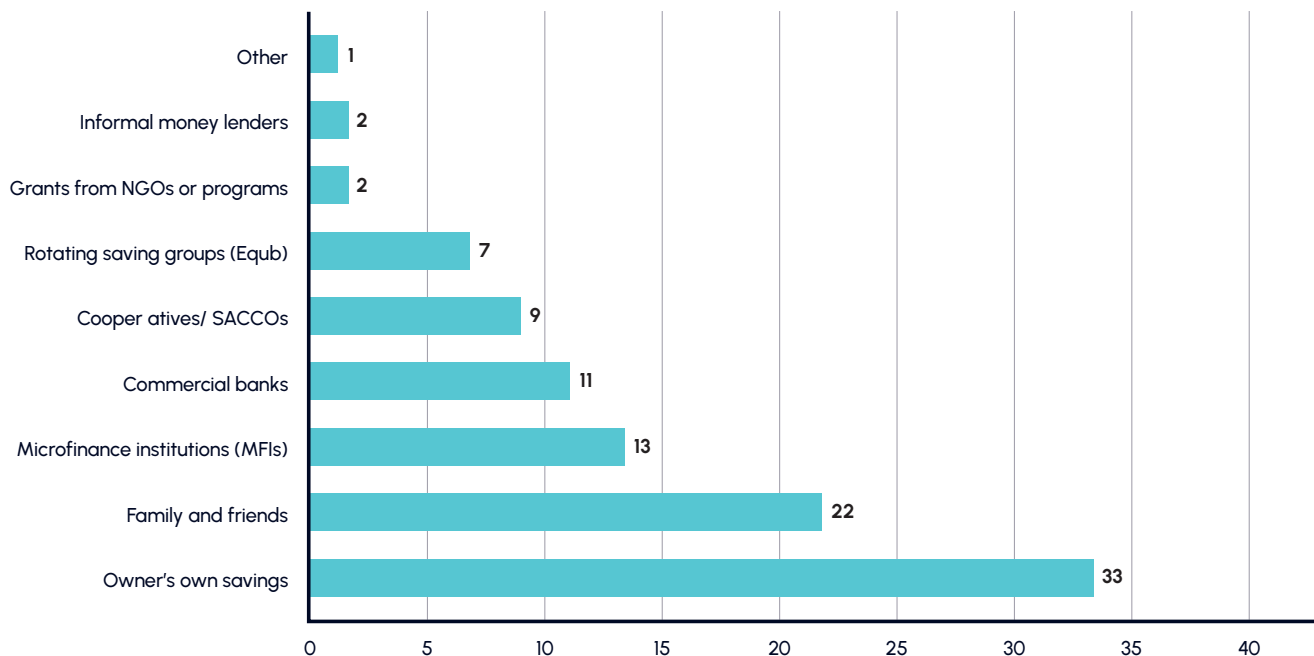
Figure 14: **Stages of Startups in Ethiopia**⁵¹



Funding Sources for SMEs and Startups

SMEs rely on a mix of informal and formal funding sources. A survey of Ethiopian MSMEs found the following distribution of initial capital sources:

Figure 15: **Major Sources of Initial Capital for MSMES in Ethiopia**⁵²



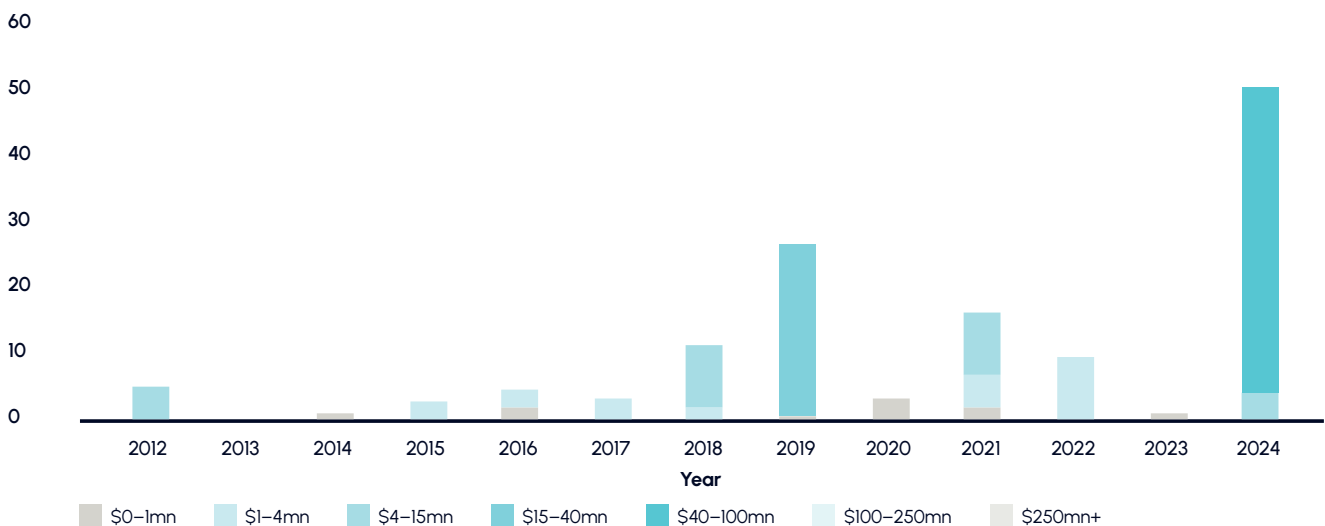
⁵¹ JICA Ethiopia Startup Ecosystem Report

⁵² Micro, Small and Medium Enterprises Access to Finance Constraints in Ethiopia: Demand Side Analysis

Ethiopian startups have few equity backers with only a handful of angel networks (e.g., Addis Ababa Angels, and VCs such as Renew Capital), or pan-African seed funds have emerged. Venture funding remains tiny, with Ethiopian startups raising only about US\$6 million in recent years, versus over \$1 billion in leading East African markets. Evidence from firm-level surveys reinforces the demand-side constraints identified in this study. An enterprise survey of 199 Ethiopian firms conducted in Addis Ababa and Oromia found that over 70% of companies had never applied to formal equity funds, primarily due to limited awareness of private equity and venture capital instruments, a lack of understanding of these firms' operations, while 12% of companies do not believe that PE/VC firms actually provide investment capital and show a willingness to involve PE/VC firms in their business, illustrating a major trust and information bottleneck. Only two firms had ever accessed PE investment, while more than half of equity financing came from retained earnings. This reliance on internal and informal finance confirms that demand for external equity capital remains latent rather than active. The findings suggest that knowledge gaps, weak investment readiness, and limited understanding of the value of equity beyond capital are critical barriers preventing firms, particularly in innovation and impact-driven sectors, from engaging with impact and venture investors. Development-finance schemes (e.g., the Development Bank of Ethiopia's "Idea Financing" for SMEs and donor programs) do provide some credit lines and grants, but these reach limited numbers of enterprises.

Investment activity in Ethiopia's startup ecosystem has grown over time but remains uneven across stages, revealing a system that is expanding yet structurally fragile. Early-stage funding is notably scarce, creating a major bottleneck for idea validation and product development and limiting the flow of ventures that can progress to growth stages. Mid-stage funding shows periods of momentum followed by abrupt declines, demonstrating how sensitive the ecosystem is to macroeconomic pressures and shifting investor sentiment. Larger growth-stage investments appear only sporadically, indicating that while some startups demonstrate strong traction, the investor base capable of providing substantial capital remains thin. A recent breakthrough in attracting a significantly larger investment suggests that parts of the ecosystem are beginning to mature and can absorb bigger deals. However, the absence of very late-stage or mega-round investments reinforces the reality that startups still struggle to scale to globally competitive levels due to limited growth pathways, weak exit options, and constrained long-term financing. Overall, the pattern points to an ecosystem with clear potential but lacking the consistency, depth, and institutional support required to sustain predictable capital flows across all stages of growth.

Figure 16: Total investment into Ethiopian startup companies by Round Size⁵³



53 RISA Fund, The State of Startup Innovation in Ethiopia: Mapping Valuations, Investment and Employment

The financing challenges for SMEs are multifaceted, including high collateral requirements, steep borrowing costs, and limited access to formal financial institutions. These barriers impede the growth potential of SMEs, which are crucial for economic development and employment generation. Most often, the capacity of startups and SMEs to meet investor expectations, including transparent financial reporting, robust governance structures, and scalable business models, is limited.

Key Demand-Side Challenges

1 Weak Investment Readiness and Limited Enterprise Capacity

Many SMEs and startups struggle to meet the basic standards required by investors. Businesses often lack audited financials, proper bookkeeping, governance structures, or reliable data systems. This makes them appear high-risk and unprepared for structured capital. The challenge is reinforced by limited access to technical advisory services and capacity-building programs that go beyond surface-level training. As a result, even high-potential enterprises struggle to mature, formalize operations, or present credible investment cases—leaving the pipeline of investor-ready businesses thin.

2 Fragmented and Underperforming Support Ecosystem

Incubators, accelerators, government programs, and donor initiatives operate with minimal coordination. Efforts are often duplicated, unevenly spread across regions, and inconsistent in quality. Many programs offer generic support but fail to provide performance-based financing, deep operational guidance, or sector-specific expertise. Mentors and advisors frequently lack hands-on entrepreneurial experience or a strong understanding of the local context. Fragmentation means that even when finance is available, enterprises lack strategic guidance, investment readiness support, and visibility to access it.

3 Regulatory and Policy Constraints that Undermine Business Scalability

Despite policy advancements, enterprises still face burdensome licensing procedures, weak digital business regulations, unpredictable implementation of existing policies, and slow government systems. Regulations for manufacturing, innovation, and digital services are not well-suited to early-stage firms, with requirements and costs designed for large, established companies. These institutional hurdles significantly slow down scaling efforts and prevent startups from reaching the stages where impact capital could be effectively absorbed.

4 Macroeconomic Instability and Foreign Exchange Constraints

Currency depreciation, inflationary pressures, and exchange rate volatility weaken enterprise financial stability. Firms relying on imported inputs face unpredictable cost increases, while foreign investors encounter restrictions around repatriation and currency convertibility. The uncertainty reduces willingness to engage in long-term financing. Even when enterprises demonstrate strong demand and market traction, macroeconomic unpredictability erodes margins and undermines investor confidence.

5 Structural Barriers to Accessing Finance and the “Missing Middle.”

Ethiopia's financial system remains highly risk-averse. Banks prioritize large, established companies and require excessive collateral, often exceeding the value of the loan. Startups and SMEs rarely possess the fixed assets needed to meet these demands. Microfinance institutions, on the other hand, focus on very small loan sizes with high interest rates and complex requirements. As a result, businesses caught in the “missing middle” cannot access the level of capital required for growth. Personal savings, informal lenders, and small grants are insufficient for expansion, keeping enterprises small, informal, and undercapitalized.

6 Limited Understanding of Innovative and Impact-Oriented Financing Instruments

Awareness of blended finance, first-loss guarantees, ESG financing, or gender-lens investment remains low among enterprises. Many founders are unfamiliar with how these tools work or how to position their businesses to benefit from them. The lack of accessible guidance means that catalytic finance mechanisms—designed precisely to de-risk early-stage or impact-oriented enterprises—remain underutilized.

7 Gender-Based Financing Barriers

Women-led enterprises face entrenched structural challenges: limited ownership of collateral, bias in lending decisions, lower credit ceilings, and slower approval processes. Even when women operate high-performing businesses, they are systematically excluded from adequate financing. Global trends show gender bias, but local market conditions intensify the challenge: women receive less visibility, fewer networks, and lower investor confidence, compounding financing gaps.

8 Persistent Perception of High Risk, Especially in Tech, and Innovation

Innovative business models—particularly in technology—are often deemed unfamiliar or risky by domestic financial institutions. Banks and lenders face capacity issues when it comes to non-traditional revenue models, intangible assets, and scalability-driven growth. Even donor-supported capital routed through local institutions is often subjected to the same conservative credit practices. This pushes investors toward “safe” sectors and stalls progress in high-impact areas such as health, education, climate solutions, or women-focused services.

9 Inadequate Data Systems and Limited Evidence of Impact

Few enterprises collect consistent, structured, or high-quality data. The cost of data systems, lack of technical capacity, and absence of standardized measurement frameworks hinder their ability to demonstrate traction or impact. Investors increasingly require robust metrics, but enterprises cannot meet these expectations before receiving capital—creating a catch-22 where the absence of data blocks the investments needed to generate it.

10 Supply Chain Vulnerabilities and Operational Bottlenecks

For many sectors, especially agribusiness, supply chain weaknesses undermine enterprise stability. Price fluctuations, input shortages, stability, and regulatory barriers make operations unpredictable. Investors hesitate to deploy capital when production or sourcing cannot be guaranteed. SMEs often lack the resources to secure or stabilize supply chains at the scale investors expect.

11 Social Enterprise and Impact Awareness Gaps

There is widespread misunderstanding of social enterprises and impact-driven business models. Many local financiers, suppliers, and institutional stakeholders still perceive socially oriented businesses as non-profit or charity, undermining their credibility as investable ventures. This limits local financing, weakens partnership opportunities, and prevents social enterprises from being seen as commercially viable.

12 Limited Visibility, Networks, and Market Linkages for High-Potential Enterprises

Startups frequently lack exposure to investors and global markets. Many enterprises relocate or incorporate outside Ethiopia to attract investment due to better exit options and more favorable regulatory environments.

Without stronger domestic investor networks, matchmaking platforms, or national coordination, promising ventures struggle to mobilize capital even when solutions are scalable and market-ready.

13 The PE/VC Awareness Gap

Limited understanding of alternative financing. Many companies do not seek private equity or venture capital because they are unfamiliar with how these investors operate or doubt their availability. This lack of awareness restricts firms from accessing not only capital but also the management expertise and networks that PE/VC investors can provide.

CASE STUDY 3

EthioChicken

EthioChicken is one of Ethiopia's most prominent agribusiness success stories and a leading example of how impact capital can catalyze inclusive growth. Established in 2010 and headquartered in Addis Ababa, the company focuses on improving rural nutrition and livelihoods by providing day-old chicks, feed, and technical support to smallholder farmers.

Impact Investment and Financing Structure

In 2024, Finfund (Finland's development finance institution) invested USD 5 million in EthioChicken to support its national expansion and deepen rural outreach. The investment followed earlier backing from the Africa Enterprise Challenge Fund (AECF), which provided catalytic funding for early-stage scale-up and farmer training. These financing rounds combined patient equity capital and blended finance instruments, enabling EthioChicken to sustain growth despite macroeconomic volatility and limited access to local credit.

Development and Social Impact

EthioChicken's operations directly align with SDG 2 (Zero Hunger) and SDG 8 (Decent Work and Economic Growth). By 2025, the company had:

- Expanded to all regional states in Ethiopia, operating multiple farms and hatcheries.

- Partnered with over 13,000 smallholder farmers, creating more than 2,000 direct and 10,000 indirect jobs.
- Distributed over 60 million chicks annually, contributing significantly to protein access and smallholder incomes in rural areas.

The company's model integrates capacity building and input supply with a market linkage approach, ensuring both productivity and sustainability for smallholders.

Key Learnings

- Patient and blended capital can de-risk agribusiness models in low-income markets.
- Strong technical assistance and local partnerships enhance the social and economic returns of investment.
- Alignment with national priorities (nutrition, rural income, import substitution) strengthens investor confidence and government support.

However, foreign exchange constraints and logistical bottlenecks remain ongoing challenges for scale and export competitiveness.

Capital Intermediation

In Ethiopia's emerging impact-investing market, capital intermediaries serve as vital bridges between investors and enterprises pursuing social and environmental objectives. These intermediaries can be categorized into two.

Table 5: Type of Capital Intermediation

Type	Definition	Examples
Financial Intermediaries	Facilitate, pool, or channel capital to enterprises or investors. They may create mechanisms to deploy or manage funds, but their primary function is intermediation rather than acting as the ultimate investor.	Private equity/venture capital funds, fund-of-funds, angel networks, impact investment funds, crowdfunding platforms
Non-Financial Intermediaries	Provide technical, managerial, or advisory support that enhances investment readiness, governance, or ESG/impact capacity. They enable enterprises to absorb capital effectively.	Incubators, accelerators, mentorship networks, capacity-building programs, R&D groups, market intelligence platforms

Financial Intermediaries

Private Equity and Venture Capital (PE/VC) Funds are pooled-capital vehicles that invest in growth-stage enterprises. While many also act as direct investors (supply-side), their intermediation role lies in structuring investment vehicles, managing risk, enforcing ESG standards, and creating mechanisms for capital to reach enterprises that would otherwise struggle to access finance. In Ethiopia, PE/VC funds remain relatively limited, reflecting the nascent market, but they demonstrate how structured intermediation can catalyze impact-oriented capital.

Private equity and venture capital activity in Ethiopia must be understood within the wider East African context. Kenya consistently leads in deal volume and aggregated investment value, while Ethiopia maintains a modest but steady pipeline, concentrated primarily in agriculture, manufacturing, and consumer sectors. The pattern reflects the early-stage nature of Ethiopia's private-sector development, as well as the reliance on a small group of intermediaries who play an outsized role in creating investable opportunities

Figure 17: % share of PE deals in East Africa⁵⁴



The scale and structure of deals in Ethiopia also reinforce its early-stage profile. Regionally, both deal volume and aggregated investment value continue to be concentrated in Kenya, but Ethiopia shows a clear pattern of smaller, SME-focused investments. Approximately 80% of private equity transactions in Ethiopia fall below USD 50 million, demonstrating that the ecosystem is characterized by mid-ticket transactions aligned with the needs of high-growth small and medium enterprises. This deal-size pattern mirrors the strategies of funds active in the country, such as Ascent Rift Valley Capital, Zoscales Partners, and Renew Capital—whose mandates prioritize operationally intensive, growth-stage opportunities rather than large buyouts.

⁵⁴ AVCA Spotlight on East Africa Private Equity

Addis Ababa-based Renew Capital and Zoscales Partners exemplify PE/VC intermediation. Renew's portfolio includes Mama Fresh and METAD, both of which achieved strong growth and social impact after investment. Zoscales launched a US\$75 M fund in 2017 targeting SMEs in sectors like healthcare, clean energy, and agri-business. By structuring investment vehicles, enforcing ESG practices, and facilitating exits via mechanisms like the Ethiopian Securities Exchange (ESX), these funds channel capital while reducing risk for other investors.

Other PE/VC vehicles such as the Cerberus/Schulze Global Ethiopia Growth & Transformation Fund and Ascent's Rift Valley Funds I & II function similarly. Ascent's Fund II, closing at USD 128 M in 2022, invests across East Africa in SMEs while aligning with ESG and impact objectives. These funds are supported by DFIs and institutional investors (IFC, FMO, BIO, Norfund, CDC/BII, etc.), whose involvement strengthens standards and encourages additional capital inflows. Notably, around 80% of private equity deals in Ethiopia are below US\$50 million, reflecting the market's early-stage nature and the typical scale of intermediated investments.

Blended Finance Platforms and DFIs act as catalytic financial intermediaries. The UNDP Innovative Finance Lab (IFL), in partnership with the National Bank of Ethiopia, manages a USD 100 M Enterprise Financing Facility (EFF) to pool public, DFI, and private capital for growth-stage SMEs. By providing risk-sharing, technical assistance, and capacity-building, the EFF intermediates capital between investors and enterprises that may not otherwise secure finance. DFIs also support the creation of capital market infrastructure, regulatory frameworks, and specialized instruments such as green or social bonds, further strengthening intermediation in the Ethiopian context.

Capital Market Platforms such as the Ethiopian Securities Exchange (ESX) provide the infrastructure for intermediation by offering a transparent mechanism for trading equity and debt. By mandating robust financial and ESG reporting aligned with IFRS, GRI, and ESRS standards, ESX enables PE/VC and blended-finance funds to structure investments more confidently and allows for longer-horizon, impact-driven strategies.

Non-financial Intermediaries

The Ethiopian entrepreneurial ecosystem relies heavily on Non-Financial Intermediaries (NFIs), such as iceAddis and the BlueMoon Incubator, to support enterprises in becoming investment-ready. A study identified 169 unique resources, confirming that non-financial resources like technical assistance and incubators, the latter comprising 32% of services, are the most common, which is typical for young ecosystems. Many of these organizations, including Digital Opportunity Trust (DOT) Ethiopia and groups like Mercy Corps and SNV, offer NGO-led business support, capacity building, and help enterprises craft investor-ready plans, alongside R&D groups that provide market intelligence to reduce information asymmetry for investors.

Despite this activity, several challenges impede growth. The ecosystem suffers from a lack of dynamism among advisors, who often lack practical experience and local insights. Financial resources are limited, characterized by high interest rates and collateral requirements for debt, and a scarcity of local early-stage equity funds, alongside a dearth of foreign investors. Furthermore, there is inadequate collaboration among Business Development Service (BDS) providers, leading to disjointed efforts, and entrepreneurs often lack clarity regarding the available services and what to expect from participation. Finally, macroeconomic factors like inflation and political instability create a challenging environment for growth and logistical difficulties for ESOs. However, the increasing number of actors presents an opportunity for greater collaboration and specialization, which can leverage a growing evidence base on BDS best practices.



Zoscales launched a

US\$ 75 mn

fund in 2017 targeting SMEs in sectors like healthcare, clean energy, and agri-business.

Furthermore, digitalization can be utilized to improve awareness for entrepreneurs and foster collaboration among ecosystem players, potentially addressing financing barriers through alternative data and AI-based credit scoring used by platforms like Share by R&D, Michu, and Dube Ale.



Gaps in Intermediation Models

Key gaps and deficiencies in Ethiopia's impact intermediation include:

Enterprise Investment Readiness: Most supported enterprises are early-stage with incomplete governance, weak financial records, and unclear growth strategies. Programs rarely cover the full lifecycle from ideation to scale, and definitions of "investment readiness" are inconsistent, often limited to soft skills rather than recognized global standards.

Investor-Enterprise Misalignment: Intermediaries often support small, early-stage enterprises, while investors target larger, later-stage businesses.

Capacity and Resource Constraints: Intermediaries have limited human capital, financial resources, and technological infrastructure. Short-term, project-based staffing leads to high turnover, while expertise in impact measurement, financial structuring, and market advisory is insufficient to deliver high-quality enterprise support.

Coordination and Networking Deficits: Collaboration across ESOs, investors, government agencies, and development partners is weak and largely informal. Siloed networks lead to duplicated efforts, inefficiencies in deal flow, and missed opportunities for collective impact.

Regulatory and Market Barriers: Restrictions on foreign investment, repatriation, and hard currency, combined with rigid financial instruments and high financing costs, limit intermediaries' ability to mobilize international and early-stage capital.

Data and Information Gaps: Enterprises often lack proper documentation and reporting systems. Standardized metrics and matchmaking platforms are underdeveloped, constraining due diligence, investor confidence, and ecosystem-wide learning.

Financial Sustainability Challenges: Heavy dependence on donor funding, combined with limited alternative revenue streams such as consulting, equity participation, or paid services, threatens operational continuity and long-term capacity to support enterprises.

Geographic Concentration: Intermediaries and investable enterprises are concentrated in Addis Ababa. Secondary cities often lack enterprise maturity and intermediary capacity to sustain acceleration-level services.

Limited Innovation in Financial Instruments: Financing models are largely adapted from Western contexts and poorly suited to local realities. Early-stage enterprises require tailored instruments, co-investment structures, and size-appropriate due diligence to improve access to capital.

Standards and Quality of Enterprise Support: Definitions, delivery standards, and program structures for incubation, acceleration, and enterprise support are inconsistent and often short-term. This limits intermediaries' ability to graduate businesses to investable stages and demonstrate measurable impact.

Early-stage enterprises require tailored instruments, co-investment structures, and size-appropriate due diligence to improve access to capital.

Cost of Small & Intermediation Sustainability: A critical systemic bottleneck is the disconnect between the small ticket sizes needed by SMEs (typically \$50k–\$250k) and the larger mandates of institutional impact investors (typically >\$1M). Current intermediaries often lack the financial strength to aggregate these smaller deals effectively, and many ESOs remain donor-dependent without performance-linked incentives to drive actual investment outcomes. This “Missing Middle” constrains SME access to capital and limits investor deployment efficiency.

CASE STUDY 4

Kifiya Financial Technologies

Founded in 2010, Kifiya Financial Technologies is one of Ethiopia's leading fintech firms, serving as a digital intermediary that bridges financial institutions, government agencies, and underserved communities. Its platforms, Lehulu, eBirr, and the Digital Green Finance Platform (DGFP), facilitate bill payments, digital transfers, and access to finance for rural and urban users alike.

Role in Impact Capital Intermediation

Kifiya demonstrates how digital infrastructure can enable capital flow and financial inclusion. Through DGFP, it leverages transaction data for alternative credit scoring, connecting smallholder farmers and MSMEs to microloans and insurance. Its partnerships with the **Mastercard Foundation**, **UNCDF**, and **IFC** show how catalytic funding can de-risk digital solutions and attract later-stage private investment.

Impact Highlights

- Enabled access to digital financial services for over 10 million users.

- Enhanced transparency and efficiency in public service payments through Lehulu.
- Supported women entrepreneurs and rural cooperatives via digital channels.

Challenges and Lessons Learned

Kifiya's growth illustrates both progress and persistent challenges:

- Regulatory uncertainty continues to slow fintech innovation.
- Limited local investors mean early-stage funding relies heavily on donors.
- Digital literacy and connectivity gaps restrict rural adoption.

Key Takeaway

Kifiya showcases how **intermediaries** can mobilize and channel impact capital effectively, bridging the divide between finance, innovation, and inclusion in Ethiopia's evolving digital economy.

Government and Regulation

The Government of Ethiopia plays a decisive role in shaping the impact investment ecosystem. As both a **regulator and enabler**, government policies determine how private and blended capital can flow into the economy. Recent reforms demonstrate a growing recognition that public resources alone are insufficient to meet Ethiopia's development and SDG financing needs, and that attracting private capital will be essential.⁵⁵ However, gaps in regulation, institutional coordination, and incentives remain barriers to realizing the full potential of impact investment.

The government's role in fostering Ethiopia's impact investment ecosystem can be systematically analyzed through a conceptual framework that divides policy tools into three key functions: Market Participant, Market Regulator, and Market Facilitator. This structure, based on global policy best practices, establishes the boundaries of “impact policy,” highlights existing policy successes, and critically enables the identification of future policy and regulatory gaps.

⁵⁵ World Bank (2025).

Policy Frameworks and Strategies

Ethiopia's policy landscape is undergoing a significant transformation, driven by broader economic, financial, and development reforms. These policies and strategies collectively create enabling conditions for private capital mobilization, market innovation, and sustainable financing. Key policies and strategies include:

Homegrown Economic Reform Agenda (HGER, 2019 & 2023 update)

Prioritizes private sector participation, exchange rate liberalization, and fiscal stability. While not directly targeting impact investment, it creates an enabling environment for long-term, impact-oriented capital.

Capital Market Proclamation (No. 1248/2021) & Ethiopia Securities Exchange (ESX, 2024)

Establishes regulatory bodies, legal frameworks for securities trading, and the ESX. Provides future potential for social, green, and sustainability-linked bonds, especially for SMEs and social enterprises.

National Financial Inclusion Strategy II (NFIS II, 2021–2025)

Expands access to credit, insurance, and digital financial services. Lays groundwork for impact capital to reach underserved populations and socially-minded businesses.

Climate Resilient Green Economy (CRGE) Strategy (2011; updated 2022)

Focused on low-carbon, climate-resilient growth, renewable energy, climate-smart agriculture, and forest protection. Offers policy alignment for investors targeting green finance.

Financial Sector Reforms

Includes gradual liberalization, fintech pilot frameworks, digital financial services expansion, and potential foreign bank entry to improve competitiveness and access.

Investment Promotion Strategy (2025)

Prioritizes high-potential sectors and explicitly recognizes impact investment as a driver of inclusive growth.

Startup Business Proclamation (2025)

Provides legal recognition for startups, simplified registration, incubation support, and investor protections, strengthening the pipeline of investable impact-oriented businesses.

National Entrepreneurship Development Policy (NEDP)

Approved by the Council of Ministers on January 20, 2026, this landmark policy shifts Ethiopia toward an "Entrepreneurial State". It expands the definition of entrepreneurship beyond traditional profit-making to a cross-cutting value-adding process across five categories: Startups, Social Entrepreneurship, Corporate Entrepreneurship, Public Entrepreneurship, and Everyday Entrepreneurship.

Foreign Exchange and Repatriation Reform (NBE Directive FXD/04/2026)

A transformative reform that decentralizes the approval of profit and dividend repatriation to commercial banks, removing the requirement for case-by-case NBE approval. It introduces a market-clearing exchange rate framework and allows for forward exchange dealings, providing international impact investors with essential tools to hedge currency risk and ensure predictable exit pathways.

Digital Ethiopia Strategy 2030

Sets a long-term vision for digital transformation across government, business, and society, creating a more innovative and tech-enabled environment for investment.

Mesob One-Stop Service Center

Centralizes government-to-business services digitally, reducing bureaucratic hurdles and transaction costs, thereby improving the ease of doing business.



The 2026 National Entrepreneurship Development Policy shifts Ethiopia toward an Entrepreneurial State by officially recognizing Social Entrepreneurship as a core pillar.

The Role of Government in the Impact Investment Ecosystem

To realize the full potential of impact investment, a government must employ a set of complementary policy tools, which can be grouped into three distinct roles. This framework not only establishes the boundaries of what constitutes "impact policy" but also enables the identification of policy and regulatory gaps, thereby facilitating the subsequent development of policy recommendations

1 Government as Market Participant

In this role, the Government directly uses its spending, procurement, investment power, and public financing to shape markets. By acting as buyer, funder, or anchor investor, the government can de-risk early-stage markets, provide demand signals, and mobilize private or blended capital into sectors with social or environmental impact.

Table 6: Government as Market Participant

Policy Tool (as Market Participant)	What It Entails / Why It Matters	Current Status & Relevant Policies / Initiatives in Ethiopia	Gaps & What Needs to be Added
Outcomes Partnerships	Government commits to pay upon achievement of social/environmental outcomes; private investors provide upfront capital—shifting risk, aligning incentives, enabling accountability.	No formal outcomes-based financing programs exist yet in Ethiopia. Neither at the federal nor regional level has a track record of SIBs/DIBs or outcome contracting.	High potential not tapped. There is no legal, regulatory, or fiscal framework for outcomes contracting; no institutional capacity to define, monitor, and verify outcomes; no public budget line for contingent outcome payments.
Public Procurement for Impact	Government uses its purchasing power to steer procurement toward impact-oriented goods/services (e.g., social enterprises, green suppliers), not just lowest-cost tenders.	Procurement remains largely cost-driven. Current public procurement practices are largely governed by a least-bidder or cost-focused approach. Ongoing public procurement system; broader procurement reforms; administrative reforms under digitalization but no explicit "impact procurement" programme identified	Absence of guidelines for social/environmental value in procurement; no certification/registry for impact-oriented suppliers; no training of procurement officers to assess impact or ESG considerations.
Government Funding Programmes	Public funding can de-risk early-stage projects, support SMEs/startups, and attract private co-investment through matching or blended structures.	Entrepreneur Investment Bank (\$20M capital) to support young entrepreneurs; Startup Fund of Funds under Ethiopian Startup Proclamation; Jump Start-Up Incubation Program leveraging 40+ SOEs via EIH; EIH general investment programs (youth and innovation-focused) as well as National Entrepreneurship Development Policy (2026) mandates the mobilization of blended financing mechanisms and the establishment of a National Entrepreneurship Development Fund to de-risk innovative ventures. Entrepreneurship Development Institute (EDI) designated as the national anchor institution for ecosystem coordination.	Limited scale compared to national demand; early-stage initiatives may not yet integrate measurable impact metrics; broader blended finance and private co-investment are still limited; mechanisms for outcomes measurement are underdeveloped.
Sustainable Bonds	Government (or SOEs/ state-backed entities) issues bonds earmarked for green/social projects—unlocking long-term, institutional, and retail capital for impact investments.	The 2021 Capital Market Proclamation and the launch of ESX create legal pathways for bond issuance. Government's green/climate priorities via CRGE and Green Legacy hint at potential projects.	No sovereign or municipal-level sustainable/social bond has been issued yet. Lack of project pipelines with verified environmental/social returns; the market lacks green bond standards or local investors; fiscal space and credit standing limit large sovereign-labelled issuances without external guarantees.

2 Government as Market Facilitator

As a regulator, the government defines the legal, financial, and institutional rules governing how businesses operate, how capital flows are structured, and what constitutes acceptable risk, reporting, and governance. Effective regulation reduces uncertainty, increases transparency, builds investor confidence, and enables specialized impact investment instruments

Table 7: Government as Market Regulator

Policy Tool (as Regulator)	What It Entails / Why It Matters	Current Status in Ethiopia	Gaps & What Needs to be Added
Specific Legal Forms for Impact-Driven Businesses	Provides a recognized legal identity enabling dual objectives (financial + social/environmental), protecting mission-lock, simplifying investor/institutional understanding.	The Startup Business Proclamation (2025) recognizes startups broadly, but only recently approved the National Entrepreneurship Development Policy (2026) officially, which recognizes Social Entrepreneurship as a core pillar. It commits the state to creating specific legal and licensing frameworks for these entities.	Only recently was the social-enterprise or "impact business" form legally recognized in Ethiopia. Firms with social or environmental goals are yet to receive the benefit and still continue to be registered under standard corporate/legal structures.
Sustainability Reporting Standards	Mandatory or voluntary standards for environmental, social, and governance (ESG) reporting help investors compare, verify, and monitor impact.	Evolving & Mandatory for the Financial Sector. The National Bank of Ethiopia (NBE)'s Bank Corporate Governance Directive (SBB/91/2024) mandates banks to incorporate sustainability risk management and publish disclosure reports. The ESX also mandates ESG disclosures for all listed companies.	ESG reporting/disclosure remains voluntary and limited in scope; standards are not yet mandatory; application is largely confined to the banking sector; broader corporate and SME sector largely unaffected; impact-specific disclosure (social/environmental outcomes) still missing.
Clarifying Investors' Fiduciary Duties	Clarifies that institutional or private investors can legally pursue impact objectives alongside or instead of purely financial returns, critical for pension funds, insurance companies, etc.	Ongoing regulatory reforms improving banking supervision and stability (Basel-aligned capital requirements, banking oversight reforms) National Bank of Ethiopia, financial liberalization reforms, as well as NBE Directive No. FXD/04/2026 allows for forward exchange contracts, enabling investors to hedge currency risk. It also authorizes commercial banks to process profit and dividend repatriation without case-by-case NBE approval.	Legal/regulatory uncertainty remains: institutional investors may avoid impact investments for fear of breaching duty or underperformance; absence of guidance or incentives to consider non-financial objectives; no accountability mechanism encouraging ESG/impact allocation.
Fiscal Incentives	Lowers the cost of entry, improves returns for impact-oriented enterprises, signaling government commitment to impact sectors.	General investment incentives exist under the Investment Proclamation, and the Investment Promotion Strategy (2025) recognizes impact investment. The 2026 Investment Incentive Regulation (repealing No. 517/2014) shifts to a Performance-Based Regime. It introduces Investment Capital Allowances (one-time deductions for assets) instead of broad tax holidays.	Need for explicit "Impact Performance Metrics" within these agreements to ensure incentives are tied to specific social/environmental outcomes. Limited attractiveness for high-risk impact enterprises.
Facilitating Retail Investors' Participation in the Impact Economy	Enables small-scale investors to buy impact instruments (retail bonds, green funds, savings, social enterprise shares), broadening the capital base and democratizing impact investment.	Capital market (ESX) is nascent; very limited retail investor engagement; low per-capita income and financial literacy restrict participation.	No regulated retail-oriented impact instruments (green savings accounts, retail bonds, impact mutual funds). Without such instruments, domestic retail capital remains untapped, limiting the depth and democratization of impact capital.

3 Government as Market Facilitator

Here, the government builds the broader enabling ecosystem: institutional capacity, market infrastructure, coordination platforms, information systems, and strategic frameworks. By doing so, it helps knit together demand (enterprises), supply (investors), and regulation into a functional impact-investment market.

Table 8: Government as Market Facilitator

Policy Tool (as Facilitator)	What It Entails / Why It Matters	Current Status in Ethiopia	Gaps & What Needs to be Added
Sustainable Finance Taxonomy	A classification system defining what qualifies as “green,” “social,” or “impact” investments—essential for transparency, comparability, and mobilizing institutional capital.	European Investment Bank (EIB)-backed Greening Financial Systems Programme (GFS) launched 2025 with National Bank of Ethiopia to develop green finance rules, a national green taxonomy, and climate-risk disclosure frameworks.	Taxonomy not yet finalized or formally adopted; practical application to projects/ investments not yet in force; lack of clarity may deter investors; uncertainty about whether taxonomy will cover social impact (not just environment)
Dedicated Government Agencies	A central institutional home for impact investment to coordinate across ministries, oversee policy, liaise with investors, and champion blended finance.	No dedicated agency currently. Existing ministries (MoF, EIC, MinT, etc.) each handle related mandates, but none explicitly manage impact investment.	No fully mandated, budgeted, and staffed agency responsible for driving impact finance; limited coordination between agencies; impact finance not yet institutionalized; no dedicated funding for operations, monitoring, hinder the building of a unified impact-investment ecosystem.
Government-Enabled Wholesale Funds	Publicly backed funds or guarantee mechanisms that reduce risk and attract private or institutional capital—especially critical for early-stage or high-risk ventures.	Public finance institutions and state-owned holding companies (e.g., EIH) exist, but no dedicated wholesale impact fund or guarantee facility has been created specifically for impact investments.	Without a catalytic vehicle, private investors bear full risk. The absence of wholesale funds or guarantee schemes severely limits appetite for long-term, high-risk, or impact-sector investments.
National Impact Investment Strategy	A coherent, cross-sectoral roadmap aligning public policy, investment priorities, fiscal tools, and development goals to guide impact capital deployment and monitor outcomes.	Ethiopia has multiple sectoral strategies (CRGE, NFIS, HGER, Digital Ethiopia, Startup Proclamation) that touch relevant themes, but no unified national impact investment strategy exists.	The absence of a consolidated roadmap leads to fragmented initiatives, duplication, and weak prioritization for impact capital.
Capacity Building Programmes	Training for regulators, fund managers, enterprises, investor education, matchmaking platforms, data and reporting infrastructure—critical to build supply and demand capacity.	Government actively partnering with IFC on 2023 Integrated ESG Ethiopia Programme, working with NBE, Bankers Association, Accounting & Auditing Board, and Chamber of Commerce to develop ESG guidelines and adoption practices EIB-backed Green Finance Support Programme (GFS) and other stakeholders to provide technical support and training. Existing programmes focus on ESG adoption in banks and climate finance capacity. Efforts are still limited in scale and primarily reach formal financial institutions.	Coverage is narrow, microfinance, SMEs, and startups are less integrated; budget and staffing for government-led capacity building remain limited; no dedicated national capacity building framework fully integrated across sectors; dependence on external partners may slow institutionalization and scalability.

Responsible Ministries and Agencies

Impact investment in Ethiopia cuts across multiple institutions, each with distinct responsibilities that collectively shape the enabling environment. While no single ministry or agency is currently mandated to coordinate impact investment, several bodies play a central role in financing strategy, capital markets development, financial regulation, and investment promotion.

Table 9: Responsible Ministries and Agencies

Institution	Mandate/ Role	Relevance to Impact Investment	Existing Programs & Policies That Can Be Leveraged
Ministry of Finance (MoF)	Leads fiscal policy, public finance management, and coordination with development partners.	Controls public spending, sovereign guarantees, and development partner coordination—critical for blended and catalytic finance.	Public investment management reforms; blended finance arrangements with DFIs; climate finance coordination under CRGE; PPP frameworks.
National Bank of Ethiopia (NBE)	Regulates banks, MFIs, and insurance companies, and oversees overall financial stability.	Sets financial rules that shape green lending, sustainability-linked bonds, and institutional investor participation.	Corporate Governance Directive mandating ESG for banks; IFC-supported ESG capacity-building; fintech regulatory sandboxes.
Ministry of Innovation & Technology (MinT)	Leads innovation policy, startup ecosystem governance, and digital transformation.	Generates deal flow of high-growth, impact-oriented startups (fintech, agritech, health tech, clean energy).	Startup Business Proclamation (2025); Digital Ethiopia 2030; national incubation and acceleration programs (e.g., through EIH).
Ministry of Trade & Regional Integration (MoTRI)	Oversees trade policy, business licensing, and regional integration.	Reduces administrative barriers and supports SMEs and social enterprises to access markets.	Digital licensing reforms; SME export-readiness programs; initiatives on responsible business conduct.
Ethiopian Capital Markets Authority (ECMA)	Regulates the ESX, investment banks, brokers, and securities markets.	Creates the regulatory foundation for impact funds, bonds, and other market instruments.	Capital Market Proclamation (2021); ESX listing rules; frameworks for green, social, and sustainability bonds.
Ethiopian Investment Commission (EIC)	Facilitates foreign investment, manages incentives, and provides investor after-care.	Directs FDI flows toward priority impact sectors (agriculture, manufacturing, health, energy, digital services).	Investment promotion strategy and incentive framework; industrial parks; sector-specific investment promotion.
Ethiopia Investment Holdings (EIH)	Manages USD 150B of state-owned assets; functions as a sovereign wealth and strategic investment holding company.	Potential anchor investor for blended finance vehicles and large-scale catalytic capital.	SOE restructuring programs; co-investment with DFIs; innovation and youth-focused investment initiatives.
National ID/ Fayda	Provides a comprehensive, digital foundational identity infrastructure for individuals and businesses; enables verification, transparency, and access to formal financial and digital services.	Enhances investor confidence through reliable identity verification, reduces due diligence friction, supports financial inclusion, and enables data-driven impact measurement.	National digital ID rollout; integration with banking, mobile, and fintech services; linkage with startup/business registration; digital identification frameworks supporting e-government and financial inclusion.
Entrepreneurship Development Institute (EDI/EDC)	National institution for SME and entrepreneurship development, capacity building, and advisory support, and designated as the National Anchor Institution for the implementation of NEDP	Essential for building the pipeline of investment-ready SMEs and startups—currently one of the largest ecosystem gaps.	MSME development programs; startup training; early investment-readiness modules.
Sectoral Ministries (Agriculture, Industry, Energy, Health)	Develop sector policies, oversee regulation, and manage national development programs.	Define investable project pipelines aligned with national development priorities.	Sector-specific incentives; climate-smart agriculture programs; renewable energy initiatives; digital health expansion.

Gaps and Challenges

Despite the reform momentum, Ethiopia's government faces significant challenges in fully enabling impact investment.

Government as a market participant

The Government has not yet created strong public signals or financial instruments that can de-risk markets or mobilize private capital.

Core challenges

- **Limited use of public finance as a catalyst:** Government funding and procurement models do not yet intentionally prioritize social or environmental value, due to constrained fiscal space, reducing incentives for impact-oriented businesses.
- **Weak mechanisms for crowding in private investment:** Instruments such as guarantees, co-investment vehicles, or outcomes-based contracts remain limited, leaving early-stage and high-risk sectors without risk-sharing support, reflecting limited available public capital and institutional capacity.
- **Underdeveloped pipeline for sustainable finance:** Despite capital market reforms, the ecosystem lacks ready projects and institutional capacity to support green, social, or sustainability-linked issuances.
- **Gaps in translating policy initiatives into market-ready instruments:** While strategies like the CRGE and Green Legacy set environmental and social priorities, these objectives have not yet been operationalized into investable instruments, such as sustainable bonds or structured financing, limiting the ecosystem's ability to channel capital toward impact-driven projects.

Government as a regulator

Regulatory structures remain fragmented and insufficient to support the distinct needs of mission-driven enterprises and impact investors.

Core challenges

- **Operationalizing Policy Recognition:** The 2026 National Entrepreneurship Policy, approved only recently, responds to previously identified regulatory blind spots and institutional fragmentation by introducing a unified framework that recognizes five categories of entrepreneurship, including social entrepreneurship. However, as the policy is at an early stage, the legal, regulatory, and institutional measures required to translate this recognition into practice have yet to be developed.
- **Absence of consistent sustainability and impact disclosure:** ESG requirements are emerging but not standardized or extended beyond financial institutions, leaving investors with limited comparable data, due to limited resources for implementation and the need for sustained advocacy and capacity-building.
- **Unclear guidance for institutional investors:** Pension funds, insurers, and asset managers lack explicit regulatory permission or incentives to integrate ESG and impact factors in investment decisions.
- **No dedicated impact-oriented incentives:** Current incentives do not distinguish or reward enterprises delivering social or environmental outcomes, because the market for impact-driven enterprises is still nascent and knowledge among policymakers and regulators is limited.



Instruments such as guarantees, co-investment vehicles, or outcomes-based contracts remain limited, leaving early-stage and high-risk sectors without risk-sharing support, reflecting limited available public capital and institutional capacity.

Government as a market participant

The enabling infrastructure and coordination mechanisms required for a functional impact-investment market are still nascent.

Core challenges

- **Fragmented institutional landscape:** No single body leads or coordinates impact investment; responsibilities are dispersed across ministries and agencies without a unified strategy or mandate.
- **Lack of national frameworks and tools:** Ethiopia lacks a national impact investment strategy, an operational sustainable finance taxonomy, or a government-backed wholesale fund to channel capital into priority sectors, because impact investing is a new phenomenon, requiring foundational work such as awareness-building, stakeholder engagement, and development of technical expertise to secure buy-in.
- **Weak ecosystem capacity and data systems:** Limited technical capacity within government and enterprises, inadequate market data, and fragmented support programs hinder investment readiness and impact measurement.
- **Uneven integration across sectors and regions:** While some reforms support financial markets and digital innovation, implementation is inconsistent and insufficiently linked to broader impact goals.

Market/Ecosystem Enablers

Ecosystem enablers play a vital role in shaping the conditions under which businesses in Ethiopia can generate both financial returns and measurable impact. Market and ecosystem enablers facilitate the growth of impact-driven enterprises without directly providing capital. These actors, including financial advisors, educational institutions, and networks, support enterprise readiness, investor engagement, and ecosystem coordination. They create conditions for startups to scale, attract investment, and generate measurable social and financial outcomes by reducing transaction costs, strengthening capacity, and fostering confidence among investors and entrepreneurs alike.

Some Ecosystem Enablers Include

The Aspen Network of Development Entrepreneurs (ANDE): serves as a key ecosystem enabler in Ethiopia by fostering collaboration and knowledge exchange across the small and growing business (SGB) sector. ANDE operates as a global network of organizations that propel entrepreneurship in emerging markets, and its presence in Ethiopia has provided a platform for dialogue, coordination, and shared learning among diverse ecosystem actors.

Through public, local, and regional convening events, ANDE facilitates connections and collaboration on pressing ecosystem challenges. These include access to finance, access to markets, business support best practices, digitalization, talent development, resilient food systems, and youth entrepreneurship. By bringing together development partners, accelerators, investors, policymakers, and enterprises, ANDE helps align priorities, reduce fragmentation, and surface innovative solutions to systemic barriers.⁵⁶

Social Enterprise Ethiopia (SEE): established in 2018, is a not-for-profit membership organization that serves as the national body for the social enterprise sector. The organization works to strengthen the social enterprise ecosystem in Ethiopia and currently has more than 250 members. Its activities include experience-sharing, awareness-raising, and capacity-building initiatives



Ecosystem enablers create conditions for startups to scale, attract investment, and generate measurable social and financial outcomes by reducing transaction costs, strengthening capacity, and fostering confidence among investors and entrepreneurs alike.

⁵⁶ MS4G Convening

for both members and the wider public. SEE provides platforms that support existing and emerging social enterprises in developing innovative solutions to social, environmental, and economic challenges while pursuing sustainable growth. According to the organization, its impact reached over 15.8 million people in Ethiopia.⁵⁷

The Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA) and the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA): are increasingly incorporating startup and entrepreneurship support into their broader mandates. Traditionally focused on representing established private sector actors, both institutions are now positioning themselves as bridges between conventional businesses and the emerging startup ecosystem. Their roles include policy advocacy, business networking, and capacity-building services, which are being extended to startups and early-stage enterprises. This shift signals an important step in the maturation of Ethiopia's private sector landscape, as long-standing institutions begin to align with the needs of a new generation of entrepreneurs and innovators.

The Ethiopian Economics Association (EEA) and the Ethiopian Development Research Institute (EDRI): play a central role in providing the intellectual and human capital base of Ethiopia's entrepreneurial and investment ecosystem. Both institutions serve as leading think tanks, producing evidence-based research that informs policymakers, investors, and development partners. Their analyses contribute to shaping national dialogue on economic policy, guiding strategic decision-making, and identifying priority areas for private sector and impact investment. Beyond research, they also foster knowledge exchange through conferences, publications, and engagement with government and international stakeholders. Together, EEA and EDRI provide the analytical rigor and thought leadership necessary to support a more enabling environment for entrepreneurship and inclusive growth.

The Ethiopian Association of Start-up Ecosystem (EASE): was established to address fragmentation, limited access to funding, and gaps in policy support within the country's startup ecosystem. Over the past three years, EASE has worked to connect key stakeholders—including startups, business support organizations, policymakers, and investors—fostering collaboration and information sharing. By building these linkages, EASE aims to strengthen the overall ecosystem, enabling startups to access resources, scale their operations, and contribute to sustainable economic growth in Ethiopia.

EASE has also played an active role in supporting the Ethiopian Startup Proclamation, passed in July 2025. This landmark law provides a legal framework to foster a vibrant startup ecosystem, drive economic growth, and create sustainable jobs. The proclamation introduces measures such as access to finance, tax incentives, and streamlined regulatory processes, while promoting a shift from Ethiopia as a consumer to a producer of technology and solutions. Through its advocacy and engagement, EASE contributes to the implementation of this framework, helping empower youth and integrate innovation into national development strategies.

Addis Ababa University: The Addis Ababa University Startups Center serves as a key driver of innovation and entrepreneurship within Ethiopia's higher education landscape. Positioned as a hub for students, researchers, and early-stage entrepreneurs, the center provides an environment where transformative ideas can be nurtured into scalable businesses. Beyond its main facilities, AAU has developed a network of specialized innovation centers across its campuses, including the AAiT Innovation Center, the Science Innovation Center, and the Black Lion Hospital Health Innovation Center. Each branch is tailored to its field, offering sector-specific resources, mentorship, and collaboration opportunities.

⁵⁷ Social Enterprise Ethiopia Website



SEE provides platforms that support existing and emerging social enterprises in developing innovative solutions and its impact reached over

15.8 mn

people in Ethiopia.

Key Gaps in Market/Ecosystem Enablers

Fragmented and Poorly Coordinated Ecosystem

The enabling environment remains highly fragmented, with multiple donor-funded programs, networks, and academic initiatives operating in parallel. Platforms like ANDE and EASE attempt to bridge dialogue, but weak collaboration between accelerators, universities, industry associations, and government leads to duplicated efforts, inconsistent service quality, and limited sharing of knowledge or best practices. This fragmentation prevents a cohesive ecosystem that can effectively prepare startups for impact investment.

Limited Pipeline Development and Investor Readiness

Market enablers struggle to generate a robust pipeline of investable enterprises. Startups face high entry barriers, such as proof-of-concept and documentation requirements, while investors remain cautious, seeking de-risked opportunities. The ecosystem lacks structured support to guide early-stage enterprises from ideation to investment readiness, limiting the supply of viable, impact-aligned ventures.

Weak Adoption of Impact Measurement and Standards

Although global frameworks like IRIS+, ESG guidelines, and GIIIN Metrics exist, they are rarely embedded in local programs. Many ecosystem actors measure outputs rather than outcomes, and ESG integration at firm and sector levels remains inconsistent. While initiatives like IFC's ESG Programme and upcoming IFRS sustainability disclosures indicate progress, the absence of standardized measurement and reporting reduces transparency, undermines investor confidence, and slows the development of a data-driven impact market.

Reliance on Donor Funding and Sustainability Gaps

Most enablers depend heavily on donor or corporate grants, with limited cost-recovery mechanisms such as consulting fees, equity participation, or membership models. This funding dependency creates uncertainty around continuity and limits incentives to develop scalable, efficient, and innovative services for entrepreneurs.

Talent and Capacity Shortages

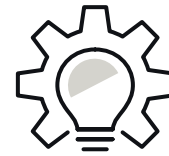
Universities, accelerators, and training institutions provide limited instruction on entrepreneurship, investment readiness, and ESG integration. The shortage of qualified mentors, technical advisors, and analysts constrains the ecosystem's ability to guide startups toward scalable, impact-aligned growth and reduces the support available for investors conducting due diligence or impact evaluation.

Weak Knowledge Exchange and Research Utilization

Research conducted by institutions like EEA and EDRI is not effectively translated into actionable tools or accessible market data. The lack of centralized knowledge-sharing platforms limits evidence-based decision-making, reduces collaboration between ecosystem actors, and hinders the development of policies or programs that could strengthen the impact economy.

Geographical and Sectoral Concentration

Support services, networks, and educational programs are predominantly concentrated in Addis Ababa, leaving secondary cities underserved. Similarly, some sectors are overrepresented while others lack targeted support, limiting equitable access to resources and the nationwide development of impact-driven enterprises.



The ecosystem lacks structured support to guide early-stage enterprises from ideation to investment readiness, limiting the supply of viable, impact-aligned ventures.

Section 6

Benchmarking for Ethiopia's Impact Ecosystem

Global practices in impact ecosystems provide valuable lessons for advancing Ethiopia's ecosystem

Area	Challenge	Best Practice Case Study	The Strategic Role of the National Partner (NP)	Lesson Learned
Market Enabling	Fragmented Support Incubators and accelerators operate in silos with inconsistent quality.	Ghana & Nigeria ESO Collaboratives: National platforms (e.g., esoghana.org) that unify Hubs, government agencies (GEA/NEIP), and ESOs.	Central Convener & Auditor: The NP (Impact Investing Ghana/Nigeria) manages the platform, sets quality standards, and provides a national database to match SMEs with the right support.	Fragmentation can be solved by a central "neutral" body (NP) that standardizes support quality rather than individual standards by ESOs.
Deal Flow	Visibility Gap Investors cannot find "deal-ready" firms; firms cannot find the right investors.	DealSource Africa (Ghana & Nigeria): A digital matchmaking platform founded in 2022 to bridge the investor-business gap across West Africa.	Market Architect: The NPs (IIGh and IIF Nigeria) co-designed the digital infrastructure, vetting criteria, and quarterly "Deal Rooms" to reduce transaction costs for investors.	A digital matchmaking tool led by NPs can scale deal-flow visibility far more effectively than isolated workshops and events.
Technical Assistance	Low Readiness High-potential firms lack the audited data and governance to absorb capital.	Ghana Investment Support Programme (GhISP): A collaborative TA program focusing on SME investment readiness, AI for finance, and GLI.	Capacity Builder: The NP (Impact Investing Ghana) partners with GhISP to design and deliver training for fund managers and advisors on transaction structuring.	The NP is critical for translating investor requirements into specific training curricula for entrepreneurs and transaction advisors.
Innovative Finance	Instrument Gaps Reliance on basic debt/equity; lack of thematic or sustainable bonds.	India ESG Debt Securities (SEBI Framework): India's 2025 framework for Social, Sustainability, and Sustainability-Linked Bonds (SLBs).	Standard Setter: The NP (IIP India) worked with regulators (SEBI) to align domestic bond standards with global ICMA principles to attract international capital.	A robust impact bond market requires an NP to advocate for regulator-backed frameworks to include social outcomes.
Unlocking the "Missing Middle"	High collateral requirement Lack of "risk-first" capital for SMEs that are too big for MFIs but too small for banks.	Israel: Established the National Recovery and Growth Fund, a \$300M blended vehicle to tackle market failures in underserved regions.	Vehicle Design: The NP acts as a lead architect, blending government, philanthropic, and private capital to create first-loss protection for SME lenders	NP playing a facilitative and lead role in the design of a blended "SME Recovery Fund" to de-risk banks lending to impact-focused SMEs.
Sector-Specific Diversification	Investment is overly concentrated in a few sectors (e.g., fintech), leaving agriculture and education underserved.	Kenya: The NP (Impact Investment Kenya) is actively driving capital into Agriculture and Education through specialized consortia.	Thematic Advocacy: The NP identifies multiplier-effect sectors and creates "Impact Deal Spotlights" to attract sector-specific funds	Ethiopia should use the NP to actively market "under-invested" sectors to international impact funds.
Policy & Law	Emerging Legal Status Social enterprises recently got formal recognition, but are yet to progress in implementation and associated tax benefits.	Thailand Social Enterprise Promotion Act (2019): Enacted dedicated legislation and established the Office of Social Enterprise Promotion.	Policy Advocate: The NP (Thailand NAB) led the technical drafting and sustained advocacy to ensure social enterprises received tax exemptions and procurement preferences.	Recognition and incentives provide the foundation for impact enterprises, with NPs playing a leading role in policy advocacy.
Local Currency Financing	Severe FX risk and lack of local currency capital for impact funds.	Nigeria: The Wholesale Impact Investment Fund (WIIF) is denominated in Naira to provide local currency capital specifically for local fund managers.	Financial Architect: The Nigerian NP secured a \$50M government pledge (50% of seed capital) and appointed a professional manager to run the wholesaler.	Ethiopia's NP s could provide technical support and advocacy for a Birr-denominated wholesaler to protect local SMEs from the high interest rates and FX devaluation by taking learning from the other NPs.

Section 7

Recommendations

The Ethiopian impact investment ecosystem is currently at an emerging stage, facing significant structural gaps that hinder the efficient flow of purpose-driven capital. On the supply side, there is a severe shortage of long-term, patient capital and specialized thematic funds, as most available financing remains short-term and risk-averse. These challenges are compounded by systemic macroeconomic pressures, including high inflation, persistent foreign exchange shortages, and regulatory uncertainties that elevate the perceived risk premium for international investors. Furthermore, the demand side suffers from a "missing middle" financing gap and low investment readiness among enterprises, many of which struggle to meet the documentation and proof-of-concept requirements needed to secure impact capital. Coordination remains fragmented among government, donors, and intermediaries, while market enablers often lack the institutional capacity and sustainable funding models to facilitate a robust pipeline of investable, impact-aligned ventures.

Despite these barriers, there are several cross-cutting opportunities to build a more resilient and inclusive impact economy. The ongoing macroeconomic and policy reforms, such as the liberalization of the telecommunications and financial sectors, signal a clear shift toward private-sector-led growth and create new entry points for impact-oriented businesses. Leveraging Ethiopia's large and young demographic offers a dynamic labor force that can drive grassroots entrepreneurship if paired with targeted capacity-building and digital tools for financial inclusion. Furthermore, the establishment of the National Partner (NP) for Impact Investment provides a strategic platform to bridge coordination gaps and align national development priorities with global impact standards. By utilizing innovative financing models like blended finance and de-risking instruments, the ecosystem can mobilize domestic and international capital toward high-impact areas that were previously considered too high-risk.

Developing a functional impact investment ecosystem requires a coordinated set of actions that build capacity, reduce risk, improve market infrastructure, and foster collaboration between government, investors, intermediaries, and enterprises.

They provide a practical, sequenced roadmap for strengthening impact investment and enterprise support in Ethiopia. Each recommendation is framed according to feasibility and potential impact, with a suggested timeline for implementation.



QUICK WINS (0–12 MONTHS)

Establish coordination, credibility, and early pipelines

1 Create a Formal Coordination Platform for Stakeholders

Establish a government-endorsed coordination platform to bring together ministries, investors, intermediaries, accelerators, academia, and development partners. The platform facilitates knowledge sharing, alignment of priorities, and collaboration, reducing duplication and fragmentation in the ecosystem.

2 Develop Knowledge Materials and Awareness Campaigns

Produce concise, practitioner-oriented guidance on impact investing concepts, financing instruments, ESG integration, and deal structuring tailored to the Ethiopian context. Disseminate these materials through coordination platforms, social media, and institutions, ensuring actionable insights for ecosystem stakeholders.

3 Map and Engage Catalytic Capital

Undertake a targeted mapping of financiers capable of de-risking priority sectors, including DFIs, blended finance facilities, diaspora investors, and green finance providers. The focus should be on identifying capital that can absorb early-stage risk, provide guarantees, or offer local-currency solutions, and actively linking these actors to emerging pipelines. Additionally, leverage Pillar 5 of the NEDP (2026) to identify financiers capable of participating in first-loss guarantee structures and blended finance mechanisms. Link DFIs, green finance providers, and private investors to the National Entrepreneurship Development Fund to reduce perceived risk and unlock private capital for early-stage and “missing middle” enterprises

4 Launch Cohort-Based Capacity-Building Programs

The NP to design and facilitate training programs for regulators, intermediaries, fund managers, investors, and enterprise support organizations to build technical skills in Due diligence, blended finance, and impact measurement. Cohorts should be sector- or instrument-specific to foster peer learning and improve transaction-level outcomes.

5 Preparing Ethiopia for Global Impact Platforms

During this phase, the NP will focus on preparing Ethiopia's impact investment ecosystem to participate effectively in high-profile international events scheduled for 2027, including the P4G Summit and COP32. The NP's role is to coordinate stakeholders and facilitate the development of investable pipelines across strategic sectors. Through capacity-building, matchmaking, and awareness campaigns on innovative financing models, the NP helps Ethiopian startups and SMEs attract international capital and engage meaningfully in these global platforms.

6 Operationalize Social Enterprise Licensing and Incentives

Through the January 2026 National Entrepreneurship Policy, social enterprises can, for the first time, be formally recognized alongside other enterprise types, addressing the longstanding absence of a dedicated category or licensing structure. To translate this recognition into practice, work with Social Enterprise Ethiopia and other ecosystem stakeholders to rapidly develop and operationalize the necessary regulatory instruments, licensing pathways, and incentive mechanisms. Prompt implementation supported by clear eligibility criteria, reporting expectations, and targeted fiscal and non-fiscal incentives will safeguard mission integrity, improve access to appropriate capital, and strengthen the credibility and legitimacy of impact-driven enterprises within the broader entrepreneurship ecosystem

7 Launch a National Digital Impact Dealroom (NDID)

The National Partner (NP) should develop a National Digital Impact Dealroom—a high-touch, collaborative platform designed to turn market visibility into mobilized capital by leveraging existing industry associations. Building on the

Ethiopian Startup Data Hub, the NDID will aggregate “Missing Middle” SMEs and early-stage ventures into larger, investable portfolios that meet institutional investors’ ticket-size requirements. The platform will serve as a space where investors can discover and co-invest in “impact-verified” opportunities, share live deals, and exchange due diligence insights, supported by Technical Assistance to ensure investment readiness. By standardizing reporting, integrating a robust Impact Measurement Framework, and hosting virtual “Deal Share Live” sessions, the NDID reduces discovery costs and risk, enabling small but well-prepared enterprises to access larger pools of capital and participate meaningfully in the national and international investment ecosystem.



MEDIUM-TERM (1–3 YEARS)

Build market infrastructure and unlock the “missing middle.”

8 Professionalize and Standardize Enterprise Support Organizations

Establish a formal accreditation or certification system for incubators, accelerators, and other enterprise support organizations to ensure consistent service quality, transparency, and data reporting across the ecosystem. Accredited ESOs should meet minimum standards related to governance, service delivery, enterprise outcomes, and pipeline development. This approach strengthens investment readiness, reduces fragmentation, and enables more reliable aggregation of enterprise data for investors and policymakers.

9 Expand Digital and Alternative Credit Assessment Tools

Scale digital finance solutions, including alternative credit scoring and risk assessment tools, leveraging the Fayda National ID as a foundational layer. Reduce collateral dependence and improve access for SMEs and underserved sectors.

10 Establish the Ethiopia Impact Investment Facility (EIIIF)

The National Partner (NP) should lead the design of the Ethiopia Impact Investment Facility (EIIIF), a strategic impact investment fund aimed at moving beyond traditional direct-lending models toward a sophisticated, market-making infrastructure supported by feasibility studies. Rather than functioning as a single pool of funds, the EIIIF will act as a central clearinghouse, deploying a tailored map of financial instruments, including portfolio first-loss tranches for DFIs, portable credit guarantees for local commercial banks, and 1:1 matching grants for diaspora and angel investors designed to meet the distinct risk-return profiles of different ecosystem actors.

11 Build Technical Capacity on Innovative Financing Tools

Provide hands-on training to intermediaries, suppliers, and program managers on deploying blended finance, guarantees, outcome-based instruments, and other innovative tools. Train financial institutions and intermediaries on forward-exchange hedging (NBE FXD/04/2026), blended finance structures, and outcome-based instruments. Strengthen local ability to manage FX risk, de-risk private capital, and improve deal efficiency. This strengthens local expertise to structure investments, mobilize capital, and increase transaction efficiency.

12 Institutionalize ESG, Impact Taxonomy, and Reporting Standards

The National Partner (NP) will lead the development of a National Impact Taxonomy as the technical foundation for Ethiopia's impact investment ecosystem, providing a common language and standardized criteria for classifying investments in line with global benchmarks such as the African Sustainable Finance Taxonomy (2025).

Building on this, NP will expand ESG and impact reporting across multiple sectors beyond financial institutions, creating sector-specific guidance, integrating globally recognized impact metrics, and collaborating with regulators, market enablers, and partners to drive consistent adoption. This approach ensures transparency, comparability, and credibility of reported impact, enabling investors, intermediaries, and policymakers to make informed, data-driven decisions while strengthening the overall investment ecosystem.



LONG-TERM (3–5 YEARS)

Institutionalize Impact and Scale Strategic Collaborations

13 Strengthen Investor Exit and Repatriation Pathways

Engage with the National Bank of Ethiopia and leverage NBE Directive FXD/04/2026 to design favorable and stable exit and profit repatriation mechanisms for investors in high-impact projects. This directive now enables commercial banks to facilitate forward-exchange hedging and decentralizes approval for profit repatriation, reducing currency and regulatory risk. Applying this across sectors beyond traditional exports, including manufacturing, renewable energy, healthcare, and green initiatives, will enhance investor confidence, demonstrate the economic and social returns of high-impact investments, and encourage longer-term, diversified capital commitments.

14 Embedding Impact Finance into National Strategies

In the long term, the government to gradually establish formal mandates, incentives, and operational frameworks to integrate impact finance into national economic strategies. The NP will continue to act as a facilitator, providing technical guidance, supporting sectoral alignment, and tracking progress in pipeline development and enterprise investment readiness. By this stage, the ecosystem aims to attract patient capital to high-impact sectors, with the NP ensuring that enterprises are visible, prepared, and connected to both domestic and international investors.

15 Encourage Corporate Venture and Government-Enterprise Collaboration

Leverage the National Entrepreneurship Development Policy (2026) mandate for 'Public and Corporate Entrepreneurship' to transform SOEs into ecosystem catalysts. Specifically, work with Ethiopian Investment Holdings (EIH) on allocating a percentage of its portfolio innovation budget toward impact-verified ventures. This should include establishing co-investment pathways with international DFIs and creating 'sandboxes' within SOEs where startups can scale solutions that align with strategic national priorities like food security and green energy.

Appendices

Table 10: Interview List

Pillar	Selected Members	Organization
Supply Side	Filagot Sileshi	Cepheus Growth Capital Partners
	Kerima Ali Mohammed	Tsehay Bank S.C.
	Leah Dejenu	UNCDF
	Lelise Temesgen and Tenagne Bassa	Enat Bank
Demand Side	Hanan ahmed	hanswith care
	Brukt Kebede	Beki Farm PLC
	Kidist Tesfaye	Yene Health
Intermediaries	Ian Lorenz	Growth Africa/ BIC Ethiopia
	Mekdim Gullilat Aberra	Reach for Change
	Wondwesen Zewdie	R&D Group
Market enabler	Tamrat Sultan	ALX Ethiopia
	Bethlehem Hailu	Novu Advisory / IFC

Table 11: Types of Financing Instruments

	Documentation	Definition	Finance Provider
Debt Instruments	Non-concessional loans	The sum of money that is given but needs to be repaid.	Commercial banks, corporates
	Concessional loans	The sum of money is given at a relatively cheaper cost.	Governments, multilateral/ bilateral finance institutions, and infrastructure funds
	Grants	The sum of money that is given but does not need to be repaid.	Public and private investors, MDBs
	Debt swaps	The sale of a foreign currency debt to an investor or debt forgiveness by the creditor, in exchange for debt relief.	Public and private investors
	Green, social, thematic, and sustainability-linked bonds	Debt instruments where proceeds are used to finance or refinance, in part or in full, new and/or existing eligible projects/assets/companies.	Public (national, sub-national, or municipal) and private investors, banks, or corporations
	Quasi equity	Debt, typically unsecured and subordinated that raises the capital base with no changes to the ownership structure.	Public and private investors

	Documentation	Definition	Finance Provider
Equity Instruments	Equity securities	Ownership interest held by shareholders in an entity (a company, partnership, or trust), realized in the form of shares of capital stock.	Public and private investors
	Investment grants	The sum of money that does not need to be repaid.	Governments, multilateral/ bilateral finance institutions
	Co-financing	Joint financing between two entities working to finance an activity.	Public and private investors
Credit-enhancement Instruments	Interest-rate softening mechanisms	Lower interest rates and other costs below the market rates.	Governments, multilateral/ bilateral finance institutions
	On-lending / re-financing	Borrowing from external or domestic sources and thereafter passing the loan to another entity/ replacement of an existing debt obligation with another debt obligation under different terms.	Development / institutional finance institutions
	Project bond credit enhancement	Subordinated instrument, either a loan or contingent facility, to support senior project bonds issued by a project company.	Multi-lateral / bi-lateral finance institutions
	Subordination of credit, trenching excess spread, over-collateralization, reserve accounts, etc.	Prioritization of collateralized debts, ranking one behind another for purposes of collecting repayment from a debtor. Subordinated debts are riskier than higher-priority loans, transferring risk in the event that the results of projects are not fully achieved.	Local and national governments
Risk-transfer Instruments	Insurances	The creation of risk transfer mechanisms that provide resources for disasters and transfer loss liabilities to capital market investors.	Insurance companies
	Guarantees	A promise to repay the debt of another in the event of default.	Governments, multilateral/ bilateral finance institutions
	Results-based climate finance	Funds are disbursed by the donor or investor after pre-agreed results of the activity are achieved and verified.	Governments, multilateral/ bilateral finance institutions
	Blended finance	Development capital is part of the effort to mobilize private capital.	Governments, multilateral/ bilateral finance institutions
	Technical assistance grants	The sum of money that is given for capacity building and information and expertise, instruction, training, and consultation related to a climate activity, but does not need to be repaid.	Governments, multilateral/ bilateral finance institutions
	Risk capital	Funds (equity / concessional loans) allocated to climate mitigation/adaptation activity with a high level of uncertainty.	Governments, multilateral/ bilateral finance institutions



GSG Impact builds impact economies. We do this by working to embed social and environmental impact at the heart of every political, investment, business and consumption decision.

We connect global leaders, governments, investors, regulators and social innovators, so that together we can build the infrastructure and incentives for social and environmental impact to be central to all decision making.

GSG Impact is the cornerstone of the wider GSG Impact Partnership – a global network of 43 National Partners representing 48 countries: more than half in emerging markets.

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