

Innovative Capital Mobilisation in Africa (ICAMA) Initiative

Enabling Capital Mobilisation for Start-ups and Growth Enterprises in Africa

Action Research on Barriers, Opportunities and Investment Vehicles to mobilise more Capital for Start-ups and Growth Firms in Africa

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Introduction

This report forms part of the ***Innovative Capital Mobilisation for Africa (ICAMA) Initiative***, which aims to unlock private and institutional capital for African startups and growth firms. ICAMA applies an evidence-based, market-driven approach to understand where and why capital is currently constrained and where and how targeted interventions can have the greatest systemic impact.

As part of this effort, ICAMA – together with its partners – aims to design and scale up **five complementary investment vehicles** to strengthen capital flows into African ventures and early-stage markets.


Three of these vehicles emerged directly from an **Action Research** process conducted in partnership with Open Capital. Based on 30 consultations with investors, fund managers, ecosystem actors and market experts, this research identified priority interventions to address systemic barriers in Africa's early-stage and growth finance markets. The three vehicles derived from this process are: a **Fund-of-Funds**, a **Secondaries Fund**, and a **support vehicle for (female) emerging fund managers**.

In parallel to this research process, ICAMA has expanded to include two additional vehicles identified through targeted market engagements: a **debt securitisation vehicle**, shaped by discussions with Kaleidofin, and a **venture building vehicle**, potentially to be developed in collaboration with Bosch Business Innovations.

This publication presents and analyses the three vehicles that emerged from the Action Research process. The two additional vehicles form part of ICAMA but were not yet included in this Action Research.

Overview ICAMA

ACTION RESEARCH

 **Selected 30 consultations** with Open Capital to identify: Challenges | gaps | learnings | needs | opportunities | successful vehicles | priority interventions


Research with Cenfri on **enabling policy and regulatory frameworks**

INVESTMENT VEHICLES

Jointly with ICAMA partners design / scale-up of:

- Fund-of-Funds
- Secondary Fund
- Support vehicle for emerging (female) fund managers
- Venture Building Vehicle
- Debt Securitisation Vehicle

OBJECTIVE

 **Investment vehicles supported by the ICAMA Initiative mobilise significant capital for startups and growth firms in Africa**



Research Design & Methodology

Research Objective

- Identify key barriers and challenges in the market
- Identify practical, scalable investment vehicles to unlock more early-stage capital for African start-ups and growth firms

Methodological Approach

- 30 semi-structured consultations with investors & fund managers, DFIs & public capital providers, ecosystem builders & networks, and advisory & policy actors
- Conducted jointly with **Open Capital Advisors** under the ICAMA Action Research stream

Consultation Framework

- 1. Initiatives**
 - Understand each organisation's focus, investment approach, and current vehicles
- 2. General Questions**
 - Identify main bottlenecks, capital stack gaps, and prioritise key vehicles for ICAMA
- 3. Specific Questions:**
 - Discuss each organisation's investment focus (stage, geography, sectors) and related fund mechanics or constraints

Consultations Participants

Investors and Fund Manager



DFIs



Ecosystem Builders & Foundations



Advisory & Technology



Barriers and proposed investment vehicles

Barriers to financing early- and growth-stage African firms*

- 1 **Macro and structural barriers**
 - **Limited exit options:** relatively few proven exits and very limited IPO and secondary markets options
 - **Capital concentration:** in Kenya, Nigeria, S. Africa, Egypt
 - **Investor misperceptions:** international LPs often operate with limited information and tend to overestimate Africa risk
- 2 **Financing product gaps**
 - **Lack of 'true' early-stage capital:** gap in pre-seed and seed rounds prevents promising concepts from scaling
 - **FX mismatch:** most available capital requires 'hard' currency returns, creating a mismatch and hedging products are expensive/inaccessible
 - **Few debt/hybrid options:** venture debt and similar hybrid products are not widely available, creating inefficiencies
- 3 **Investor-side challenges**
 - **Inability to raise from local investors:** local institutions face hurdles on VC allocations and angels are not organized, meaning significant local capital is sidelined
 - **Difficulty raising first-time funds:** few investors are willing to back these, even with experienced team and strategies
 - **Liquidity concerns:** most LPs cite structural barriers like limited exits as reasons not to consider African VC

Proposed ICAMA vehicles

- **Fund of Funds (FoF)/platform for local capital mobilization:** By pooling capital through smaller funds, a FoF or platform addresses the ticket size mismatch between startups and investors. Attracting capital from local investors also reduces FX challenge
- **VC secondary fund** would create liquidity by acquiring LP stakes in existing VC funds, unlocking capital for reinvestment and addressing exit constraints caused by limited IPO, M&A, and secondary markets. This will also reduce investor concerns around liquidity
- **Support vehicle for first time fund managers** could increase number of high-quality fund managers and fund strategies in the market, bridging the gap now for first-time funds
- **Angel co-investment vehicle** could support angel communities to deploy more capital, especially in pre-seed and seed capital. It will help overcome capital scarcity in emerging markets, reduce the ticket size mismatch, and build a stronger early-stage pipeline to feed into VC funds

***Sources:** Action research conducted by OCA, including ~30 industry stakeholder consultations facilitated with GIZ to identify challenges, gaps, learnings, needs, opportunities, successful vehicles, and priority interventions

Fund of Funds (FoF): Potential pathways and examples

Potential pathways and rationale

African VCs struggle to raise capital given the limited LP market, which would be expanded by dedicated Fund of Funds, especially those that could unlock local currency capital from African institutional investors who cannot invest through current structures. Since Africa-focused FoF managers already exist, the selected pathways focus on enabling these actors to replicate and scale through enabling products, while also leaving open the possibility of launching new FoFs where relevant

- 1 **Replicate the FoF models in other countries:** these vehicles would be locally anchored and designed to mobilize capital from institutional investors into local and regional VC funds as well as debt funds (this will be dependent on an enabling regulatory framework, similar to Ghana)
- 2 **Launch a platform/alternative vehicle for standardized and more efficient capital mobilization:** could take the form of a listed fund, pooled investment scheme, or similar structure that standardizes due diligence, reporting, and legal terms, making it easier for investors to mobilize capital into African VC funds in a more transparent and liquid format
- 3 **Scale equity guarantee products for African VC funds:** provides risk-sharing mechanism that improves African VC's ability to raise capital from local and international LPs

Examples

- **Ci-Gaba:** a new fund-of-funds in Ghana designed to unlock local institutional capital to invest in VC funds in West Africa. Ci Gaba is targeting a final close of \$75M, using a blended finance structure combining local investors and foreign risk-sharing partners
- **Listed SME Debt Fund:** FSD is enabling a publicly listed fund in Kenya aiming to mobilize local capital (\$100M first close) to invest in local SMEs, backed by local institutional investors. Fund manager is not yet publicly announced
- **CPF:** pension fund in Kenya that has been a leader in new schemes to diversify local institutional investment (e.g., equity investment in Dhamana, local FX guarantee company; lead of "Pack Hunters Club", an initiative to convene multiple local FIs and institutional investors to finance new assets)
- **Africa Guarantee Fund (AGF):** pan-African fund that provides risk-sharing guarantees, which seeks to scale an equity guarantee product that can protect early-stage investment funds against risks

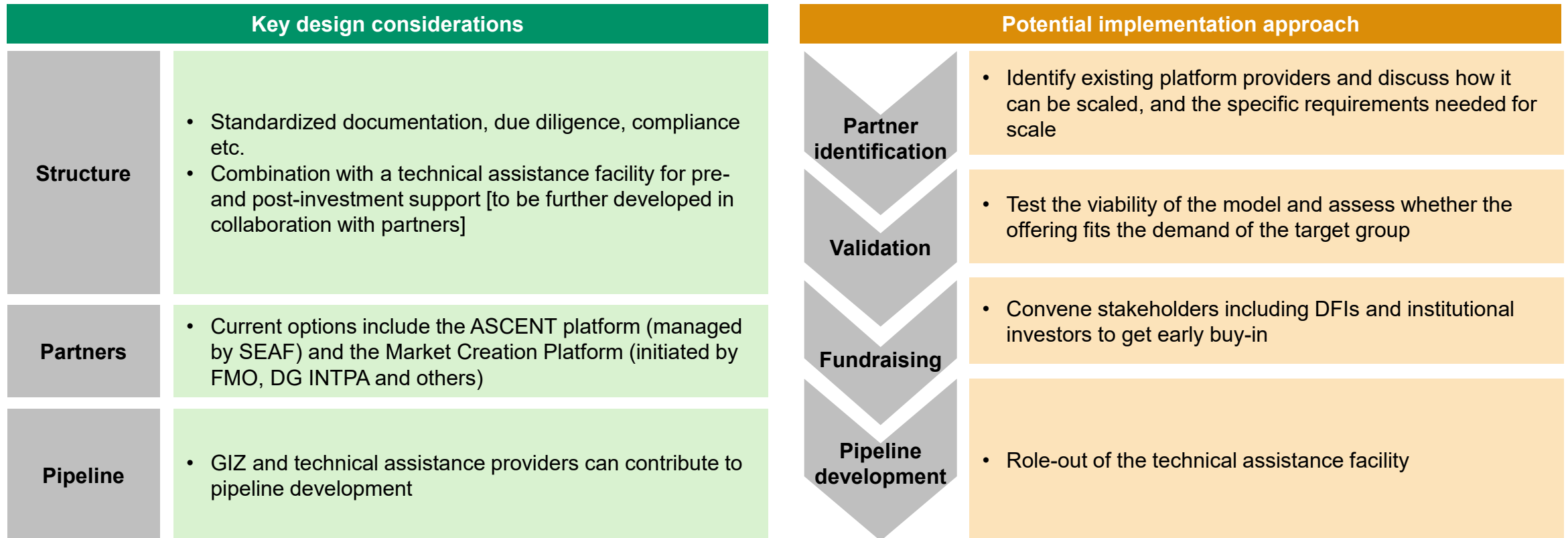
Fund of Funds | Pathway 1: Replicate local Fund of Funds model

Objective: Replicate local Fund of Funds models like Ci Gaba in Ghana in other countries, to mobilize local institutional capital for the purpose of investing in local and regional VC funds that finance local start-ups

Key design considerations		Potential implementation approach	
Structure	<ul style="list-style-type: none"> Fund structure must comply with rigid requirements of local institutional investors (e.g., governance, reporting) Commercially viable fee structure, where “fees on fees” is reasonable based on benchmarks and justified given value of a diversified pool of fund assets Blended finance structure that reduces risk through risk-sharing layers and TA 	Scoping	<ul style="list-style-type: none"> Identify countries based on regulatory environment, availability of VC funds, and level of commitment of local institutional investors Involve actors such as FSDA who have been close to the set-up of many similar vehicles and can bring learnings and existing insights
Regulatory & policy	<ul style="list-style-type: none"> Country of replication must have the right policies in place to enable such a structure, paired with a supportive pension regulator 	Stakeholder buy-in	<ul style="list-style-type: none"> Identify able fund managers and convene necessary stakeholders including regulators and local institutional investors to get early buy-in
Local partners	<ul style="list-style-type: none"> Fund Managers should already be accepted by the local institutional investor community Strong local conveners to facilitate dialogue between government and other actors (e.g., Impact Investing Ghana in the Ci Gaba case) 	Set-up	<ul style="list-style-type: none"> Provide TA to support fund set-up and local investor engagement process. This could include covering structuring, legal, and transaction costs for more established actors, or offering early-stage support to new FoF initiatives
Pipeline	<ul style="list-style-type: none"> Selected country must have adequate established VC funds with track-record to justify FoF. For smaller countries, a regional FoF structure may be more appropriate (similar to Ci Gaba) 	Capital mobilization	<ul style="list-style-type: none"> <i>Junior tranche</i>: provide support to identify and raise blended finance investors for junior tranche/guarantees, likely among donors, DFIs, and impact investors <i>Senior tranche</i>: Support fundraising from local institutional investors

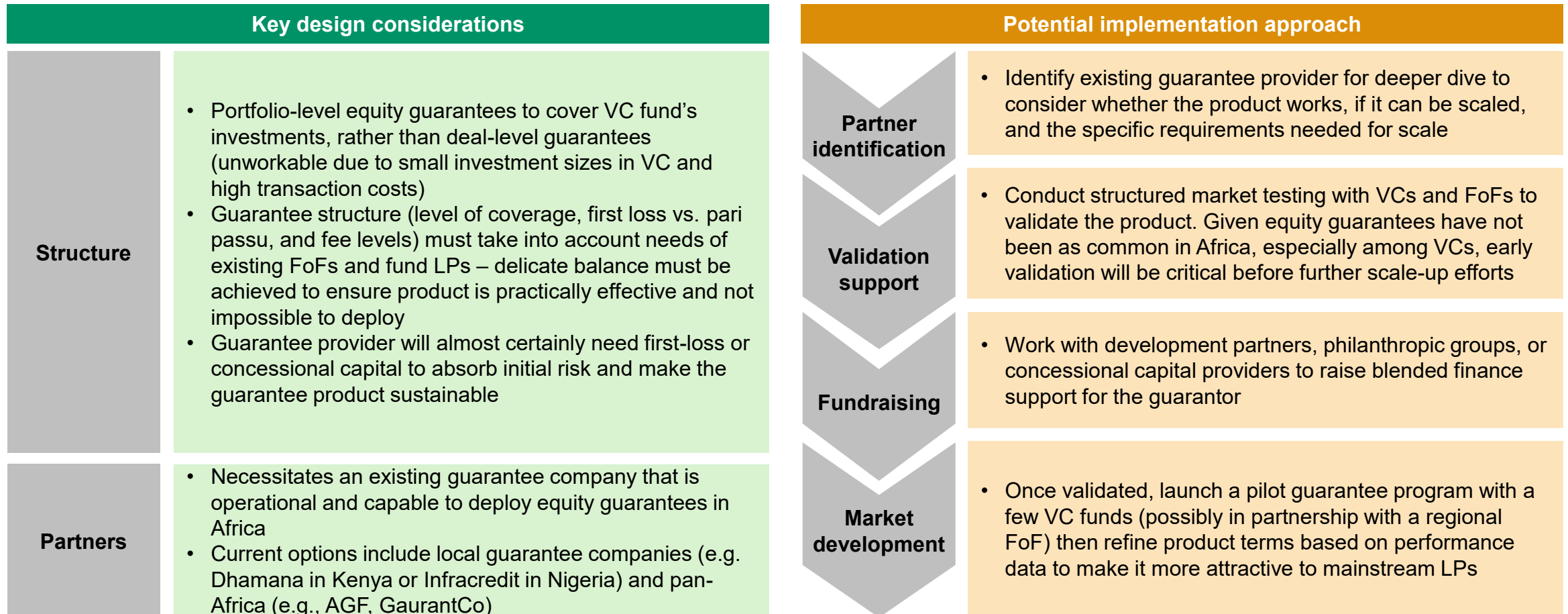
Fund of Funds | Pathway 2: Establish a platform

Objective: Support the establishment of a platform to de-risk and channel investments from institutional investors to ventures in Africa, gaining efficiency through standardization



Fund of Funds | Pathway 3: Provide equity guarantees for VC funds

Objective: Support creation and/or scale-up of equity guarantees for African VC funds, to improve their ability to raise funds (based on African Guarantee Fund's equity guarantee product)



Secondary funds: Potential pathways and examples

Potential pathways and rationale

Another approach to attract more LP interest for African VC is to improve liquidity options, either through a secondaries fund or a guarantee mechanism. Two pathways were prioritized as potential ICAMA interventions to unlock the market. Both are challenging to implement, especially #1, but hold significant potential for systemic market benefits

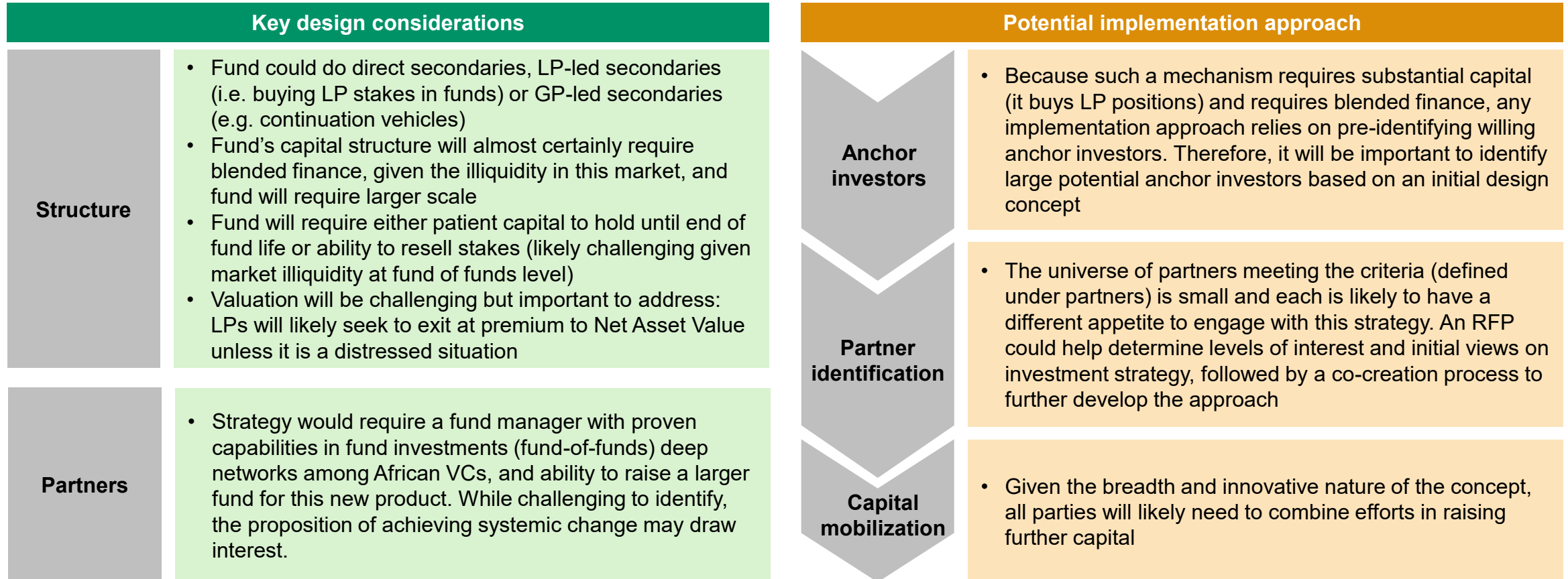
- 1 Enable a secondary fund that e.g. buys out LP stakes from African VCs**, creating liquidity for existing investors and recycling capital back into the venture ecosystem
- 2 Scale liquidity guarantee mechanism**, that provides liquidity guarantees to buy-out LP stake in VC fund managers. Such a product can focus on targeted end beneficiaries like gender lens funds

Examples

- **Octobre:** a mission-driven financial company that offers a liquidity guarantee for closed-ended funds, allowing investors to exit their participations in illiquid impact and emerging markets vehicles at any time. Octobre is in deployment mode, having been backed by many reputable partners, but is also looking to scale
- **Sango Capital:** African private equity fund that has as part of its strategy secondary market transactions and has acquired LP interests in existing African PE funds such as Synergy Private Equity Fund II
- **Kuramo Capital:** a Pan-African Fund of Funds that has backed a number of African funds and might be an example of an experienced implementer which could manage a new secondaries fund strategy

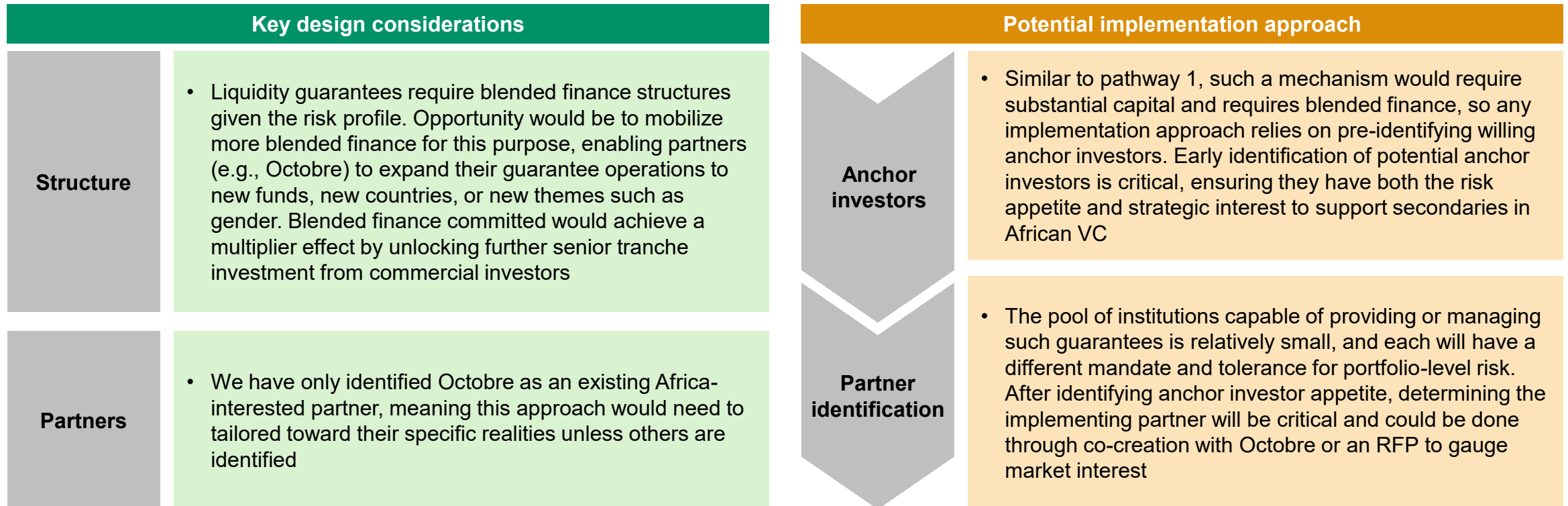
Secondary funds | Pathway 1: Create a dedicated VC secondary fund

Objective: Create a specialized secondary fund that provides liquidity to investors in African VC funds by e.g. acquiring LP positions, while creating an institutional pathway for recycling capital back into the ecosystem



Secondary funds | Pathway 2: Scale a buy-out guarantee mechanism

Objective: Expand a liquidity guarantee mechanism (e.g., Octobre) to de-risk VC funds and potentially attract a larger LP universe



Support vehicle for first-time fund managers: Potential pathways and examples

Potential pathways and rationale

The scarcity of first-time GPs in Africa limits the depth and diversity of the continent's venture capital ecosystem. Many promising fund managers struggle to reach institutional standards, raise anchor capital, or build early track records, which restricts the flow of capital into startups. A dedicated support vehicle would address these gaps by strengthening and scaling initiatives that back emerging managers (including women-led teams), helping them build capacity, access working capital, and connect with LPs. The aim is to create a pipeline of credible first-time funds that can broaden the base of capital available to African entrepreneurs

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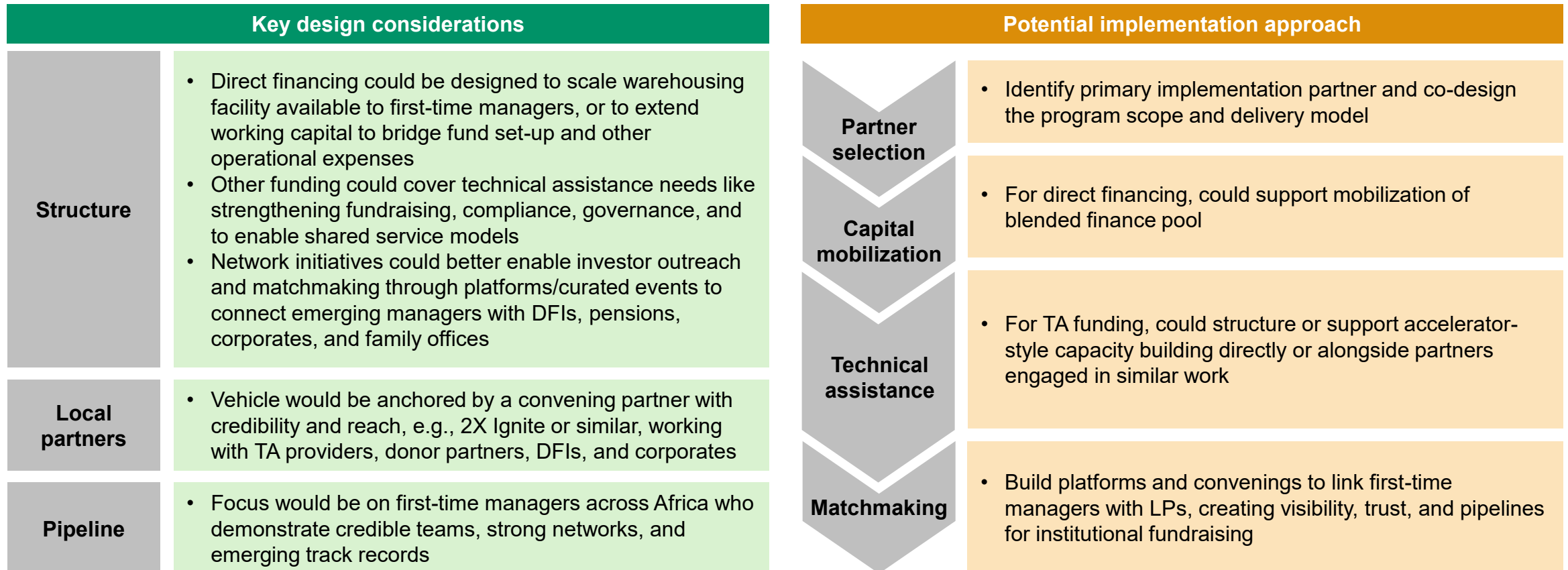
Expand the pool of first-time funds in Africa by strengthening and scaling targeted initiatives such as 2X Ignite, building capabilities of new managers (include female managers) to meet institutional standards through capacity building, GP-LP matchmaking, and the provision of warehousing and working capital facilities

Examples

- **2X Ignite:** a global initiative under the 2X Global Alliance, designed to support and scale first-time female fund managers in emerging markets through training, mentoring and warehousing capital. Moremi Capital is the investment advisor of the 2x Ignite Africa warehousing facility
- **Moremi Platform:** a four-pillar, women-empowering initiative involving an accelerator program, a warehousing/lending facility, a Fund of Funds, and shared operational services. Kuramo Capital has invested \$150M
- **AWI's PathFunder:** aims to equip female investment vehicle managers with essential risk capital and support, while mobilizing capital for African companies and expanding opportunities for angel investors.
- **Nyla Ventures:** a catalytic facility to support local capital providers in Africa who are focused on financing Small and Growing Businesses (SGBs), especially those with a gender-lens component
- **Rising Tide Africa:** a female-led angel network and fund platform active in Nigeria (and Africa), supporting women as fund managers through training and co-investment

First-time fund manager vehicle | Pathway 1: Scale existing initiatives

Objective: Broaden the pipeline of first-time funds in Africa, focusing on capacity building for fund managers, providing warehousing/working capital facilities to reduce fundraising pressure, and increasing the availability of capital directed toward first-time funds



Angel co-investment: Potential pathways and examples

Potential pathways and rationale

Significant wealth is held by Africans in Africa and could be unlocked through increased angel investing. Such capital brings the added value of local expertise and being held in local currency. Since angel investors in Africa are highly localized and have diverse interests and capabilities, the proposed pathway is to work through an established angel network that targets a larger universe and can deploy incentives effectively. Research has shown many angel networks that have not achieved this level, hence focusing on one pathway to replicate a successful partner

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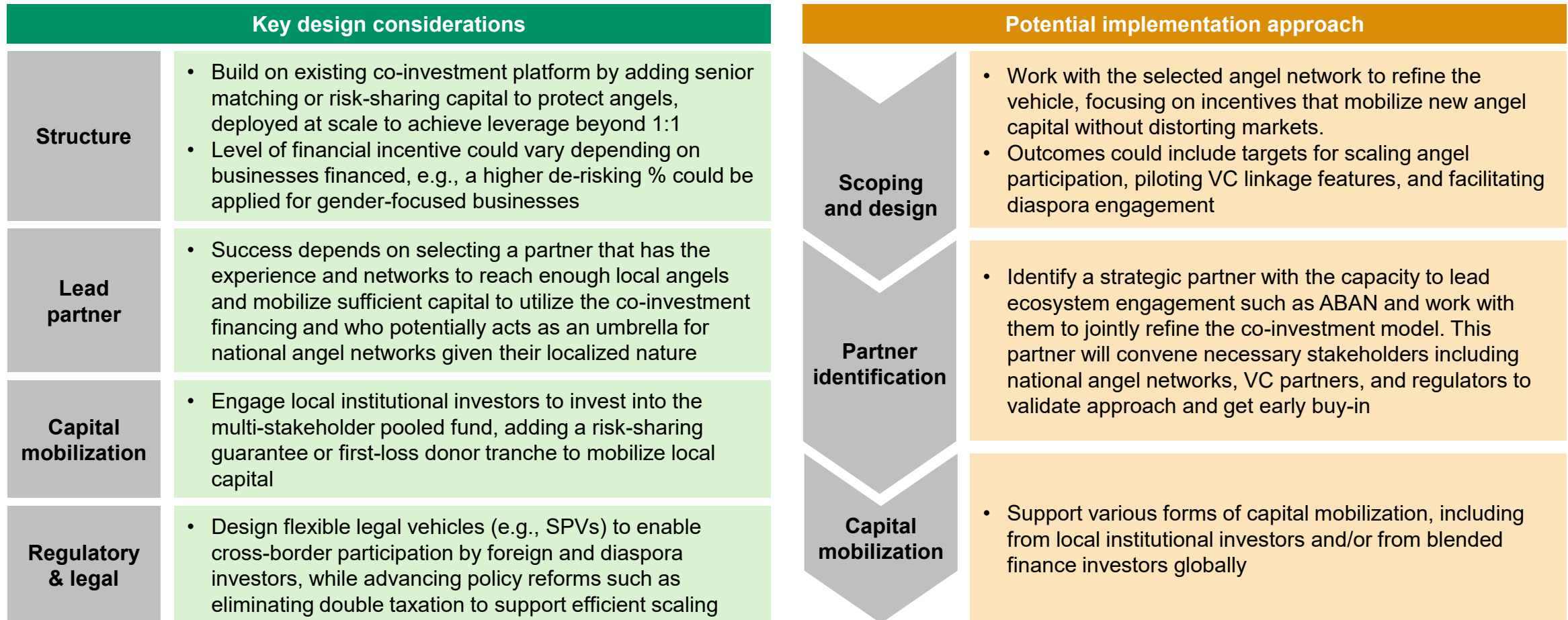
Support an existing co-investment platform under an established angel investing network to innovate and scale, strengthening early-stage ecosystems by mobilizing and de-risking angel activity

Examples

- **ABAN's Catalytic Africa**: a co-investment platform launched by ABAN in partnership with AfriLabs, that matches investments made by local angel networks with catalytic capital from donors and development partners. ABAN has launched successful programs such as Catalytic Africa which has used de-risking capital to increase angel investment deployed and is seeking to scale this activity.
- **Africa Angel Investors Network (AfricaAIN)**: angel network operating across Africa to provide funding for founders of tech startups in Africa, working with angel investors and VC firms across the continent
- **Lagos Angel Network (LAN)**: national angel network in Nigeria that connects angel investors with startups and facilitates co-investment opportunities among its members

Angel co-investment | Pathway 1: Scale existing co-investment platform

Objective: Support an existing co-investment platform under an established angel investing network to innovate and scale, strengthening early-stage ecosystems by mobilizing and de-risking angel activity



Corporate Venture Capital (CVC): Potential pathways and examples

Potential pathways and rationale

African corporates and Multinational Corporations (MNCs) engaged in Africa can play a critical role in investing in African startups and providing exits to early-stage investors, yet few CVCs have been active and few networks/platforms support this segment. Our pathways focus on incentives to expand CVCs activity and platforms that can engage a wider range of corporates in a structured way

- 1 Design a blended co-investment product targeted towards leading corporate VCs** such as Safaricom, Toyota, Orange which would de-risk corporate investments in new deals or buy-outs, encouraging greater CVC participation in African startup ecosystems
- 2 Support platforms such as Unmarkets to partner with African corporates in creating joint ventures (JVs)** across new markets which have a strong pipeline of corporates committed to new business creation

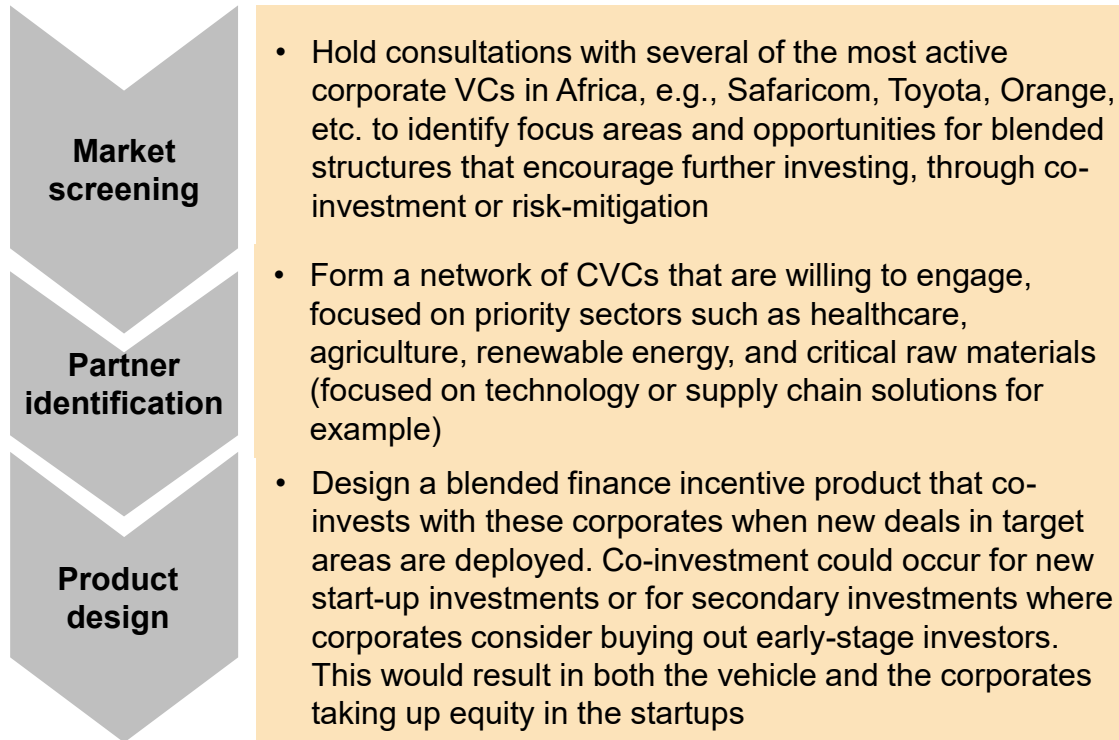
Examples

- **Unmarkets:** a joint-venture studio that partners with established, family-owned businesses in emerging markets to create new industrial-scale enterprises. These JVs leverage the assets, brands, and networks of market-dominant local partners, while being designed to achieve profitability, scale, and impact
- **Shell Foundation:** a foundation with multiple focuses related to energy access, sustainable mobility, and job creation in Africa and Asia, and with a specific strategic priority on scaling corporate venture engagement in Africa (having invested in Unmarkets and other direct efforts)

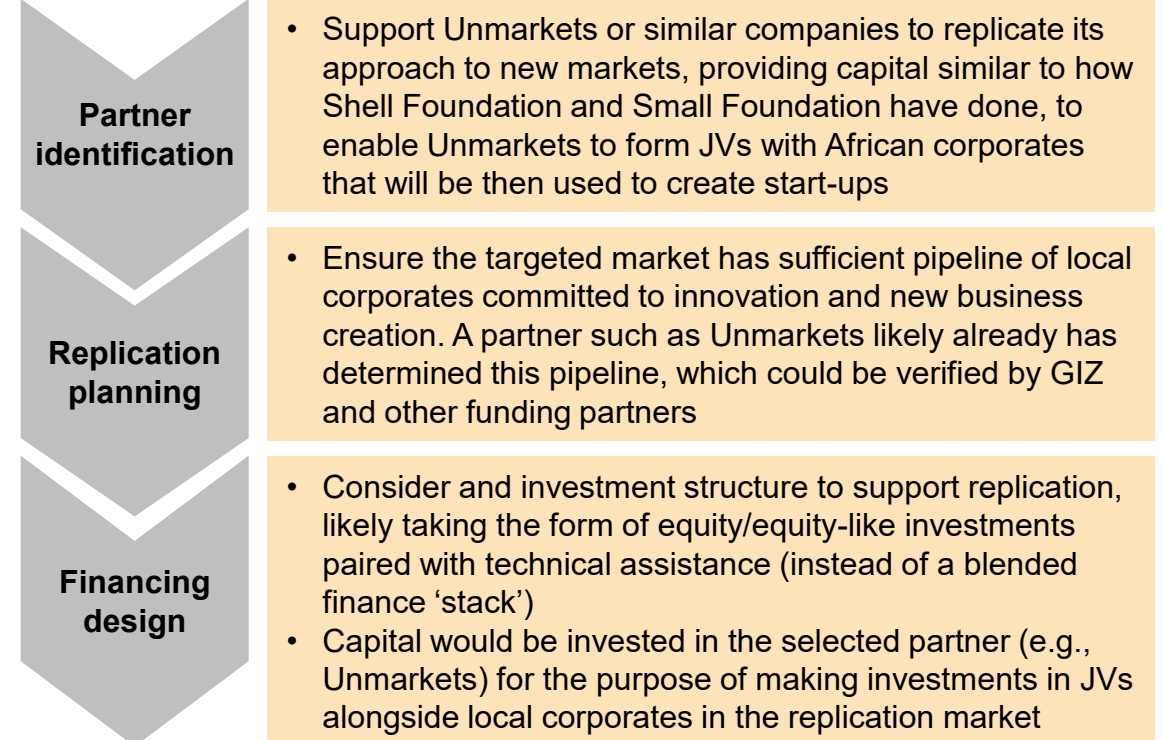
Corporate Venture Capital: Incentivizing corporates to scale VC

Objective: Create an incentive product or financing vehicle that can scale investments by corporates in start-ups in Africa

Pathway 1: Blended co-investment product



Pathway 2: Support creation of JVs with African corporates



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