

Article

Beyond the Funding Gap: Mobilising Domestic Capital Under Institutional Thinness: The Domestic Capital Flywheel

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Abstract

Across emerging entrepreneurial ecosystems, substantial domestic wealth often coexists with limited early-stage investment. This study examines how domestic private capital becomes mobilised within an institutionally thin entrepreneurial ecosystem, using Tanzania as an empirical case. The analysis draws on 23 in-depth, semi-structured interview records covering angel investors, founders, ecosystem intermediaries, institutional investors, development partners, and programme managers, supported by documentary evidence and contextual field engagement. An iterative thematic analysis identified six interconnected dimensions of domestic capital mobilisation: trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution. The findings show that limited early-stage investment is not explained solely by capital scarcity. Domestic wealth becomes investable only as relational, organisational, financial, and institutional capabilities develop together. The study therefore argues that domestic capital mobilisation emerges through entrepreneurial ecosystem development rather than existing as a precondition for it. It develops the **Domestic Capital Flywheel**, an empirically grounded model explaining how the six dimensions reinforce one another to transform latent private wealth into coordinated early-stage investment. The study contributes to entrepreneurial ecosystem and entrepreneurial finance research by reframing early-stage financing constraints as a problem of mobilisation and coordination rather than capital availability alone.

Keywords: Domestic capital; early-stage finance; entrepreneurial ecosystems; angel investing; Tanzania



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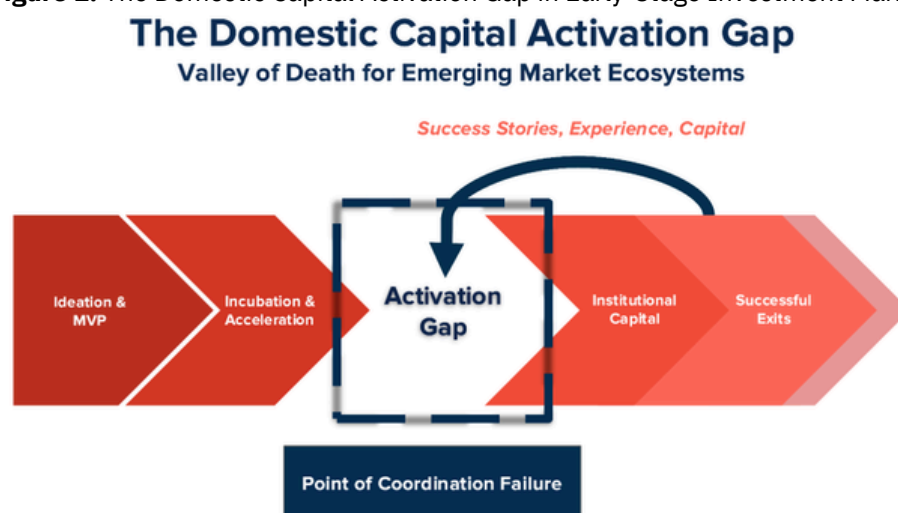
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1. Introduction

In many nascent entrepreneurial ecosystems, a persistent paradox is evident: credible founders, growing startup activity, and substantial domestic wealth coexist, yet domestic early-stage investment remains limited. This challenge is particularly pronounced across Africa, which attracts less than one percent of global venture capital, with more than 80 percent concentrated in just four countries—Nigeria, Kenya, Egypt, and South Africa. Outside these major hubs, early-stage ecosystems remain significantly undercapitalised. At the same time, domestic private wealth across sub-Saharan Africa continues to grow, with considerable liquid capital held by local professionals and high-net-worth individuals (Henley & Partners, 2025). The challenge is therefore not simply the absence of capital, but the limited mobilisation of domestic private wealth for early-stage investment. Tanzania illustrates this broader pattern. Despite recording more than 100 startup transactions between 2019 and 2026, domestic early-stage investment remains relatively shallow, highlighting a market where entrepreneurial momentum is increasingly visible but local capital mobilisation has yet to keep pace (International Finance Corporation, 2025; Africa: The Big Deal, 2025).

Conventional explanations for this shortfall emphasise capital scarcity, investor risk aversion, or weak deal pipelines. These are important constraints, but they remain incomplete when treated in isolation from the relational, informational, and institutional conditions in which investment decisions are made. They do not fully explain why experienced domestic professionals—who possess both the capital capacity and active interest in startups—repeatedly hesitate at the point of deployment. This "activation gap" reflects well-documented behavioural responses to uncertainty and information asymmetry (Kahneman & Tversky, 1979; Hall & Lerner, 2010; Hausmann & Rodrik, 2003). Participation is delayed not because viable ventures are absent, but because the wider conditions needed to make those opportunities legible, investable, and manageable remain underdeveloped.

Figure 1: The Domestic Capital Activation Gap in Early-Stage Investment Markets



Note: This conceptual framework illustrates the 'Activation Gap' separating early-stage venture activity from downstream institutional finance. The gap reflects a coordination failure in which ventures, prospective investors, and domestic wealth may coexist, but insufficient trust, investment capability, risk-sharing mechanisms, and coordination infrastructure prevent that capital from becoming deployable. It demonstrates how such coordination failures can stall ecosystem acceleration, while long-term sustainability depends on successful founders and investors recycling capital, expertise, experience, and confidence back into the next generation of local startups.

Source: Author's own elaboration.

This paper argues that the primary constraint to early-stage financing under institutional thinness is not the supply of capital, but the absence of the relational, behavioural, and institutional mechanisms that render domestic capital deployable (Sahlman, 1990; Gompers & Lerner, 2001). While existing literature catalogues these ecosystem constraints statically, it leaves a significant gap regarding the precise sequence and dynamic interactions through which these barriers are systematically overcome in practice. Ultimately, finance must be treated not as a passive input pumped into an ecosystem, but as an endogenous market system that must be built from the inside out. To address this gap, this study asks:

How does domestic private capital become mobilised within institutionally thin entrepreneurial ecosystems?

Drawing on qualitative empirical evidence from Tanzania, the analysis investigates how six core mechanisms—trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution—interact to activate local risk capital over time. In doing so, the paper makes two principal contributions:

First, it extends entrepreneurial ecosystem theory by arguing that domestic capital mobilisation should be understood as an outcome of ecosystem development rather than a pre-existing ecosystem input. In doing so, it reframes early-stage finance as a process of market formation, showing how domestic capital markets emerge through the cumulative development of supporting ecosystem conditions.

Second, it develops the ***Domestic Capital Flywheel***, an empirically grounded conceptual model that explains how trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution interact as a self-reinforcing system to progressively mobilise domestic private capital under conditions of institutional thinness. Empirically, the study provides one of the first qualitative accounts of domestic angel market formation in Tanzania, offering new insight into how early-stage investment markets emerge within an under-researched African entrepreneurial ecosystem.

The remainder of the paper is organised as follows. Section 2 reviews the relevant literature. Section 3 outlines the research context and qualitative methodology. Section 4 presents the empirical findings and identifies six interconnected dimensions of domestic capital mobilisation. Section 5 discusses the theoretical implications and develops the Domestic Capital Flywheel. Section 6 concludes with the study's contributions, implications, limitations, and directions for future research.

2. Literature Review

The emergence of early-stage investment markets within nascent ecosystems spans multiple theoretical domains, including entrepreneurial ecosystems, venture capital in emerging markets, behavioural finance, and institutional network theory (Ahlstrom & Bruton, 2006; Herrington & Coduras, 2019; Kahneman & Tversky, 1979). While these perspectives offer valuable partial explanations for capital formation, critical gaps remain regarding how domestic early-stage capital is systematically activated under conditions of institutional thinness.

2.1 Entrepreneurial Ecosystems and Market Formation

The entrepreneurial ecosystems literature emphasises that successful venture creation depends not on isolated inputs, but on the interaction of multiple system components, including finance, human capital, institutions, and networks. Early frameworks conceptualise ecosystems as sets of interdependent actors and factors that collectively enable productive entrepreneurship (Isenberg, 2010; Stam, 2015). More recent work highlights the importance of alignment, sequencing, and feedback loops, arguing that ecosystem performance depends less on the presence of individual elements than on how they interact over time (Stam & Van de Ven, 2021; Acs et al., 2014). Furthermore, establishing a rigorous research programme around these dynamics requires moving beyond static typologies to capture the precise operational mechanisms driving ecosystem evolution (Wurth, Stam, & Spigel, 2022, 2023). In emerging economies, spatial and regional dynamics further shape these layers, where macro-centralisation in primary urban hubs frequently isolated peripheral regional wealth holders (Hess, Wahl, & Johnson, 2025; Stam et al., 2026).

Within this literature, finance is recognised as a critical component yet is often treated as an input rather than as a market system that must itself be constructed. In mature ecosystems, venture capital markets are assumed to exist and function efficiently. In contrast, in emerging ecosystems, early-stage investment markets are often thin, fragmented, or absent altogether. This creates a conceptual gap: while ecosystem frameworks identify capital as necessary, they provide limited insight into how early-stage capital markets themselves emerge under conditions of institutional thinness and limited prior experience.

2.2 Venture Capital and Early-Stage Finance in Emerging Markets

A substantial body of research examines the role of venture capital in firm growth, innovation, and economic development (Gompers & Lerner, 2001; Lerner & Nanda, 2020). Venture capital is understood to provide not only financing, but also governance, monitoring, and strategic support, particularly under conditions of high uncertainty and information asymmetry (Kaplan & Strömberg, 2004). However, much of this literature is based on advanced economies with established financial systems, where venture capital operates within relatively stable institutional environments.

In emerging markets, early-stage finance faces additional constraints, including weak legal enforcement, limited exit opportunities, currency volatility, and higher transaction costs (Bruton, Fried, & Manigart, 2005; Ahlstrom & Bruton, 2006). As a result, international venture capital tends to concentrate in more mature hubs and at later stages of firm development, where risks are more legible and scalable opportunities are clearer (International Finance Corporation, 2023; Tony Blair Institute for Global Change, 2022). Empirical evidence from Africa indicates that venture funding remains highly concentrated geographically and sectorally, with most capital originating from foreign investors and directed toward a small number of countries and industries. This structural isolation is particularly severe for early-stage enterprises across the continent, who face intense institutional frictions and highly localised operational barriers when international financing retrenches (Colonnelli et al., 2026).

This pattern leaves a structural gap at the earliest stages of venture formation. Pre-seed and seed financing—where experimentation, iteration, and market discovery occur—are often underserved by both formal financial institutions and international venture capital. Crucially, many formal venture funds carry fixed operating cost constraints that render the origination and active tracking of sub-\$50,000 checks economically unviable (Lerner, 2009). This scale constraint frequently locks out early-stage ventures, rendering localised, bottom-up angel syndication an important structural configuration rather than an elective investor choice. While grants and donor-funded programmes can support early experimentation, uncoordinated subsidies often lack the governance and incentive structures associated with risk capital, limiting their effectiveness in supporting the transition to commercial scale (Barder, 2012).

2.3 Information Asymmetry, Uncertainty, and Investor Behaviour

Early-stage investment is characterised by extreme uncertainty and significant information asymmetry between founders and investors. Classic models of venture finance emphasise mechanisms such as staged financing, syndication, and active monitoring as primary methods to mitigate these governance challenges (Sahlman, 1990). Syndication, in particular, distributes financial risk, improves due diligence rigour, and facilitates peer-to-peer knowledge sharing among investors (Lerner, 1994; Kerr et al., 2014).

However, in nascent ecosystems, these contractual mechanisms are frequently underdeveloped or absent. Prospective investors may lack operational experience with venture-style equity instruments, standardised deal templates may not exist, and shared norms regarding valuation, governance, or portfolio diversification are rarely established. Under such conditions, uncertainty is institutional as well as financial: actors lack the necessary reference points to interpret, price, and manage risk.

Behavioural factors therefore play a decisive role in market formation. Insights from behavioural finance demonstrate that ambiguity, lack of familiarity, and perceived social risk significantly suppress capital deployment, even when prospective financial returns can be attractive (Kahneman & Tversky, 1979). In emerging ecosystems, the absence of visible transactional precedents or active peer participation amplifies hesitation, creating severe coordination problems where rational actors delay market entry despite recognising underlying commercial opportunities.

2.4 Networks, Trust, and Embeddedness

The role of networks and social embeddedness is particularly salient in contexts characterised by weak formal institutions. Economic sociology highlights that economic action is embedded in social relationships, where trust, reputation, and repeated interaction can substitute for formal institutional enforcement (Granovetter, 1985; Saxenian & Sabel, 2008). In early-stage investment, where contracts are inherently incomplete and outcomes highly uncertain, relational factors become central governance mechanisms.

Empirical studies of angel investing emphasise the role of informal networks, shared professional experience, and trust in facilitating deal origination, peer-driven due diligence, and post-investment value addition (Freeear, Sohl, & Wetzel, 1994). In emerging markets, these relational dynamics are often intensified. Lacking robust public databases or credit scoring infrastructure, domestic investors rely heavily on personal networks, tacit local knowledge, and relational proximity to evaluate investment opportunities and support early-stage founders.

This perspective aligns closely with the concept of "proximity" in economic geography, which suggests that spatial, social, and institutional closeness can significantly reduce coordination costs and information opacity. In early-stage ecosystems, locally embedded investors play a foundational role in translating context-specific market knowledge into legible, investable opportunities—particularly in sectors where regulatory frameworks, supply chains, and consumer behaviours are difficult to assess from a distance.

2.5 Gaps in the Literature

Taken together, existing literature provides valuable insights into the components and dynamics of entrepreneurial ecosystems and venture finance. It is considerably stronger, however, at identifying the conditions associated with functioning investment markets than at explaining how those markets emerge under conditions of institutional thinness. Four related gaps remain.

First, there is limited understanding of how domestic early-stage investment markets form in practice where formal venture capital is absent or nascent. Much of the literature treats finance as an ecosystem input, implicitly assuming the existence of functioning capital markets, rather than examining how the relationships, capabilities, practices, and institutions required for investment emerge from the bottom up.

Second, while network, institutional, and behavioural perspectives establish the importance of trust, embeddedness, uncertainty, and information asymmetry, they provide less insight into how these conditions translate into actual and repeated capital deployment. In particular, the mechanisms through which latent domestic wealth and investor interest are converted into investment practice—especially among first-time investors—remain underexplored.

Third, existing frameworks frequently examine capital scarcity, investor capability, weak pipelines, regulatory gaps, and other constraints as distinct problems. This obscures how these barriers interact and change together over time. Less attention has been given to the sequencing, complementarities, and feedback effects through which progress in one part of the investment system can enable progress elsewhere and, cumulatively, generate market momentum (Hausmann & Rodrik, 2003).

Finally, the literature gives comparatively limited attention to the coordination infrastructure through which emerging investment markets are sustained and institutionalised. Intermediary organisations do more than deliver programmes: they connect actors, coordinate transactions, maintain investor participation, and accumulate market knowledge. At the same time, bottom-up investment activity can generate the evidence, constituencies, and legitimacy through which policy and regulation evolve (Stever, 2023; Biancalani et al., 2022; Giraudo et al., 2019).

2.6 Positioning of This Study

This paper addresses these gaps by adopting a process-oriented, practice-based perspective on early-stage market formation. Drawing on qualitative evidence from Tanzania, it examines how domestic capital becomes deployable through the dynamic interaction of trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution.

Rather than proposing another static typology of ecosystem components, the paper develops the Domestic Capital Flywheel as an empirically grounded conceptual model explaining how behavioural, organisational, financial, and institutional mechanisms reinforce one another to mobilise domestic private capital. Its central contribution is to recast finance from a pre-existing ecosystem input into an ecosystem capability: domestic capital is not simply present or absent; it becomes investable as the relationships, capabilities, mechanisms, and institutions needed to deploy it are built. In doing so, domestic capital mobilisation becomes a pathway towards greater market sovereignty—the capacity of an ecosystem to finance, validate, and retain its own entrepreneurial opportunities rather than remain structurally dependent on external capital.

3. Research Design and Methodology

This study adopts a qualitative case study design with longitudinal contextual engagement to examine how domestic private capital becomes mobilised for early-stage investment within a nascent entrepreneurial ecosystem.

A qualitative design is appropriate because the study seeks to explain an evolving process of market formation rather than test predefined relationships between variables. Tanzania provides a theoretically relevant setting because early-stage investment is emerging before the formal market structures, established investment routines, and coordination mechanisms needed to support it are fully developed. Examining this setting allows the study to explore how investors, founders, intermediaries, institutional investors, development partners, and programme actors collectively construct the relationships and practices that enable domestic capital mobilisation over time.

3.1 Data Sampling and Participant Selection

Participants were selected purposively to capture perspectives from actors directly involved in Tanzania's emerging early-stage investment ecosystem. Initial informants were identified through their operational involvement in the Serengeti Business Angels Network (S-BAN) ecosystem and their proximity to investment decisions, investor development activities, venture support, or policy formation. Snowball sampling was subsequently used to identify additional participants with relevant experience of early-stage transactions and ecosystem development.

The primary qualitative dataset comprises 23 in-depth, semi-structured interview records covering ten angel investors, five startup founders, four ecosystem intermediaries, and four institutional, investment, development-partner, and programme-management stakeholders. Most interviews were conducted as part of the 2025 Team Europe Initiative (TEI) S-BAN fieldwork, supplemented by an earlier founder interview conducted in April 2024 and additional programme-evaluation material. This multi-actor sample enabled the study to examine the emergence of domestic early-stage investment from multiple institutional vantage points.

A central component of the sample comprised ten investors drawn from Tanzania's first specialised angel investment training cohort, delivered by the Serengeti Business Angels Network (S-BAN) as part of the Tanzania Business Angel Investors Accelerator (TAA). As the country's inaugural structured programme for prospective angel investors, the cohort provided a unique opportunity to examine how domestic investors navigated the transition from interest in startup investing to active participation. The interviewed investors reflected two broad profiles:

- **Profile A (HNWIs):** High-net-worth individuals and family wealth holders seeking portfolio diversification away from traditional tangible assets into early-stage equity.
- **Profile B (Professionals):** Corporate professionals, middle managers, and business owners capable of deploying specialised skills alongside modest financial capital.
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Gender inclusion was an explicit design criterion; women represented 40% (n = 8) of the total training cohort, and the qualitative sample mirrors this split perfectly with 40% (n = 4) female and 60% (n = 6) male participant interviewees to safeguard demographic representativeness.

The investor interviews were supplemented by interviews with startup founders, programme managers, ecosystem intermediaries, development partners, and institutional investors.

Table 1: Primary Interview Sample and Documentary Sources

Data Category	Stakeholder / Source Classification	Informant Operational Role Type	Exact Code Identifier	Count (N)
Primary Data	Angel Investors: Profile A	HNWI / Board Chair & Executive Leaders	LP-A01 to LP-A02	2
	Angel Investors: Profile B	Corporate Professionals, Legal Counsel, Advisory & Investment Managers	LP-B01 to LP-B08	8
	Ecosystem Intermediaries / Enablers	Accelerator Directors, Incubator Managers & Hub Leads	EE-01 to EE-04	4
	Ecosystem Investees (Founders)	Early-Stage Tech, AgriTech, FinTech, E-Commerce & Logistics Founders	F-01 to F-05	5
	Institutional, Investment & Development Stakeholders	Development-partner representatives, venture-capital / early-stage investment representatives & programme management.	IF-01 to IF-04	4
Subtotal	Primary Qualitative Dataset	Coded Anonymised Interview Records		23
Secondary Data	Institutional Evaluation Reports	TAA Feasibility/Assessment, TEI S-BAN Impact Evaluation, and develoPPP Ventures Evaluation	RPT-01 to RPT-03	3
Total Pool	Combined Evidence Base	Interview Records + Documentary Sources		26

The 23 interviews constitute the study's primary empirical dataset. The three institutional reports—including the TAA Feasibility Assessment (Efino Consulting, 2024), the TEI S-BAN Impact Evaluation (Team Europe Initiative, 2025), and the develoPPP Ventures Evaluation (DEG, 2022)—were used as documentary sources for triangulation and contextual interpretation; they were not treated as equivalent to individual interview observations. Ecosystem benchmark material from the Tanzania Startup Association (Tanzania Startup Association, 2024) and other national and international sources was also used to situate participants' accounts within the broader funding environment. This combination enabled individual experiences and investment episodes to be interpreted in relation to Tanzania's wider institutional context.

3.2 Data Collection Protocol and Contextual Time Horizon

Most interview fieldwork was conducted in Tanzania between 20 and 30 April 2025, with additional remote interviews completed during May 2025. The coded dataset also includes one founder interview conducted in April 2024 and a programme-management interview record drawn from subsequent programme-evaluation material. Interviews followed stakeholder-specific semi-structured interview guides containing common thematic modules tailored to investors, founders, intermediaries, financiers, and programme actors.

Administrative records indicate that interviews lasted approximately 40 to 70 minutes. Interview material was subsequently consolidated into anonymised interview records and lightly edited for clarity while preserving participants' intended meaning. Personal identifiers were removed, startup identities were anonymised where required, and confidential financial values were redacted. These anonymised records formed the primary material used for coding and thematic analysis.

Following completion of the primary coded dataset, additional field engagement surrounding the Tanzania Impact Investment Forum in May and June 2026 provided contextual insight into subsequent ecosystem developments. This engagement included visits to ventures that had raised angel investment or were in the process of fundraising, discussions with S-BAN leadership and network mentors, founder-investment training, and participation in ecosystem convenings involving development-finance and diplomatic actors. These later observations informed the interpretation of the evolving context but were not incorporated into the formal coding or used to generate the principal themes reported in this study.

3.3 Data Analysis and Framework Development

Data analysis followed an iterative thematic coding process informed by grounded-theory principles. The purpose was to identify recurring patterns in how investors and other ecosystem actors understood uncertainty, developed investment capability, coordinated transactions, and responded to institutional constraints. Outcome Harvesting was applied as a secondary, retrospective interpretive lens to evaluate systemic changes, mapping primary thematic codes directly to verifiable behavioural shifts among investors and institutional actors.

The analysis proceeded in three stages.

❖ **First-order coding.** The anonymised interview records were read and coded for concrete observations and experiences. Initial codes included uncertainty regarding valuation, hesitation about investing alone, legal and contractual difficulties, peer validation, matching-finance requirements, transaction delays, intermediary dependence, and regulatory ambiguity.

❖ **Theme development.** Related codes were compared across stakeholder groups and grouped into broader themes. This stage identified recurring patterns concerning relational trust, investor capability, loss mitigation, syndication, intermediary coordination, and policy alignment and institutional evolution. Comparisons were made across investors, founders, intermediaries, institutional and investment stakeholders, development partners, and programme actors to identify both convergent and contrasting accounts.

❖ **Framework development.** The higher-order themes were then examined in temporal and relational terms to understand how they interacted during the mobilisation of domestic capital. The analysis moved iteratively between the empirical material and literature on entrepreneurial ecosystems, institutional emergence, embeddedness, and entrepreneurial finance. This process informed the development of the Domestic Capital Flywheel as an empirically grounded process model rather than as a framework imposed before analysis.

The final extraction matrix contained 96 source evidence extracts across the 23 interview records. Each extract was linked to its source identifier, first-order code, and higher-order theme, creating an auditable chain from the underlying interview record to the conceptual framework. As a final consistency check, all evidence extracts were cross-checked against their corresponding anonymised source records.

3.4 Trustworthiness, Interpretive Validation, and Researcher Reflexivity

The trustworthiness of the study was strengthened through triangulation, comparison across stakeholder groups, interpretive engagement with practitioners, and researcher reflexivity.

The bounded nature of the Tanzania Business Angel Investors Accelerator (TAA) shaped the sampling strategy. Interviewing half of the inaugural angel cohort offered a rare window into how first-time investors learn to navigate early-stage finance. The bounded nature of the cohort limits generalisability, yet it provides unusually direct access to the formation of domestic investment capability. Because the study examined a bounded intervention within an emerging investment ecosystem, sampling was constrained by the finite population of directly involved actors rather than an open-ended recruitment strategy. The wider sample included entrepreneurs, intermediaries, institutional and investment stakeholders, development partners, and programme actors. During the later stages of data collection, additional interviews largely reinforced existing themes rather than generating substantially new first-order concepts. While no claim of universal theoretical saturation is made, the convergence of evidence across respondents provided confidence that the principal dynamics of this bounded case had been adequately captured.

Emerging findings were discussed with knowledgeable practitioners at two stages of the research. First, preliminary interview findings were presented to an industry expert panel on 29 April 2025, towards the end of the in-country fieldwork. This peer debriefing challenged emerging interpretations, refined distinctions between investor profiles, and identified areas requiring further examination. Second, the findings were revisited during a dedicated panel session at the Tanzania Impact Investment Forum (TIIF) 2026, where representatives from S-BAN, UNCDF (UNCDF, 2022), TEI, VC4A, investors, and other ecosystem stakeholders discussed the implications of the findings for early-stage market development and their relevance to other emerging ecosystems. These discussions provided an opportunity to critically examine and refine the emerging interpretation of the findings but did not determine the academic analysis.

Interview findings were triangulated with programme documentation, investment records where available, and regional evidence on entrepreneurial finance in East Africa. This documentary evidence helped distinguish mechanisms specific to Tanzania from broader challenges common to institutionally thin early-stage investment ecosystems.

The researcher's long-term engagement within the East African entrepreneurial ecosystem provided privileged access to relationships, institutional processes, and investment practices that would have been difficult to observe through interviews alone. At the same time, this embedded position required reflexive attention to potential bias. This was addressed by clearly distinguishing interview evidence from practitioner observations, retaining contradictory cases throughout the analysis, comparing interpretations across stakeholder groups, and ensuring that conclusions remained grounded in the empirical evidence.

Together, these strategies enhanced the credibility of the findings and strengthened confidence in the empirically grounded process model presented in the following sections.

4. Results and Discussion

To understand how domestic capital is mobilised within an environment characterised by institutional thinness, the empirical data were analysed inductively to identify the core thematic dimensions shaping actor behaviour and relationship formation. Table 2 maps representative source evidence extracts and first-order codes to the six higher-order dimensions developed in the analysis. Because the analytical source material comprises anonymised interview records that were lightly edited for clarity, the evidence extracts below reproduce the wording of those records rather than verbatim spoken quotations.

Table 2: Higher-Order Themes Emerging from the Qualitative Analysis

(Derived from coded anonymised interview records – Six Interdependent Ecosystem Dimensions)

Higher-Order Theme	1st-Order Empirical Open Codes	Representative Evidence Extract & Informant ID
1. Trust & Community Building	<p>Theme 1: Cohort Relational Continuity; Spatial Trust Fragmentation; Network Trust Insularity.</p> <ul style="list-style-type: none"> ➤ Repeated interaction and alumni engagement build investor trust ➤ Peer validation reduces uncertainty around participation ➤ Geographic and network concentration constrain broader investor inclusion 	<p>Continued participation in SBAN activities, particularly Harambee Evenings and the Cohort 1 alumni network, was viewed as an important source of ongoing engagement. – LP-A01</p> <p>In their view, angel investment is not yet part of the prevailing culture, because people are not accustomed to putting money into somebody else's business and waiting a long time for a return. – EE-01</p>
2. Investment Capability Formation	<p>Theme 2: Valuation Competence; Legal Closure Deficit; Local Exit Illiquidity.</p> <ul style="list-style-type: none"> ➤ Due diligence and valuation skills increase investment confidence ➤ Live transactions convert training into practical capability ➤ Legal execution and exit pathways remain important capability gaps 	<p>The training strengthened their understanding of due diligence and valuation techniques, which they had subsequently applied within their professional responsibilities... increasing confidence in evaluating investment opportunities. – LP-A01</p> <p>The most significant gap was exit planning: the training did not sufficiently explain how an angel can exit an investment in the local context. – LP-B02</p>
3. De-Risking through Capital Stacking	<p>Theme 3: Institutional Support Concentration; Symbolic Capital Signalling; Co-Investment Matching Discipline / Institutionalised Stacking.</p> <ul style="list-style-type: none"> ➤ Matching and catalytic finance reduce perceived downside risk ➤ Domestic commitments unlock complementary external capital ➤ Local investment signals credibility and confidence to follow-on funders 	<p>The financial amount itself was viewed as symbolic; the greater value lay in committing capital, learning with peers and signalling local confidence. – LP-B05</p> <p>The local investment was particularly important because the DeveloPPP programme required local capital before providing matching finance. – F-05</p>

Higher-Order Theme	1st-Order Empirical Open Codes	Representative Evidence Extract & Informant ID
4. Syndication & Shared Risk	<p>Theme 4: Portfolio Scale Intent; Consortium Leadership; Micro-Ticket Commercial Constraints / Angel Urgency.</p> <ul style="list-style-type: none"> ➤ Smaller individual tickets can be pooled into viable investment rounds ➤ Lead investors coordinate diligence, negotiation, and execution ➤ Financial exposure and transaction responsibilities are shared across investors 	<p>The programme directly enabled the interviewee to complete a first angel investment of US\$XX in Startup C. They led the investor consortium, communicated with the founder and undertook background research... — LP-B01</p> <p>...individual ticket sizes were too small, and there were too few lead angels able to carry opportunities forward. — LP-B03</p> <p>Many investment funds continue to face challenges operating effectively at smaller investment ticket sizes, reinforcing the continuing importance of angel investment networks. — IF-04</p>
5. Intermediary Coordination	<p>Theme 5: Information Asymmetry / Reporting Deficit; Pipeline Interlocking; Administrative Scaffolding Deficit / Post-Deal Lifecycle Management.</p> <ul style="list-style-type: none"> ➤ Intermediaries connect founders, investors, and ecosystem pipelines ➤ Dedicated coordination supports syndication and transaction continuity ➤ Reporting and post-investment engagement require sustained operational capacity 	<p>A significant concern was the absence, or lack of visibility, of quarterly reporting from investee companies. The interviewee was unclear whether reports were being produced, whether they needed to request them, and through which process. — LP-B02</p> <p>Investors undertaking due diligence also frequently recognise that a business has passed through Anza's support... Anza could in turn provide a screened pipeline... — EE-01</p>
6. Policy Alignment & Institutional Evolution	<p>Theme 6: State Recognition Deficit; Tax Incentive Deficit; Grant-Induced Valuation Mismatch.</p> <ul style="list-style-type: none"> ➤ Existing regulation does not always fit startup and angel-investment models ➤ Investor incentives could reduce barriers to domestic participation ➤ Market activity creates pressure for regulatory adaptation and more appropriate financing frameworks 	<p>Tax advantages would materially increase their willingness to invest because angel investing is inherently risky. — LP-B01</p> <p>The founder expected that the company might need to relocate its principal office to Nairobi at Series A because the financing and operating environment functioned more effectively there. — F-05</p>

Table 2 summarises the six higher-order themes that emerged from the inductive analysis of the interview data. Although presented separately for analytical clarity, the themes were experienced by participants as interconnected components of the domestic capital mobilisation process. Together they illustrate how relational, behavioural, organisational, and institutional factors reinforce one another to influence the emergence of angel investing in Tanzania. The following sections examine each theme in turn, drawing on participant accounts to explain the mechanisms underpinning domestic capital mobilisation.

4.1 Trust and Community Building

The interview data indicate that one of the primary barriers to mobilising domestic capital is not the availability of wealth, but the absence of trusted relationships through which prospective investors can learn, exchange experience, and invest with confidence. The Tanzania Angel Investment Landscape Feasibility Study had already identified a latent pool of individuals with the financial capacity to participate in early-stage investment (Efino Consulting, 2024). Yet participants in this study frequently described investing as unfamiliar and highly uncertain when approached individually. In the absence of established peer networks, early-stage investing was often perceived as an isolated personal risk rather than a recognised investment practice.

Across the interviews, participants consistently described the value of structured communities in reducing this sense of isolation. Activities such as the SBAN training cohort, Harambee Evenings, and alumni networks created opportunities for repeated interaction, peer learning, and relationship building that extended beyond the formal training programme. As one investor explained:

Continued participation in SBAN activities, particularly Harambee Evenings and the Cohort 1 alumni network, was viewed as an important source of ongoing engagement. (LP-A01)

The findings also suggest that trust required ongoing reinforcement rather than one-off networking events. Several participants emphasised the importance of maintaining active communities through regular engagement, while others noted that the ecosystem remained overly dependent on a relatively small group of well-known actors. Expanding participation and creating opportunities for new investors to observe experienced angels undertaking due diligence and making investments were viewed as important mechanisms for broadening trust across the ecosystem.

Institutional stakeholders similarly emphasised that investor recruitment depended less on broad public awareness than on sustained relationship building. Although outreach activities generated considerable interest, converting prospective investors into active participants required intensive personal engagement and visible commitment from participants themselves. As one institutional representative observed:

Recruitment generated considerable interest but converting interested individuals into committed participants proved much more demanding. Angel investing was still relatively nascent within the Tanzanian ecosystem, requiring extensive relationship-building. (IF-04)

Programme coordinators also highlighted the importance of requiring participants to commit capital at the outset of the programme. Beyond its financial significance, this requirement acted as a visible signal of commitment, helping establish mutual confidence among cohort members and reinforcing the credibility of the emerging investor community.

Taken together, these findings suggest that trust and community building constitute the relational foundation of domestic capital mobilisation. Rather than emerging automatically from the presence of wealth, investor participation developed through repeated interaction, shared learning, visible commitment, and the gradual formation of trusted peer networks.

4.2 Investment Capability Formation

The interview data indicate that reducing relational uncertainty alone was insufficient to mobilise domestic capital. Even after joining trusted investor networks, many participants described lacking the technical knowledge and practical confidence needed to evaluate, negotiate, and execute early-stage investments. While most investors possessed substantial business experience, they consistently distinguished this from the specialised capabilities required for angel investing, including venture valuation, due diligence, legal documentation, portfolio management, and exit planning.

Across the interviews, valuation and due diligence were repeatedly identified as the most valuable components of the training programme because they provided investors with a structured approach to assessing young ventures. As one experienced investor explained:

The training strengthened understanding of due diligence and valuation techniques, which were subsequently applied ... these skills...increased confidence in evaluating investment opportunities... (LP-A01)

However, participants also emphasised that investment capability could not be developed through classroom instruction alone. Several investors described continuing uncertainty around legal documentation, shareholder agreements, and transaction execution after completing the programme. Rather than seeking more theory, they requested greater exposure to live transactions and practical deal experience. As one participant observed:

The interviewee wanted substantially more support on deal closure, particularly legal documentation and the grey areas surrounding the transaction process. (LP-B05)

The findings further suggest that investment capability develops through participation in actual transactions. Investors consistently described their first investment as a critical learning experience that transformed abstract knowledge into practical confidence. Working through legal documentation, negotiations, due diligence, and post-investment engagement enabled participants to understand both the technical and behavioural dimensions of early-stage investing. As one investor reflected:

Confidence increased after completing the paperwork and working through the actual investment... First, much of the legal and transaction documentation had been prepared for the group, leaving uncertainty about whether they could complete the paperwork independently. (LP-B01)

Several participants also highlighted exit planning as an area where capability remained underdeveloped. Although investors developed confidence in evaluating opportunities, the absence of structured exit pathways, such as secondary share sales, management buyouts, or clear M&A channels, continued to suppress long term capital deployment.

Taken together, the findings suggest that investment capability is an iterative process of learning through practice rather than a discrete training outcome. Technical knowledge, legal understanding, and investment confidence developed progressively through repeated engagement with real investment opportunities, enabling investors to move from initial interest towards active participation in the market.

4.3 De-Risking Through Capital Stacking

The interview data indicate that even where investors had developed the confidence and technical capability to evaluate startups, many remained reluctant to commit capital because of the perceived financial risks associated with early-stage investing. Participants consistently contrasted venture investment with familiar asset classes such as real estate, government securities, and established cash generative businesses, where risks were considered more visible, controllable, and predictable against inflation and currency volatility. For many first-time investors, the prospect of committing capital to highly uncertain ventures represented a significant behavioural hurdle.

Across the interviews, blended finance emerged as an important mechanism for reducing this perceived risk. Rather than simply increasing the amount of capital available, matching finance lowered the financial exposure associated with an investor's first transaction and encouraged participation in a market that many viewed as unfamiliar. As one founder explained:

Before Cohort 1, SBAN participated in Startup D's early fundraising... contributing US\$XX as part of a wider SAFE round. This was the company's first funding and helped unlock a further US\$XX in grant finance. (F-03)

The findings further suggest that domestic capital played a role beyond its monetary value. Several founders and investors described local investment as a credible signal that unlocked additional support from development finance partners and external investors. In practice, the commitment of domestic capital demonstrated confidence in the venture and reduced uncertainty for subsequent funders. As one founder noted:

The local investment was particularly important because the DeveloPPP programme required local capital before providing matching finance... (F-05)

This signalling effect was echoed by investors themselves. As one participant reflected:

The financial amount itself was viewed as symbolic; the greater value lay in committing capital, learning with peers and signalling local confidence. The same interview record noted that local investor confidence helped attract follow-on interest. (LP-B05)

Elsewhere in the same record, the DeveloPPP arrangement was viewed positively because it behaved more like an institutional investor and carried out due diligence. Taken together, the findings suggest that capital stacking functions primarily as a behavioural de-risking mechanism rather than simply a financing instrument. By reducing the perceived downside of initial investments and signalling local commitment, blended finance helped convert hesitant first-time investors into active market participants while simultaneously increasing the credibility of ventures seeking follow-on capital.

4.4 Syndication and Shared Risk

The interview data indicate that, once investors had developed sufficient confidence to participate in the market, a further challenge was coordinating capital across multiple investors. Most participants described being comfortable with relatively modest investment amounts, while recognising that individual contributions were often insufficient to meet the financing requirements of early-stage ventures. For many participants, syndication therefore offered a way to combine smaller commitments into larger investment rounds while sharing the responsibilities associated with assessing and executing transactions.

This view was not universal. As one experienced ecosystem actor noted:

The interviewee also tends to avoid syndication because it can become very complicated in African markets, preferring to invest as an individual angel. (EE-03)

This contrasting perspective suggests that syndication is not inherently effective; its usefulness depends partly on the presence of capable lead investors, clear transaction processes, and sufficient coordination infrastructure.

Where syndication was used or contemplated, participants valued it not only for pooling financial resources but also for distributing responsibility for due diligence, negotiation, and investment decision-making. Sharing these activities reduced the burden placed on individual investors and enabled less experienced angels to participate alongside more experienced peers. As one investor explained:

...individual ticket sizes were too small, and there were too few lead angels able to carry opportunities forward. The interviewee estimated that only a small core of angels remained actively engaged... (LP-B03)

Several participants also highlighted the importance of experienced lead investors who were willing to coordinate transactions, undertake additional due diligence, and guide less experienced angels through the investment process. Rather than every investor independently assessing every opportunity, syndication enabled expertise and responsibilities to be shared across the group, increasing confidence in collective investment decisions.

Institutional stakeholders similarly observed that angel syndicates occupied an important position within the investment landscape because many early-stage ventures required more capital than individual angels could comfortably provide, while remaining too small to attract formal venture capital funds. As one institutional participant noted:

Many investment funds continue to face challenges operating effectively at smaller investment ticket sizes, reinforcing the role of angel investment networks. (IF-04)

The interviews also indicate an emerging shift among some investors from viewing angel investment as a single transaction towards considering a portfolio of investments over time. One experienced investor articulated this longer-term orientation explicitly:

The investor intended to complete at least ten angel investments over the next three to five years. (LP-A02)

While this portfolio orientation cannot be attributed to syndication alone, collective investment structures may make repeated participation more feasible by spreading financial exposure and transaction responsibilities across a group of investors working together in a collaborative way.

Taken together, the findings suggest that syndication can function as a mechanism for coordinating capital, expertise, and decision-making rather than simply aggregating financial resources. Its effectiveness, however, depends on the availability of lead investors and sufficient coordination capacity. Under these conditions, syndication can help translate relatively small individual commitments into coordinated early-stage investment activity.

4.5 Intermediary Coordination

The interview data indicate that sustaining domestic investment activity requires dedicated intermediary organisations capable of coordinating relationships, transactions, and post-investment engagement. While syndication enabled investors to mobilise capital collectively, participants consistently emphasised that the ongoing coordination of deals could not be sustained through informal networks alone. Most investors balanced angel investing alongside professional or business responsibilities, limiting the time available to organise meetings, monitor investments, and maintain communication with founders and fellow investors.

Ecosystem enablers described this coordination role as increasingly important as the network matured. Beyond recruiting investors and organising training, intermediaries were expected to facilitate introductions, coordinate syndicates, support due diligence, maintain communication, and oversee post-investment activities. As one ecosystem enabler observed:

A more coherent pathway would link incubation, acceleration, bank finance and alternative investment rather than treating them as separate systems... Shared criteria and referral arrangements would help... (EE-04)

Participants also highlighted weaknesses in post-investment support. Several investors reported uncertainty regarding portfolio reporting, communication channels, and ongoing engagement with investee companies after transactions had been completed. Others questioned whether the ecosystem possessed sufficient institutional capacity to sustain investor participation beyond the initial investment process. As one investor explained:

A significant concern was the absence, or lack of visibility, of quarterly reporting from investee companies. The interviewee was unclear whether reports were being produced, whether they needed to request them, and through which process. (LP-B02)

Institutional stakeholders highlighted that intermediary organisations frequently navigate structural tensions between meeting donor grant metrics and sustaining commercial, fee earning investment facilitation, exposing angel networks to operational instability once donor subsidies expire. While external funding played an important role in ecosystem development, participants cautioned that intermediary capacity needed to remain focused on facilitating investment relationships and supporting active investors rather than becoming driven primarily by programme administration.

Programme documentation and interviews consistently pointed to the need for dedicated operational capacity to sustain investor engagement over time. As one institutional participant concluded:

Future cohorts would benefit from a dedicated programme coordinator to strengthen participant engagement, while sustained post-programme support for both angels and founders would improve long-term investment outcomes. (IF-04)

Taken together, the findings suggest that intermediary organisations perform a broader role than simply organising events or delivering training. They provide the coordination infrastructure that enables relationships, transactions, and investor engagement to continue beyond individual deals, helping transform episodic investment activity into a more sustained and organised market.

4.6 Policy Alignment and Institutional Evolution

The interview data indicate that the continued development of domestic angel investing depends not only on investor behaviour and intermediary coordination but also on an institutional environment that recognises and supports early-stage investment. Participants consistently described existing regulatory arrangements as being designed for established businesses rather than high-growth startups, creating additional uncertainty for both founders and investors.

A recurring theme across the interviews was the absence of a distinct legal and policy framework for startups. Participants argued that existing company structures, regulatory procedures, and taxation arrangements did not adequately reflect the characteristics of early-stage ventures or the risks undertaken by angel investors. As one founder explained: ...the regulatory system did not include a clear category for the company's digital pharmaceutical supply-chain model. Requirements designed for bricks-and-mortar businesses were therefore applied to a technology-enabled platform. (F-03)

Investors also identified tax incentives as an important mechanism for encouraging greater participation in early-stage investment. Given the inherently uncertain nature of angel investing, several participants argued that fiscal incentives could help offset perceived risks while signalling formal recognition of the asset class within the national investment landscape.

Founders highlighted a related challenge concerning the availability of growth capital. While many viewed Tanzania as an increasingly attractive location for early-stage ventures, several noted that companies seeking larger follow-on investments often considered relocating their holding structures to regional financial centres where investors, legal frameworks, and support services were more established. As one founder observed: The regulatory framework is workable but slow...the company might need to relocate its principal office to Nairobi at Series A because the financing and operating environment functioned more effectively there. (F-05)

Participants further noted that grant funding had become an important source of early-stage finance but could also create unintended consequences. Several investors described situations where grant-supported startups developed valuation expectations that exceeded what domestic angel investors were able or willing to finance, making investment negotiations more difficult.

Taken together, the findings suggest that policy alignment and institutional evolution occur alongside market activity rather than necessarily preceding it. As domestic investment networks mature and transaction activity becomes more visible, market participants generate practical experience, evidence, and collective demand for clearer startup legislation, more appropriate regulatory frameworks, and targeted investor incentives. Policy alignment therefore appears to emerge partly through interaction between an increasingly active investment community and the institutions governing it.

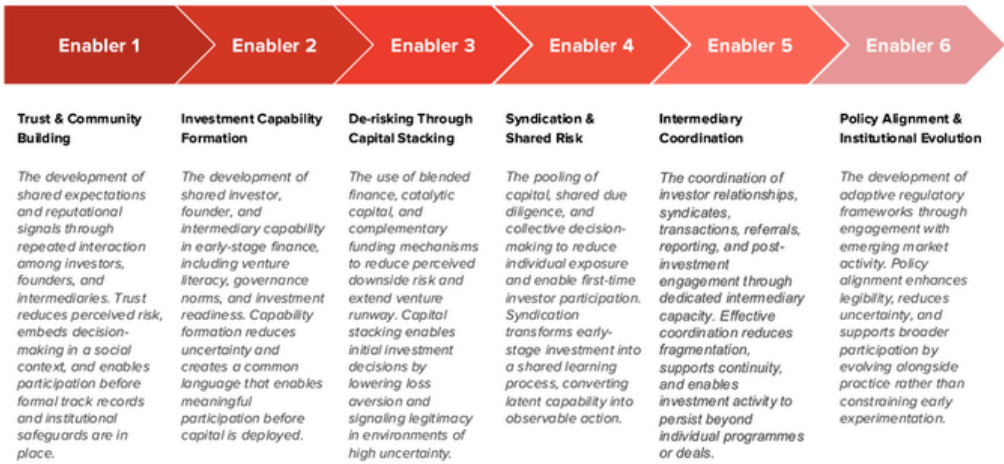
4.7 Integrating the Themes: An Emerging Process of Domestic Capital Mobilisation

The findings presented in the preceding sections suggest that the six themes are not independent components of the entrepreneurial ecosystem but closely interconnected mechanisms through which domestic capital becomes mobilised. Participants consistently described progression through the investment journey as cumulative, with developments in one area creating the conditions for progress in the next. Trust and community building encouraged participation in investor networks; investment capability formation increased confidence to evaluate opportunities; de-risking through capital stacking reduced the perceived risks of initial investments; syndication and shared risk enabled investors to coordinate capital and responsibility; intermediary coordination sustained relationships and investment activity; and policy alignment and institutional evolution reinforced the broader institutional environment in which these activities occurred.

Rather than representing a series of isolated interventions, the evidence suggests that these mechanisms operate as part of an interconnected system. Relational trust and investment capability create the conditions for collective investment; subsequent transactions generate experience, strengthen intermediary capacity, and increase market visibility. Participants’ accounts further suggest that, as investment activity expands, demand grows for institutional support—including clearer regulatory frameworks and targeted investor incentives—which can, in turn, support wider participation in the ecosystem.

Figure 2 synthesises these empirical findings into a process model illustrating how the six themes interact during the mobilisation of domestic capital within Tanzania's emerging early-stage investment ecosystem. The model is derived from the qualitative analysis presented in this section and provides the basis for the theoretical discussion that follows.

Figure 2: The Six Reinforcing Enablers of the Domestic Capital Flywheel



Note: The figure synthesises the six empirically derived themes identified through the qualitative analysis and illustrates their interrelationships during the mobilisation of domestic capital within Tanzania's emerging entrepreneurial ecosystem. The ordering represents an analytical progression rather than a fixed causal sequence; in practice, the six dimensions overlap and reinforce one another.

Source: Author’s elaboration based on the coded anonymised interview records and field engagement in Tanzania (2024–2026).

Across the six empirical themes, participants consistently link domestic capital mobilisation to a cumulative process in which progress in one dimension enabled or reinforced progress in the next. Figure 2 summarises these relationships. Building on this empirical synthesis, the following discussion develops the **Domestic Capital Flywheel** as a conceptual model explaining how these interdependencies collectively shape the mobilisation of domestic private capital in emerging entrepreneurial ecosystems.

5. Discussion

The findings extend entrepreneurial ecosystem theory by shifting attention from finance as an ecosystem component to the process through which domestic capital becomes investable. Rather than treating finance as a pre-existing ecosystem input, the findings show that domestic capital mobilisation is a cumulative process in which relational trust, investment capability, coordinated investment practices, intermediary support, and institutional development evolve together over time.

5.1 From Capital Scarcity to Capital Mobilisation

The principal theoretical contribution of this study is a shift in how early-stage finance is understood within entrepreneurial ecosystem theory. Rather than viewing limited venture investment primarily as a problem of capital scarcity, the findings shift attention to the conditions that make domestic capital deployable. The critical question is therefore not simply whether capital exists, but what enables it to become investable. Entrepreneurial ecosystem research consistently identifies finance as a critical ecosystem component (Isenberg, 2010; Stam, 2015), yet comparatively less attention has been given to the processes through which domestic early-stage capital markets themselves emerge, particularly in nascent market systems.

The Tanzanian case demonstrates that the mobilisation of domestic capital cannot be explained solely by the availability of financial resources. Instead, latent wealth became investable only as trusted relationships, investment capability, risk-sharing mechanisms, intermediary coordination, and institutional support developed alongside one another. Under these conditions, finance is not simply supplied to the ecosystem; it is progressively mobilised through the interaction of investors, founders, intermediaries, development partners, and policymakers.

This perspective helps explain why many emerging entrepreneurial ecosystems continue to experience persistent early-stage financing gaps despite the presence of considerable and growing domestic wealth. Rather than reflecting an absolute shortage of capital, the findings suggest that these gaps arise because the relational, organisational, and institutional conditions required to mobilise that capital have not yet sufficiently developed. In this sense, the principal challenge is less one of capital availability than of ecosystem coordination (Hausmann & Rodrik, 2003).

Viewed through this lens, domestic capital mobilisation becomes an endogenous outcome of entrepreneurial ecosystem development rather than a precondition for it. The findings suggest that early-stage capital markets emerge through the cumulative development of trust, capability, collective investment practices, intermediary support, and enabling institutions. This shifts the theoretical focus from financing entrepreneurial ecosystems to understanding how entrepreneurial ecosystems mobilise domestic capital.

5.2 The Domestic Capital Flywheel

The six dimensions identified in Section 4 form the basis of the **Domestic Capital Flywheel**, a process model explaining how domestic capital becomes investable. Rather than assuming a fixed sequence, the model shows how progress in trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution accumulates and feeds back into the system. As these conditions strengthen, investment becomes easier to evaluate, execute, coordinate, and repeat.

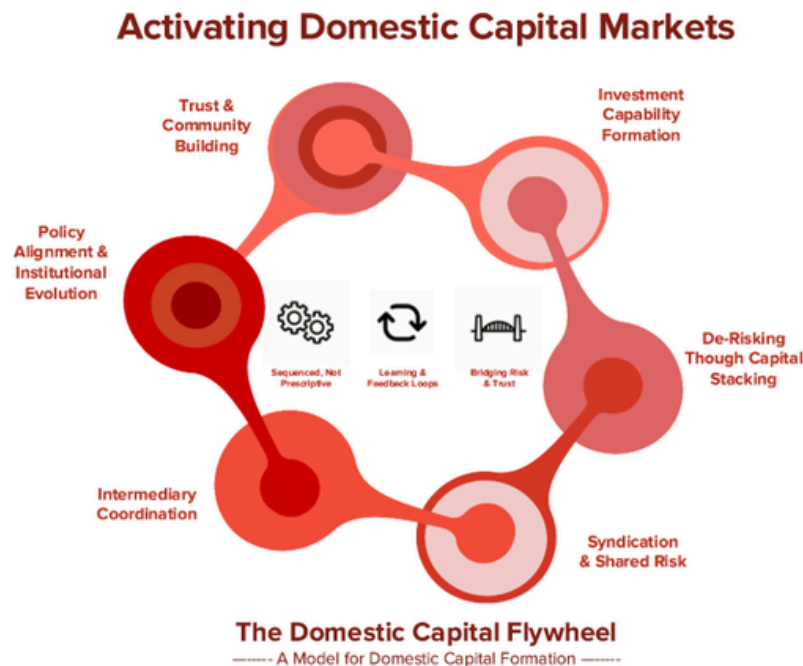
Grounded in the Tanzanian case, the Flywheel offers a broader framework for understanding how domestic early-stage investment markets can develop where formal market infrastructure remains incomplete. Its contribution lies not in identifying the individual components of a functioning ecosystem, but in explaining how their interaction builds the capacity to mobilise domestic capital over time.

Three reinforcing dynamics drive this process.

- **Cumulative interdependence.** Each dimension addresses a different barrier to capital deployment, but their effect depends on how they work together. Trust and community building bring prospective investors into the market; investment capability enables them to evaluate opportunities; de-risking through capital stacking lowers the perceived risk of first investments; syndication and shared risk make collective investment possible; intermediary coordination sustains transactions and relationships; and accumulated market experience creates the basis for policy alignment and institutional evolution. The progression is therefore structured but not fixed: each dimension can strengthen, and be strengthened by, the others.
- **Learning through participation.** Investment capability develops not through training alone, but through the experience of investing. Participants described first transactions as important turning points in which abstract knowledge became practical confidence through due diligence, negotiation, documentation, and post-investment engagement. As this experience circulates through investor networks, individual learning becomes collective capability, lowering uncertainty and making subsequent participation easier.
- **From individual uncertainty to collective investment.** Domestic capital mobilisation also depends on reducing the burden carried by investors acting alone. Matching finance lowers financial exposure, syndication distributes risk and decision-making, and intermediaries reduce the transaction and coordination costs of participation. Together, these mechanisms allow isolated investment decisions to become coordinated activity, creating the experience, track record, and confidence on which a domestic investment market can build.

Taken together, these dynamics explain how latent domestic wealth can move from fragmented individual potential to a functioning investment market. The contribution of the Flywheel is therefore not another inventory of ecosystem components, but an explanation of how their interaction progressively builds the capacity to mobilise domestic capital.

Figure 3: *The Self-Reinforcing Model of the Domestic Capital Flywheel*



Note. The figure synthesises the six empirically derived dimensions of domestic capital mobilisation into a self-reinforcing system. It illustrates how trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution reinforce one another to mobilise domestic private capital within institutionally thin entrepreneurial ecosystems.

Source: Author's own elaboration.

5.3 Implications for Entrepreneurial Ecosystem Development

The Domestic Capital Flywheel advances a practical proposition: domestic capital markets are built, not merely funded. Increasing the supply of finance is necessary but insufficient; domestic capital becomes deployable as investor capability, trusted relationships, risk-sharing mechanisms, intermediary coordination, and supportive institutions develop alongside it. This shifts the focus of ecosystem development from filling financing gaps to building the market infrastructure through which capital can move repeatedly and at scale.

First, intermediary organisations should be understood as market infrastructure rather than programme delivery channels. Their role extends well beyond training or convening; they maintain investor relationships, organise syndicates, facilitate transactions, support post-investment engagement, and accumulate the knowledge and routines through which investment markets mature. Strengthening their long-term operational capacity is therefore not simply a cost of programme delivery; it is an investment in the functioning of the market itself.

Second, the findings suggest that policy should co-evolve with market development rather than be treated as a prerequisite for it. As domestic investment activity grows, transactions reveal where legal, regulatory, and fiscal arrangements create friction, while active investors and founders generate the experience, evidence, and constituencies needed for reform. Policy can therefore become progressively better aligned with the market as investment activity itself makes institutional constraints more visible and actionable.

Third, stronger domestic investment systems may help anchor entrepreneurial activity, expertise, and capital locally. Participants described how gaps in later-stage finance, specialised legal structures, and institutional continuity can push promising ventures towards more established regional investment hubs. Building domestic investment capacity may therefore do more than increase the availability of early-stage finance: it can reduce pressure to relocate and create stronger conditions for investment knowledge, relationships, and eventually capital to be recycled within the ecosystem.

More broadly, ecosystem development should place domestic investor formation alongside venture creation as a core objective. Supporting founders without developing the investors, syndication mechanisms, intermediaries, and institutional structures needed to finance them leaves a critical part of the market underdeveloped. Building this domestic investment capability does more than mobilise local capital: it also creates the infrastructure through which external investors can identify, assess, co-invest in, and support local opportunities, while helping ventures connect to capital and markets beyond national borders. Domestic capital formation is therefore not an alternative to international investment, but a foundation for engaging it more effectively.

6. Conclusion and Policy Implications

This study examined how domestic private capital becomes mobilised within an emerging entrepreneurial ecosystem, using Tanzania as an empirical case. Rather than treating limited early-stage finance as a consequence of capital scarcity, the findings suggest that domestic capital mobilisation is fundamentally a market-building challenge. Latent private wealth became investable as the six dimensions—trust and community building, investment capability formation, de-risking through capital stacking, syndication and shared risk, intermediary coordination, and policy alignment and institutional evolution—developed and interacted over time.

Building on these findings, the study contributes to entrepreneurial ecosystem research in two ways. First, it argues that domestic capital mobilisation should be understood as an endogenous outcome of entrepreneurial ecosystem development rather than a pre-existing ecosystem input. Second, it introduces the Domestic Capital Flywheel, an interconnected system that explains how behavioural, organisational, financial, and institutional dynamics reinforce one another to progressively mobilise domestic private capital under conditions of institutional thinness.

The findings also carry important implications for policy and ecosystem development. Efforts to strengthen early-stage investment markets should extend beyond increasing the supply of finance to strengthening the systems that enable domestic capital mobilisation. This includes investing in trusted investor networks, practical investment capability, syndication mechanisms, well-resourced intermediary organisations, and regulatory frameworks that recognise the distinctive characteristics of early-stage investment. These findings further suggest that policy reform is most effective when it evolves alongside market development, responding to the needs and experience of an increasingly active domestic investment community.

Although the study is grounded in a single country case, the analytical framework may be relevant to other emerging entrepreneurial ecosystems characterised by institutional thinness and underdeveloped domestic capital markets. Future research could examine the applicability of the Domestic Capital Flywheel across different institutional contexts, investigate how the reinforcing dynamics evolve over longer periods of ecosystem development, and explore the conditions under which domestic capital mobilisation contributes to broader entrepreneurial growth and economic transformation.

Ultimately, the study suggests that the challenge facing many emerging entrepreneurial ecosystems is not simply attracting more capital, but building the domestic investment capability to identify, validate, finance, and sustain local opportunities—while creating credible pathways for external investors and markets to engage. Viewed in this way, domestic capital is not merely a financial resource waiting to be deployed; the capacity to mobilise it is an ecosystem capability built through trust, investment experience, coordination, institutional support, and collective investment practice. As this capability deepens, domestic investors and intermediaries do more than supply capital: they help shape the national investment pipeline, generate market knowledge, validate opportunities, reduce uncertainty, and create the conditions for broader international participation and investment. The Domestic Capital Flywheel offers a practical lens for understanding how these conditions take shape and reinforce one another in contexts where institutions are still forming.

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Data Availability Statement

The underlying interview materials are subject to participant confidentiality restrictions. To support transparency and analytical reproducibility, de-identified research materials, including the anonymised coding framework and audited thematic extraction matrix, are available from the corresponding author upon reasonable request, subject to ethical and confidentiality requirements.

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