Overview of challenge and status quo

- SA ecosystem not geared to supporting HGSMEs or High Tech Start-ups
- Big gap in SA in skills, expertise & number of SME investors / VC Funds
- Failure to replicate the successes visible in other countries
- Too risky for institutional investment
- Not lucrative enough for private equity
- Need a mechanism to balance the trade-off & attract Private Sector skills.
- Business development requires support (financial and non-financial)
- Deal flow and management skill are limited
Principles of Pilot Model: Matching Funding

✓ Looking for feasible mechanism to balance profitability with skill
✓ Subordinated funding & limited partnership
✓ Experienced Fund of Fund investors select fund/programme managers
✓ Careful selection of fund managers - small ‘high touch’ portfolios
✓ Smaller, skills-intensive funds
✓ Higher management fee / alternative subsidisation for operational support
✓ Financial returns incentivise Private Sector Fund Managers to:
  • Find and invest in winners
  • Work closely with investees to ensure their success
  • Charge relatively low management fees (compared to government status quo)
  • Add value & be market driven
Distribution Principles

- On exit, fund is distributed between investors
- Investors receive capital and benchmark return first
- Investor’s risk-of-loss is hugely reduced: Govt. undertakes to accrue first loss
- Government return rolls over into Fund of Fund for future rounds
- Government has no benchmark/hurdle, which leverages investor return
- Fund manager is incentivised by receiving a carry of the profit
- Investors and Govt. receive remaining profit pro-rata

These mechanisms reduce the risk to investors substantially, and prioritise investor return, while incentivising fund manager’s performance.
Structure of Pilot Funding Programme

Government returns roll into FoF for revolving funding.
International Precedent: Government Sponsored Investment Programmes

- Lower management fees in high talent & high innovation markets: Singapore & Israel - 2% (but low-touch approach – SA needs more).
- Fail-fast mechanism: Equity-funding to accelerate growth of “winners” & also failure of “losers”. Italy’s fail-fast mechanism creates rapid business turnover.
- Funding options across maturity: France’s “Funding Escalator” towards exit.
- First loss: Netherlands guarantees investor’s capital with first loss.
- Govt. has capped returns in UK & Singapore - enhancing upside for investors.
- Malaysia matches more than 50:50 for early stage or very high tech.
- Programme focus differs on maturities: late-stage commercialisation (Saudi Arabia ‘s TAQNIA ) vs. seed/start-up acceleration (Chile, Peru).
Potential Fund Measures

Metrics for job creation and productivity/innovation growth per R1M input:

- Number of sustainable SMEs / R1m of input
- Number of sustainable jobs / R1m of input
- Investee revenues generated / R1m of input
- Return to Fiscus through investee tax paid / R1m of input
- Social Return on Investment
- Salary levels on jobs created
- Ultimate profit/loss balance sheet across funds
Thank you

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