# SiMODiSA Research: Pilot Funding Model

March 2014

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SiMODiSA START-UP

# 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

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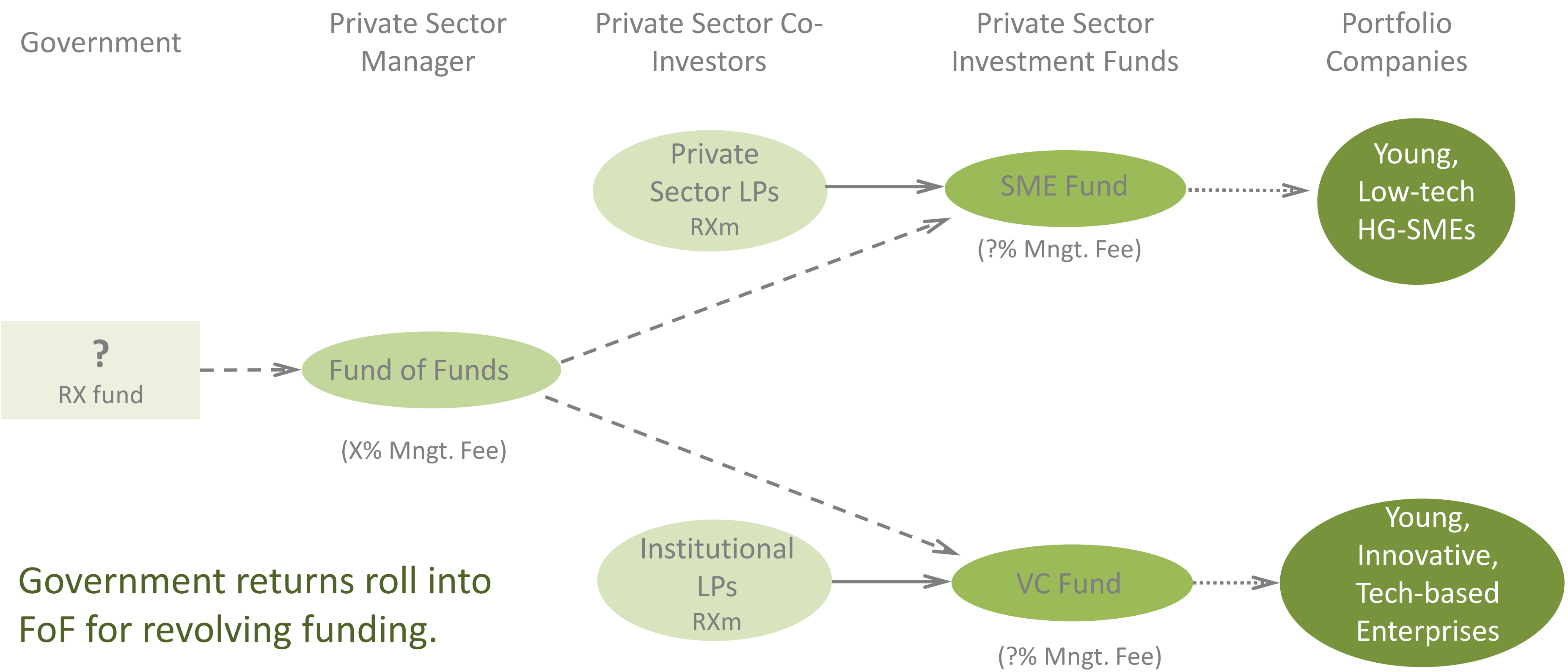
# Distribution Principles

- ✓ 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.

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# 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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