Founder's Guide to Fundraising

South Africa

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Make-IT in Africa

BRITER BRIDGES

Acknowledgements

The authors of this Founder's Guide to Fundraising in South Africa would like to extend their gratitude and thanks to all of those stakeholders who provided their time and knowledge to ensure we reflect realities and opportunities for startup founders in South Africa including:

- Josh Romisher, CEO, University of Stellenbosch Launch Lab
- Lebo Mokgabudi, Financial Services Expert, Financial Services Group, IFC
- Shirley Gilbey, Dealmaker Africa, Global Entrepreneur Programme, Department for International Trade, UK
- Elizabeth Howard, Found, Lelapa Fund and Africa Crowd-Funding Network
- Antonia Bothner, Capital Markets Lead, Endeavor
- Nicle Dunn, COO, Revio
- Andres Felipe Perez, Co-Founder, Fintech Association of South Africa (FINASA)
- Mothlabane Koloi, Investment Promotion, Wesgro
- Olivia Dyers and Tim Parle, Digital Leadership Department of Economic Development, Western Cape Government
- Patrick Krappie, Acting CEO, Technology Innovation Agency (TIA)
- Lelembia Phiri, Principal and Founder, Africa Trust Group
- Grant Rock, Partner, HAVAÍC
- Adriaan Dommissee, Director and Founder, Dommissee Attorneys
- Thea Sokolowski, Head of Marketing and Communication, Stitch
- Stuart van der Veen, Chief Platform Officers, Aerobotics
- Mr. Mlungisi Mthimunye, Chief Director, Department of Communications and Digital Technologies (DCDT)

Partners

Make-IT in Africa believes in the catalytic power of African innovation and digital technologies for green and sustainable development. In close collaboration with digital visionaries like start-ups, innovation enablers and political partners, we empower African innovation ecosystems. Together, we aim to strengthen an environment in which the full potential of African digital innovation can unfold. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH implements this project on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Briter Bridges is a fast-growing market intelligence and research firm focused on emerging economies. Briter has built the largest collection of visual publications on Africa and underserved markets and regularly provides data and insights to corporates, development finance institutions, governments, and investors. Briter's proprietary business data platform, Intelligence, is regularly used by thousands of public and private organisations ranging from the World Bank to Amazon and governments.

Author: David Saunders
Editors: Lisa With and Sam Ajadi
Design and Layout: Susan Heiman
Data: Briter Intelligence

Founder's Guide to Fundraising

South Africa

german cooperation
DEUTSCHE ZUSAMMENARBEIT
Implemented by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Make-IT in Africa
BRITER BRIDGES

Foreword

Make-IT in Africa

Startups are a key driver of economic growth and digital transformation in Africa. Investment into Africa's startup founders is on the rise. Disclosed funding is on its way to $4bn in 2022. South Africa has been amongst the few countries receiving the lion's share. Since 2015, startups in South Africa have raised over $2.7bn. 20 startups have raised more than $20m each and 7 startups have raised over $100m. Funding reaches across a range of sectors including fintech, climatech and cleantech, ecommerce, healthtech and edtech. It has a well developed local investment landscape, numerous government initiatives and a range of international funders from impact investors to Development Finance Institutions (DFIs). It is one of the most mature ecosystems in Africa.

However, even South Africa struggles with funding for early stage startups. What we hear from founders is that they have limited time and resources and they need some guidance in navigating their local ecosystems to access the right financial and technical support to grow their businesses. The challenge with the existing support offering is that oftentimes information can be missing, scattered or not anchored in the realities of the local ecosystem.

The GIZ project Make-IT in Africa partnered with Briter Bridges to address this information and knowledge gap. This Founder's Guide to Fundraising in South Africa is part of a broader initiative set out to gather local knowledge and offer appropriate tools for founders on their fundraising journey.

By building knowledge and tools with the ecosystem for the ecosystem we believe we can strengthen the offering that the ecosystem can provide to startups, in turn strengthening their role in driving economic growth and digital transformation.

Matthias Rehfeld
Head of Programme
Make-IT in Africa

Briter Bridges

Strengthening the knowledge and tools that entrepreneurial ecosystems have to support investment into startups in Africa is at the heart of our mission at Briter Bridges. Since our establishment in 2018, we have been working with local ecosystem stakeholders to map, understand, and make sense of entrepreneurial ecosystems in Africa for investors, development finance institutions, governments, and most importantly, founders. We understand that by working with local ecosystem stakeholders we can produce knowledge and information that best reflect the realities on the ground.

This partnership with the GIZ project Make-IT in Africa to develop Founder's Guides to Fundraising has further reinforced this understanding. The difference in the contexts of the ecosystems across the countries presents varying funding and technical support options for founders. Founders need this local and contextualised knowledge and information to ensure they don't waste valuable time and resources. Unlike other markets in Africa, South Africa has a range of entrepreneurial support and funding options for startups. The challenge for startups is finding the support and funding that best meets their needs. Designing knowledge and information for this context is thus critical to ensure we give founders the best chance to be successful.

Dario Giuliani
Founder
Briter Bridges

Contents

- Acknowledgements II
- Partners II
- Foreword 2

Introduction to the guide 7

- Navigating the guide 8
  - Making your way through the guide 9
  - Reading the signs: 9
  - A few things to note about the data 9

Fundraising 101 11

- *4* things to know about fundraising in South Africa 12
- Fundraising 101 cycle 14
- To raise or not to raise? 16
  - Where are you on your startup journey? 16
  - Why would you raise? 17
  - Why is now the right time to raise? 19
- Before your raise 20
  - What terms should you be aware of? 20
  - Is your startup registered and incorporated for fundraising? 20
  - Do you have basic governance in place? 22
  - What do you need to start preparing your data room? 24
- Starting to raise 28
  - What are your funding options? 28
  - How do you value your business? 32
  - Defining the ask 36
  - Finding and getting in front of the right investor 37
  - What do you pitch? 39
  - 5 tips for nailing your pitch 42
  - Getting to 'yes' 44
- Closing the deal 46
  - How should you negotiate with investors? 46
  - When do you say no? 47
  - Agreeing on the term sheet 48
  - Moving to due diligence 49
- What do you do after you close? 50
  - Managing expectations 50
  - Investor relations 50
  - Getting prepared for your next round 52

Country Overview 55

- *6* things to know about doing business in South Africa 56
- Get to know the ecosystem 58
  - South Africa's ecosystem journey 58
  - Ecosystem overview 59
- What ecosystem support is available to you? 60
  - Hubs 62
  - Accelerators 62
  - Universities 63
  - Nonprofits and associations 64
  - Government 65
  - Legal services 66
- What funding options are available to you? 67
- Instruments 68
  - Equity 68
  - Debt 68
  - Revenue based financing 68
  - Grants 69
  - Crowdfunding and online marketplaces 70
- Funders 72
- Are there funding options targeting female founders? 76
- What can you learn from other startups? 78
  - Stitch 78
  - SweepSouth 80
  - Aerobotics 82
- What regulations impact you as a startup? 84
  - How do you register your startup? 84
  - Are there tax incentives for startups? 84
  - BEE 85
  - Exchange controls and IP 85
  - Are there any regulations or policies you should keep track of? 86

Investor Catalogue 89

Resources 105

- Resource list: South Africa 107
- Glossary 108
  - Investor lingo 109
  - Investment stages 114
  - Investment types 116
  - Investor types 118
- Endnotes 120

Introduction to the guide

Startup ecosystems across Africa are at very different stages of maturity. Some startup ecosystems are home to a robust local investor and ecosystem support landscape, while others rely on international support. Navigating these different ecosystems and the different financing and support options within them can be time consuming, particularly for start-up founders who are still learning how to run and grow a business.

This guide is designed to help early stage startup founders, saving you time by consolidating the financing and support options available to you, so you can more easily get on with running your startup and realising your goals. We start by taking you through a fundraising 101 recap to reflect on whether now is the right time for you to start fundraising, what you need to know before you start, what to expect while you are raising, and what happens after you've closed the deal. It also includes a **glossary** of common terms to ensure language is not a barrier to your success.

Armed with the information contained in this guide, you will be equipped to tackle the South Africa startup ecosystem landscape. You will find information on:

» The startup ecosystem, including trends in funding for startups.

» Relevant ecosystem support organisations and their features, including helpful links to local and global accelerator programmes.

» Funding options for startups in South Africa, their use cases, tradeoffs and how to access them.

» Learnings from other startup founders that offer further guidance and tips for you on your journey.

» Legal and regulatory considerations when starting and fundraising for your business.

» Helpful links to legal and government resources.

Navigating the guide

1
FUNDRAISING 101
Learn more about the basics and processes of raising funding, from getting started to closing the deal.

2
COUNTRY OVERVIEW
Get familiar with the ins and outs of your ecosystem, learn from other startups, and understand your market.

3
INVESTOR CATALOGUE
Ready to start raising? Get an overview of some of the key investors in your space.

4
RESOURCES
Not sure where to begin? We've put together a list of useful resources for you to get started!

Making your way through the guide

This guide has 4 key chapters. Use the navigation tabs at the top to move easily move between them. Each section of the guide is broken down by key questions to ask yourself, material to prepare ahead of your raise, context about your country, and an overview of resources that could be helpful. Check the glossary at the end of the document for an overview of important terms and definitions.

Top tip: keep an eye out for hyperlinks directing you to useful sources!

Reading the signs:

To help you navigate this guide, we've added some visual cues to look out for:

Getting there
This is a summary of how you will get to the goal in each section.

Destination
This is the goal for each section. It should be clear from the destination what we want you to be able to do after each section.

Binoculars
These are deep dives featuring lessons learned from founders who have been through this fundraising journey in Africa.

Compass
These are additional resources that we have made available for you to support you at the different stages of your journey.

Signpost
These are tips to keep you on course while working through the different sections in the guides.

A few things to note about the data

1. The funding data presented leverages Briter Intelligence and considers deals between January 2015 and May 2022.
   a. Funding analysis is based on the primary African country office.
   b. Figures are based on disclosed deal values.

3. We have used both local currencies as well as US$ throughout the guide. We use US$ when analysing Briter data and for global and foreign investor data. We use the local currency when presenting information on local funding opportunities or information related to the cost of registering or incorporate your business.

CHAPTER 1

Fundraising 101

1

4 things to know about fundraising in South Africa

1 **Startups in South Africa prioritize building traction before fundraising.**

- Don't rush to raise! South Africa has a well-developed corporate sector, a strong urban retail market, as well as access to international markets. There are many avenues and paths for you to build traction before fundraising.
- Explore bringing corporate sector partners as clients or as distribution partners for your products.
- Use South Africa's vast urban retail market as a test-bed for scaling internationally.
- Tap into the high level of digitalisation and internationalisation of the South African market to sell your products internationally.

---

2 **Ecosystem support is plentiful; the challenge is making the most of it for your startup.**

- Know your ecosystem and the actors offering support, from how to navigate offshoring IP, to getting investor ready, or understanding the regulatory environment.
- Discover what hubs have to offer, particularly as they expand into new areas. They can help connect you with events, mentors and other startups.
- Don't reinvent the wheel. Use off-the-shelf resources to assist you with everything from your pitch-deck to your cap table or your ESOP. Spend time choosing the right accelerator for you. You don't need to participate in an accelerator to raise funding. The wrong accelerators can end up distracting you and your team from actually building the business. Figure out what you need and pick the accelerator that best addresses those needs.

3 **Startups benefit from exploring different funding options at different stages of their growth journey.**

- Equity remains the most common funding instrument, but it is by no means the only one – nor is it always the right one.
- Explore your options. South Africa has a large and local venture capital landscape with a rapidly growing angel and early-stage investors, several government initiatives offering affordable credit, a range of new innovative financing instruments, as well as grants offered by a range of ecosystem support organisations.
- Online marketplaces can connect you with financing. The Angel Investment Network of South Africa, FinFind and Business Partners all offer a new way of accessing financial assistance in South Africa. It also boasts several funding options specifically focused on female startup founders.
- Don't overlook government support. It may be difficult to access and navigate, but often provides some of the lowest cost capital for startups.

---

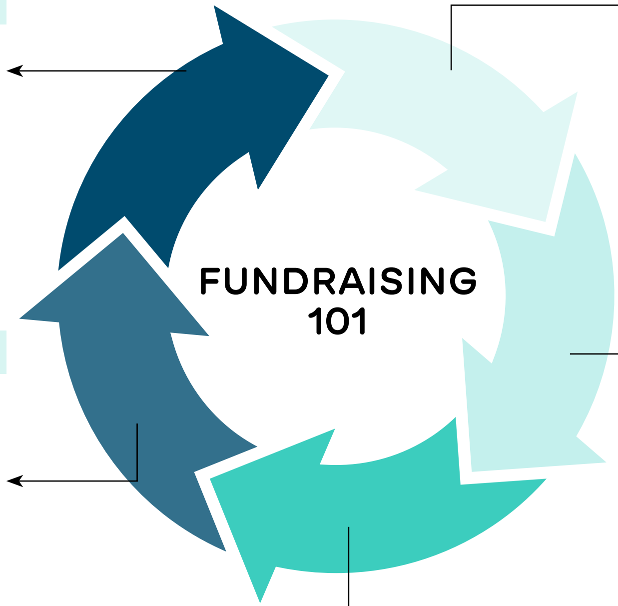
4 **There is no current regulation supporting startups, but there are many government initiatives aimed at reducing red tape.**

- Stringent IP regulations and exchange controls present a barrier to fundraising from international investors. This often requires startups to look to offshore their IP early, particularly if they are looking to expand internationally.
- Black Economic Empowerment (BEE) regulations often create hurdles for startups as they can require local partners to help them comply if they want to work with large corporations or governments. Many startups struggle to attract pan-African and global talent due to difficult visa requirements and processes.
- The Section 12J amendment to the South Africa tax code targeting investors was discontinued and the only relevant tax breaks for startups are related to a general provision for research and development.
- A Startup Act movement is underway and the government is committed to supporting the ecosystem.
- The Western Cape Government has a red tape reduction unit and the government is proactively working with startups through their government agencies.

Fundraising 101 cycle

Fundraising is a big part of every founder's startup journey. It often includes multiple rounds and can range from pre-seed all the way to Series A and beyond. Often the closing of one round is the trigger to begin the next one.

Before each fundraising round it is important for you to step back and determine if and when you should raise. If it is the right time to raise, it's important to get the basics in the place before starting to raise. When you begin to start raising you want to be focused on what the best funding option for your current needs is, how much you need, where to get it and how to get to yes with funders. After a successful pitch you need to be ready to close the deal. It's important to remember that this is a very important stage and it shouldn't be rushed as the agreements you make at this stage will have big implications for your business. Once you've closed the deal it's not over. It's important to manage your investor expectations and keep good relations with them as they will be your starting point when you kick off the next fundraising round which you will already need to start planning for. This creates a fundraising cycle as can be seen in the diagram below:



To raise or not to raise:

- Where am I on my startup journey?
- Why would I raise?
- Why is now the right time to raise?

Before you raise:

- What terms should I be aware of?
- Is my startup registered and incorporated for fundraising?
- Do I have basic governance in place?
- Do I have the systems in place to start fundraising?

Starting to raise:

- What are my funding options?
- How do I value my business?
- How much do I ask for?
- How do I get in front of the right investors?
- What do I pitch?
- How do I get to yes?

Closing the deal:

- How should I negotiate with the investors?
- When do I say no?
- Agreeing on the term sheet
- Moving to due diligence

After the close:

- Managing expectations
- Investor relations
- Getting prepared for the next round

To raise or not to raise?

Destination: Deciding whether to fundraise or not.

Getting there: Don't waste time and energy on fundraising if it's not necessary for your startup. To help you decide, you'll need to ask yourself a few key questions:

Where are you on your startup journey?

The starting point for determining whether it is the right time for you to raise funds is to assess where you are on your startup journey. The best way to do this is by comparing your startup to the different investment stages (glossary) and associated investor requirements and expectations, as mapped out below.

Requirements	Pre-Seed	Seed	Series A	Series B [1]
Early team	✓	✓	✓	✓
Idea	✓	✓	✓	✓
Market need	✓	✓	✓	✓
Prototype	✓	✓	✓	✓
Business plan	✓	✓	✓	✓
Beta and user testing	✓	✓	✓	✓
MVP		✓	✓	✓
Revenue model		✓	✓	✓
Product-market-fit		✓	✓	✓
Revenue generation		✓	✓	✓
Growth, marketing		✓	✓	✓
Assets & valuation			✓	✓
In-house tech & engineering			✓	✓
Product expansion			✓	✓
New markets			✓	✓
Team expansion			✓	✓
Profits				✓
Boost revenues				✓
Structuring for M&A				✓

As you can see from the comparison table, investor requirements and/or expectations are associated with different startup milestones. In the first funding rounds, the pre-seed milestones include having developed a clear idea, having assessed the market opportunity for the idea, and having established an early founding team. In most cases it also includes having a prototype of the product or services, a business plan and evidence of some testing and feedback on market demand. Funding at this stage typically comes from family and friends, grants from accelerators and incubators, low-interest loans, or equity from angel investors. This is very different from the later growth stage of funding, such as Series A and beyond. There, expectations from investors are often much higher, reflecting the size and growth of the company, and the larger funding sums typically required.

Where you are on your startup journey will determine (1) if you are ready to start fundraising and (2) what stage of funding you should be targeting.

Checking the compass: Where are you on your startup journey?

» Learn more about investment stages in the glossary.

Why would you raise?

So you've determined that your startup is at a stage where you can consider fundraising. The next step in the process is to determine why you want to raise. It's important to remember that it's not a requirement for startups to raise external funding. You may have enough funding from your existing revenues to fund your growth, or may deliberately choose to avoid sharing equity with external parties or taking on debt.

Similar to determining where you are on your startup journey, why you want to fundraise is often associated with specific milestones you want to achieve for your startup. These milestones differ depending on where you are at in your startup journey and drive the purpose for your fundraising. Some of the common milestones associated with different stages are noted below:

For **early stage companies,** fundraising can unlock resources for you to:

- Build runway
- Develop a product or service
- Research the market
- Test assumptions
- Build a skillful team
- Launch a product or service to the market

At the **growth-stage,** fundraising can help you:

- Strengthen different branches of the business, such as sales or marketing
- Expand to new markets
- Scale business operations
- Develop new products or services
- Gain credibility in the market
- Build strategic partnerships and networks

If your startup is ready to start fundraising and you are clear on why, external financing can be an excellent way to build or grow your business. Funding can help fast track your development, remove financial limitations, and help you secure your footing in the market. Aside from financing, fundraising can also include technical assistance and support from experienced stakeholders in the space you are operating in, and can be pivotal to understanding how to build a viable business.

Looking through the binoculars: Bootstrapping your business with Inyad in Morocco

Inyad is a startup offering a range of applications for the digitalisation of small businesses. Its main products are Konnash, an application to record and follow up customer debt; Mahaal, a point-of-sale application; and Takam, an application to manage staff and payroll. Inyad has raised over $8m from five fundraising rounds. But funding was tricky to start with. Inyad's founder, Moncer Chlouchi, bootstrapped his business in 2018, knowing he would not be able to raise funds without demonstrating traction. Rather than focusing on fundraising at this early stage, Moncer put all his savings and energy into building and adapting a product that could solve real problems for small businesses in Morocco. He capitalised on all his existing resources and relied on incremental support from the people around him. Today, Inyad's applications have reached 5 million downloads and created a community of 800,000 active users across the MENA region. Its Konnash application has so far tracked and recorded an impressive $20 billion in customer debt.

Checking the compass: Where are you on your startup journey?

- Tips to know when it's the right time to raise

Why is now the right time to raise?

Now that you've assessed where your startup is on its journey and why you want to raise, as well as the specific milestones you want to raise for, you can think about timing! The right time to raise is driven by external and internal factors. These includes:

- **When funds are disbursed.** Nearly a third of venture capital rounds are in January and March[2]. This is often linked to the internal processes of venture capital firms. Other funders like development financial institutions, accelerators and incubators, and governments have similar cycles related to internal processes. It's important to understand these cycles to best align your fundraising with them.
- **Your runway.** Your runway is the amount of time (typically measured in months) until you run out of money. Calculating your runway is one of the most important determinants of when you need to fundraise. You can calculate your business runway by taking your current cash balance and dividing it by your net burn rate.
- **Average time it takes to raise.** The average time for fundraising differs across rounds and is usually associated with the size of funding required. For example, a pre-seed round can take 6 months while later stage rounds such as Series A to Series C can take anywhere from a year to a year and a half.

Reading the signpost: Ultimately the timing of when you raise should be aligned with the investment cycles of the funders you are targeting, your financial runway and the average amount of time it takes to raise for the round. A simple way to think about it is that your timing to fundraise should be when your remaining financial runway is less than the funding you need to achieve your next growth milestone.

Checking the compass: Where are you on your startup journey?

- How to calculate your startup funding runway?
- 5 factors to consider when calculating your startup funding runway
- How much time should you set aside for fundraising?

Before your raise

Destination: Getting the basics in place to fundraise.

Getting there: Preparing yourself to be investor-ready before you start raising greatly increases your chances and helps to manage the demands of the process. This includes familiarising yourself with the investor lingo as well as getting basic governance and operations in place. While not all the governance requirements in this section will be relevant to you now, it's good to be aware of what will be expected of you on your startup journey.

What terms should you be aware of?

Investors tend to have their own lingo when it comes to describing operations and opportunities. We've developed an investor lingo cheat sheet to equip you with the basics before you kick-off fundraising.

Checking the compass: What terms should you be aware of?

» Investor lingo cheat sheet

Is your startup registered and incorporated for fundraising?

Top of the checklist is basic business hygiene, which includes registering and incorporating your business. Registering your business often comes with compliance requirements and runs against the ethos of many startups to "move fast and break things". It's important not to fall into this trap and understand that your funders are also liable for your business. Choosing the location to incorporate your company is one of the most important decisions a business makes. Some jurisdictions have restrictions on foreign investment which restricts companies from accessing foreign funding, which is a major issue in Africa where the majority of VC funding is international. The location a company incorporates can also increase or reduce investor confidence. Some jurisdictions have better investor ratings as they are deemed to have better institutional and regulatory frameworks to govern companies and investments. This includes protection of minority shareholders, clear disclosure requirements, limited government capital and intellectual property controls, amongst others.

Looking through the binoculars: Overcoming exchange controls as a barrier for investment in Tanzania

Many countries in Africa have exchange controls. Exchange controls present one of the biggest barriers for startups in Africa trying to attract funding, given the reliance on international funding. Simply put, exchange control regulations prohibit transactions where capital or the right to capital is directly or indirectly exported from the country, without permission from the government. In some cases, like in South Africa, this also extends to IP as it can be quantified financially. IP generates revenue and therefore tax must be paid in the jurisdiction where the IP is owned. For international investors, this means getting their money or assets out of a country after they've made an investment is either not possible or subject to government permission. This often discourages international investment and forces startups to look to locate offshore when raising from international investors.

In Tanzania, there are major restrictions on trading major assets and exchange controls. The Fair Competition Act requires companies to file with the Fair Competition Commission (FCC) which can be very costly for early stage businesses. The cost is between TZS 25-100 million. Most startups work around this by registering a completely separate business offshore in a more favourable jurisdiction with limited exchange controls. The IP is then licensed to the offshore entity and the entity puts in place investments to develop and own new IP. Over time the business is less reliant on the previous IP and they pay diminishing taxes on it over time. It is advisable for startups looking to raise foreign capital to consult and engage founders who have raised capital in their jurisdiction before or engage the help of an investment advisory firm.

Do you have basic governance in place?

Founders' agreement

A founders' agreement is a baseline for how your co-founder relationships will work in the future, how your company is structured, and what each owner brings to the business. It is important no matter what type of business entity structure you have, and whilst it is optional in most cases, there are several reasons why having a founders' agreement is useful for an early stage startup:

- Clarifies each owner's role in the business
- Provides a structure for resolving disputes among founders
- Provides clarity if and when a partner wants to enter or exit the business
- Protects minority owners
- Signals to investors that you have a serious business

Reading the signpost: Remember, building a business can become uncomfortable if the people in charge begin diverging and conflicting. If this were to happen, having clear, agreed-upon guidelines can be critical for business survival.

Shareholders agreement

Unlike a term sheet, which is a non-binding set of basic terms and conditions for a business agreement, a shareholders' agreement is entered into following the due diligence process and is a legally binding document. It should largely reflect the provisions of the term sheet, except where issues have arisen in the due diligence process which need to be dealt with specifically in the shareholders' agreement.

A shareholders' agreement will typically be entered into between an investor, the existing shareholders in the company (usually the founders), and the company itself. The document is neutral and should not favour any one party in particular. The agreement documents the relationship between each party and sets out the specifics of the investment in terms of the number and class of shares that the investor will receive or 'subscribe for', and the amount that they will pay for these shares.

Capitalisation table

A capitalisation table (or "cap table") provides investors with a clear picture of company ownership. Through the cap table, an investor will be able to determine equity distribution among founders, investors and employees. Each equity percentage reveals who ultimately has control over your startup. Considering that most startups require voting agreement among both common and preferred shares, the cap table provides valuable insight as to how important decisions will be made. Cap tables will become increasingly important to you as your company continues to grow, and equity dilutes. Keep in mind that creating your first cap table doesn't have to be complicated. A simple Excel spreadsheet with minimal data points will suffice.

Reading the signpost: This is mainly relevant for the startups who have raised funds in the past.

ESOP

Depending on where you are as a business, you may want to consider an employee share ownership plan (ESOP) as a way to incentivise your team to remain committed to your journey and benefit from your growth and fundraising. There are four different ESOP structures from direct shareholding to option-based shareholding, and trust-based to phantom schemes. They all work differently and the most common ESOP is a standard direct shareholding agreement. In many cases, an ESOP will be implemented throughout the fundraising journey of a company, but it will be good to be aware of it as you go through this process yourself, so you keep enough equity to offer it.

Reading the signpost: Not all countries allow for ESOP. For example, in Tunisia the law does not allow founders to put ESOP in place.

Board of directors and advisors

The board of directors is a group of individuals, typically a combination of executive members from the business and large shareholders. They are responsible for governance, overseeing management, and the strategic direction of the organisation. Unlike the advisory board, the board of directors have the ultimate say and formal liabilities on decisions made for the business. An advisory board is a structure of individuals that provide advice and assistance to the business. The members of an advisory board are typically highly experienced professionals from outside of the business that can offer insight on a broad range of topics, from sales and marketing to team management. While the advisory board can help support the growth of a company, their advice is not binding and they have no legal authority to make decisions on behalf of the management or company.

Checking the compass: Governance

- Understanding corporate governance
- Founder agreement template
- Shareholder agreement template
- Different types of ESOPs and key considerations
- Early stage founder cap table template by Founder Institute
- Cap tables explained (video)

What do you need to start preparing your data room?

If and when you are successful in attracting interest from funders, the next step is typically due diligence. During the due diligence process you will be asked by investors to share your company documents and other documents related to your business in order for them to proceed. A practical way to answer this request is by setting up a “data room” where you will centralise important documents in a secure online space, in order to ensure effective communication with potential investors. It is crucial to provide just enough information to spark interest and demonstrate expertise, but not to flood the data room with too many details. When deciding what documents to include, remember that the primary purpose of an investor data room is to simplify and speed up the fundraising process. An investor data room typically includes five categories of data, highlighted in the table, alongside examples of the minimum documents we recommend you include under each category.

Category	Documents
Financials	» Profit and loss statements » Financial projections » Audits (including accounts) » Cap table » All information about previous raises » Pro-forma statements for next year » Management accounts
Company documents	» Pitch deck » Voting agreements » Articles of incorporation (including amended and restated) » Investor rights agreements » Partnership agreements » First refusal and co-sale agreements » Customer contracts » Meeting minutes (the most important are the Board » meetings) » Board consents and actions » Board of directors' materials » Shareholder agreements » Market research » Competitive analysis » Sales process » Marketing materials » Business plan (preferably one page) » Branding guidelines » Office lease » Legal disputes
Intellectual property	» Patents (granted and filed) » IP strategy » Software licence details (and any open-source software that you use) » Domain name ownership
Employees	» All employee contracts, past and present, with titles, salaries and records » List of current employees, salaries and titles » All intern contracts, past and present » All consultant contracts, past and present
Technology	» System architecture diagram » API documentation » Product backlog export » Existing products (for safety, you can use screenshots) » Integrations

Reading the signpost: It is never too early to start setting up your data room. Preparing and organising your data room to be able to respond to requests from funders during your fundraising process is critical to increasing your likelihood of success, as well as managing the demands on the team during the fundraising period. It also helps to prepare for the due diligence stage if and when you begin the process of closing the deal with investors. These data rooms include sensitive material so it's important that you manage access and security settings so it's only accessible to those that should have their eyes on it.

Looking through the binoculars: Getting your financials in order with Tanko Food in Togo

Tanko Food is an agri-food company specialising in tomato processing. Founded in 2016 by Ismaël Mamadou-Tanko, the company offers a solution to shortages and soaring prices of tomatoes in dry seasons, and their wastage in rainy seasons. Unlike the majority of products on the market, Tanko Food products are additive-free. According to the founder, Ismaël, Togolese entrepreneurs are not yet aware of the importance of mastering the financial aspects of their business and keeping their accounts in a very rigorous and regular way, instead focusing on profitability and production/sales indicators. He highlights that profitability is the indicator that matters most for banks and investors. Thus, keeping accounts and financial statements on track and up-to-date from the start is crucial to accessing funding and growing your business in the future. Ismaël recommends monitoring financial metrics quarterly or even monthly, and reaching out to accountants and financial experts for support.

Checking the compass: Getting your data room in order

» How to run an investor data room for your startup

Starting to raise

Destination: Attracting the right funding for your startup.

Getting there: To give yourself the best chance of securing the right funding for your startup, you need to understand what funding options you have, what you're asking for, who you want to ask, and how best to pitch to them.

What are your funding options?

There are many funding options for startups beyond equity. Different types of funding are associated with different types of investors (see the investment types and investor types glossary for an overview) and often have different attributes that can inform what is the right type of funding for you. When considering funding options you should keep the following attributes in mind:

- **Availability:** Is this funding option available in your market?
- **Accessibility:** How easy is this funding option to access?
- **Cost of capital:** What do you have to give up to obtain this investment?
- **Flexibility:** Will your business be able to make consistent, scheduled payments?
- **Control:** Does this investment affect your ability to run your business?
- **Collateral/guarantees:** Can investors seize assets, or do you have to pay them back personally if the company can't repay them?
- **Dilution:** How much of your company will you have to give up for the investment?

In the forthcoming table, we map these attributes against the common funding options found across Africa and provide tips on how and when to pursue the different options.

Reading the signpost: Early stage founders should be aware of the options, but most importantly you should know you have options. It's at this stage where early stage founders need to think most about how to match their funding needs with the right type of investor and funding.

Checking the compass: What are my funding options?

- Investment types
- Investor types
- Learning about SAFEs (simple agreements for future equity

Option	Why use	Pros	Cons	Tips
Equity	» Investing in the team or product necessary to build revenues without needing to set aside funds for recurring payments. » Scaling up business through building out additional products or markets.	» **Availability:** Equity for startups in Africa has grown significantly over the last decade in most markets. » **Flexibility:** Equity often comes with giving up some ownership to shareholders who may have different incentives, such as maximising returns to investors. » **Guarantees:** Risks (and profits) are shared with the investor. Assets will not be seized and you won't have to repay if the company fails.	» **Cost of capital:** Equity requires you to give up ownership (and future profits) of your business. From pre-seed to seed, this is generally between 10% to 25%. » **Accessibility:** Equity oftens requires valuation which may be tricky for early stage companies that don't yet have predictable revenue streams or assets. » **Dilution:** As the company grows and raises multiple rounds of funding, the shares owned by the founding team dilutes. As a rule of thumb, each round of equity financing will dilute the company 10-20%.	» Equity should be reserved for when a founder is looking to trade long-term value for long-term investments. Many founders regret giving up equity too early. » At an early stage it is strategic to work with angels that provide friendly terms. » Consider convertible notes and blended finance as good alternative options to minimise the amount of equity that is given up. » Where available, SAFEs are emerging as an option for early stage founders as they do not require a valuation.
Debt	» Financing operational activities such as a new marketing campaign for your product. » Asset financing. » Can act to raise cash quickly to help hit milestones during equity rounds or until you're in a position to gain more favourable terms.	» **Accessibility / cost of capital:** Debt is cheaper than equity and is often quicker to access. The exception is revenue financing which can get costly if revenues grow quickly. » **Dilution / ownership:** No dilution is required with debt. Founders don't have to give ownership and funders can get a share in revenues of a good business, without having to worry about an exit strategy or the next fundraising stage. » **Flexibility:** In the case of revenue financing, repayment only happens if the business earns a profit. This feature can help companies survive periods of reduced revenue.	» **Availability:** Debt has often been out of reach for startups in Africa. This is changing through the introduction of options such as revenue financing, venture debt and government-sponsored debt initiatives. » **Flexibility:** Debt doesn't come with a change in ownership structure, but it does come with the requirement to be able to make recurring debt repayments. » **Guarantees:** Debt often requires you to have existing recurring revenues to evidence your ability to repay, or assets that the financing can be secured against.	» Debt is often a better option than equity for financing operational activities, such as a new marketing campaign for your product. » Many banks and government agencies offer a range of loans, credit, or debt programmes and initiatives to small and medium businesses as a more accessible form of financing. » Emerging trends like revenue financing and venture debt are an increasingly popular tool for startups.
Grants	» Building and testing a minimum viable product (MVP) before commercialisation. » Commercialisation of MVP.	» **Availability:** Many grant programmes in Africa targeting early stage startups. They are often distributed through accelerator programmes and competitions. » **Cost of capital:** Cheapest option for founders as they don't require loan repayments or to give up ownership. » **Dilution/ ownership:** Retain full ownership of the company. » **Guarantees:** Assets will not be seized and you will not have to repay if the company fails.	» **Accessibility:** Grant application process is difficult to navigate. » **Cost of capital:** Hidden costs associated with complex eligibility criteria and reporting requirements. » **Flexibility:** Eligibility and grant spending requirements may steer the company in an unexpected or unplanned direction.	» Grants are a great way for very early stage startups to build out their initial product offerings or test them in the market. » Be prepared to spend time reporting on the grants or investing in people who can.
Mezzanine	» Building and testing a minimum viable product (MVP) before commercialisation. » Commercialisation of MVP.	» **Cost of capital:** Mitigates risk for investors, meaning better funding terms than straight equity. Is less expensive than equity in terms of the overall cost of capital. » **Flexibility:** It offers considerably more flexibility to structure coupon, amortisation and covenants to accommodate the specific cash flow requirements of the business. » **Dilution / ownership:** For founders it is less diluting of the company's share value. For funders it increases the value of stock held by existing shareholders, even though they will not have as great an ownership stake.	» **Accessibility / cost of capital:** Can be overly complex and expensive to arrange, and often carries a higher interest rate than a bank loan. » **Dilution / ownership:** Lenders of mezzanine funds will have a vote on the company's board of directors and significant abilities to take decisive action if the company does not meet its financial projections. » **Flexibility:** Entrepreneurs may need to make regular payments to funders, meaning capital needs to be put aside. Further, entrepreneurs may be forced to accept restrictions on how they spend their money in certain areas.	» If you can confidently anticipate your startup will quickly grow in value, you can plan to restructure expensive mezzanine financing loans into one senior loan at a lower interest rate, saving on interest costs in the long term.

How do you value your business?

A startup valuation is what the startup is worth in the market. Before fundraising, it is important to value your business as it will help you decide the share of the company to give away to an investor in exchange for funding. The higher the valuation of your company, the less you will need to give to an investor in terms of shares and equity, or the more money your company is likely to receive.

A high startup valuation is based on the startup being able to show or possess the following parameters:

Parameter	Description
Business model	A clear understanding of the business model should include the company's primary source of revenue and how you plan to grow its market share.
Business strategy	The business strategy should identify how the company plans to achieve its goals and what actions you will take to reach them.
Unique selling proposition (USP)	The USP is what sets your startup apart from its competitors, and should be carefully evaluated in order for investors and customers to understand why they should choose your startup over a competitor's products or services.
Financial analysis	Financial analysis should provide an overview of your startup's current financial status and future prospects.
Market potential	Market potential can be assessed by looking at factors such as population size, economic conditions, customer needs and trends.
Competitive landscape	The competitive landscape can be analysed by identifying which companies currently dominate your particular market space and how your startup plans to compete against them.

Reading the signpost: The valuation of startups change in every funding round and whenever the startup achieves a milestone. Make sure you have a realistic valuation before approaching investors. If you overvalue your business, the funding won't happen. If you undervalue your startup, you will be giving up too much equity for too little funding, undervaluing what you have worked hard to build so far.

The valuation method you use depends on the stage and achievements of your startup.

To pick the method that is best suited to you, you first need to determine which stage you are in.

Here is a list of some of the valuation methods you can use:

1 **VC method (VCM):** Often used by pre-revenue startups.

The investor sets an anticipated exit valuation based on the current state and the projections, then sets a targeted ROI thus reaching a post-money valuation (post money valuation = exit value / ROI). The pre-money valuation can then be easily calculated: Pre-money valuation = post money valuation – invested capital

Example: An investor values your startup at a terminal value of $1 million and he wants a 20x return on his $10,000 investment. In this case, your post-money valuation would be: $1m / 20 = $50,000.
Thus, your pre-money valuation would be: $50,000 – $10,000 = $40,000

2 **Berkus method (scorecard):** This method is used to value pre-revenue startups because it doesn't rely on the revenue generated, but rather on five factors related to the business. This method was explicitly created to find a starting point without relying on the founder's financial forecasts and indicates a value from zero to $500,000 for each factor, adding up to a total potential value of $2.5 million.

Example: The Berkus method's five crucial factors of a startup are:

- **Sound idea:** Your company has an exciting and viable business idea = up to $500,000.
- **Quality management team:** Your company has assembled an excellent management team = up to $500,000.
- **Prototype:** Your company has a solid product or prototype that attracts customers = up to $500,000.
- **Strategic relationships:** Your company has powerful strategic alliances, partners and a burgeoning customer base = up to $500,000
- **Product rollout or sales:** Your company has signs of revenue growth and a pathway to profitability = up to $500,000.

The sum of all the values designated against each factor results in the pre-money valuation for the startup.

3 **Cost to duplicate approach:** This method can be applied to both pre-revenue and post-revenue startups, but requires some heavy due diligence. Its goal is to determine how much it would cost to duplicate your same business from scratch, including both tangible and intangible assets. The approach is realistic since it assesses the competitive advantages of a startup. If the cost of duplicating the startup is very low, then its value is low. In turn, if it is costly and complex to replicate the business model, then the value of the startup will increase as the difficulty increases.

4 **Comparables method:** Suitable for all startups, especially early stage pre-revenue startups, this valuation is reached through comparing the startup with other startups with similar business models, industry and stage.

Example: A similar app to the one you've developed was recently valued by a venture capital firm at $5 million and the app had 100,000 active subscribers/users. This means that the company was valued at $50 per user. An investor could therefore use this benchmark to value your app with 3,000 users at $150,000.

5 **Discounted cash flow method (DCF):** Applicable to startups with historical cash flow, this method relies on estimating the future cash flow and applying a certain discount to obtain a present value. When using the DCF method, the valuation of your startup won't be affected by market trends and size as it purely relies on financial data based on assumptions.

Example: What the DCF method in action in this video.

6 **Valuation by multiples method:** Applicable for post-revenue, profitable startups, this is one of the most widely employed methods. A powerful and simple valuation method for more mature startups, this takes into account the industry you are in, your competition, your management team, and other qualitative aspects.

Example: Your startup is generating an EBITDA of $250,000. Depending on the industry you are in, your competition, your management team, and some other qualitative aspects, an investor could tell you that he's valuing your business at say 5x, 10x or 15x your current EBITDA.

Reading the signpost: The valuation of the startup also depends on geography. Startups in Silicon Valley, for example, are higher valued than startups in the rest of the world. Reasons include the requirement of higher costs to hire staff and develop a product. So when evaluating your startup, make sure you take your geography into account, and consider that the value of your startup can be lower or higher than the value of a startup offering a similar product or service operating from a different market.

Checking the compass: How do you value your business?

» Metrics used by VCs to evaluate startups (video)

Looking through the binoculars: Sweating the right stuff with SweepSouth in South Africa

SweepSouth is a cleaning service company operating in South Africa, Egypt, Kenya and Nigeria, that connects clients to on-demand domestic cleaners through an online booking platform. Established in 2014, SweepSouth has raised over $6 million disclosed funding since 2015 through seven rounds. Their first funding round was led by Newton Partners, a local seed fund established by Vinny Lingham and Llew Claasen, and included Pule Taukobong from African Angels Network (AAN) and Polo Leteka Radebe's Identity Development Fund (IDF).

Reflecting on their fundraising journey, founders Aisha R. Pandor and Alen Ribic in South Africa noted that valuations don't matter as much as you think at the pre-seed stage. It's more important to raise capital to start building a viable product and market fit and get investors that are willing to be part of your growth and development journey. What is really valuable at early stages is to work with investors who are entrepreneurs themselves and who have entrepreneurial mindsets. They also recommend founders don't raise too much too early, as it's more important that founders retain their ownership as much as possible.

Defining the ask

You've considered your funding options, you've done your homework on the value of your business and now you are ready to start reaching out to potential funders. What should you ask for?

This often surprises founders who expect funders will dictate the terms of how much funding they offer, but in reality, funders are expecting you to define what you want and put it on the table upfront. The starting point to define your "ask" is your fundraising stage. Funders typically provide funding along different stages associated with the growth and maturity of a company. These stages are associated with different milestones and your "ask" should be aligned with how much funding you need to progress through these different milestones. Options include developing the product, building out the team, expanding to new markets and/or strengthening sales and marketing. These milestones are associated with certain revenue and profitability drivers. Founders will consider if you have also thought beyond the current funding round, your startup journey so far, and at which point you will need follow-on funding to continue to grow and mature. A high startup valuation is based on the startup being able to show or possess the following parameters:

Reading the signpost: Expect to define what you're asking for, and ensure you've carefully calculated funding to cover the costs of maturing or scaling operations to a planned level over a set time period.

Checking the compass: Defining the ask

» Calculating how much your startup needs to raise
» How to determine the amount to raise in your round

Finding and getting in front of the right investor

Finding the right investor

Fundraising is hard. One of the hardest parts is approaching and putting your "ask" in front of investors. To increase your chances of success and optimise your search, it's important you find investors that best match with what your startup has to offer. The investor catalogue in this guide provides you with more information on the most active investors in your market, including the fundraising rounds they invest in, the sectors they invest in, portfolio companies they have already invested in and their contact details and social media handles. This information is intended to help you narrow down your search to identify the best possible match. You should then do your own research to understand how this information matches with their funding hypothesis.

Reading the signpost: Most of this can be found online, but it's also helpful to reach out to existing investees of funders that you think match with your offer to get inside information on the investment hypothesis. Further, following investors on social media will give you a good sense of their portfolio, interests and activities within the space.

Looking through the binoculars: Investing in female founders and products with the Africa Trust Group in Southern Africa

Investors increasingly have an investment thesis that defines their investments. For example, global names like SoftBanks, Tiger Global and Andreessen Horowitz all hold the belief that software and technology is going to further disrupt everything from business to governance. They invest in companies with large disruptive potential. We also find that many investors anchor their investments in beliefs. For example, the Africa Trust Group is a group of investors focused on addressing the funding gap for female founders, and targets seed stages. They manage two funds focusing on female founders: The Enygma Ventures fund focuses on investing in early-stage majority women-owned businesses in Southern Africa; the second, Empress Fund, is an angel syndicate fund focused on innovation financing solutions for women-owned and women-enabling businesses in Southern Africa in the agri-processing, energy and climate sectors. Startups that can match this offer will stand a much better chance of engaging with them than those that don't.

Checking the compass: Finding and getting in front of the right investor

» Find examples of key investors in your country here.

Getting in front of the right investor

Getting in front of the right investor is getting harder, and easier. There is much more competition to get in front of the right investor, but also many more investors and ways to get in front of them. Options include direct virtual and in-person meetings, accelerator programmes, social media, networking events and competitions. In scoping out potential investors, think about:

» **Hubs and coworking spaces:** Hubs and coworkings spaces often host startup competitions and networking events, many of which are announced through press releases or through the organiser's social media platforms. Competitions provide a platform for you to showcase your startup. Networking events provide an opportunity for you to build relationships with investors and other funders.

» **Accelerator programmes:** Accelerator programmes are geared towards getting you "investor ready". This includes providing you with access to a network of investors or funders. In some cases these investors or funders may be sponsors of the programme.

» **Social media:** Many investors, ecosystem support organisations (ESOs) and startups are active on social media. Investors often use social media to raise awareness about a call for applications or newly opened funding rounds. ESOs use social media to promote events as well as other funding opportunities in the ecosystem. Startups can also use it to reach out directly to investors and other funders when looking to raise.

» **Connecting with other startups:** Many of the startup ecosystems in Africa have a pay-it-forward attitude to helping other startups. They often help by making connections with investors, offering mentorship and advice and, in some cases, making investments themselves. Building relationships with other startups can be a great way to leverage their networks and get in front of the right investors.

Reading the signpost: Investors don't always accept unsolicited applications and submissions, so building relationships, connections and networks are essential to get your foot in the door.

Looking through the binoculars: Using accelerators to get your pitch investor-ready with Wattnow in Tunisia

Wattnow stresses the importance of expanding your network and participating in entrepreneur support programmes, to not only optimise your business model, but also gain visibility, particularly with investors. Participating in key events where a startup can connect with investors is a very effective way to build relationships with potential investors. Wattnow founder, Issam Smaali, remembers that participating in the Founder Institute Tunisia programme allowed him to connect with his first business angel and secured his participation in the 1st cohort of Flat6Labs Tunis from where he received his first seed funding round and was able to connect with other VCs and business angels. Participating in investment-readiness programmes is also crucial. Wattnow has joined several programmes including Endeavor Catalyst, Plug&Play in Morocco and the Katapult Africa Accelerator.

What do you pitch?

You've chosen your funding option, valued your business, defined your "ask", found the right investors and you've secured an opportunity to get in front of them. Now the real work begins.

Pitching sessions or meetings are the conventional way to give investors a clear overview of your business idea. First impressions are important, and the presentation of your pitch should be visual, factual, targeted and to the point. Use your pitch to tell the story of how your business idea was born and get investors excited about it.

Clarity is key. Although each pitch deck is different, the convention tends to include a number of core slides:

» The problem you are addressing
» The solution you are offering
» The target market
» Competitors
» Traction
» Growth strategy
» Team
» Financials
» Impact
» Risks
» Funds needed and their use

We've unpacked these elements in a table for you, along with tips for preparing the right pitch to investors:

Elements	What to include	Tips for your pitch
The problem	» What problem are you addressing? » What is the need for your business solution?	» Introduce the pain points your potential customers are experiencing and why this has not been addressed yet.
The solution	» How does your business solve the problem you've identified? » Are you inventing something entirely new?	» Outline the key details of your solution in as few words as possible. Include what your solution adds that will make the product more accessible, affordable, efficient, or appealing.
The target market	» Who are you trying to reach with your solution? » Is the business targeting local, regional or international markets? » Are you building a product that can be scaled globally?	» Market sizing helps establish the potential market share your product could attain within the total market. Three key metrics related to the market sizing that you may want to include: TAM (total addressable market), SAM (serviceable available market), and SOM (serviceable obtainable market). Use data to showcase the potential market, and calculate the value of the available market if reached.
The competition	» Who are you competing with? » What is your unique selling proposition and competitive advantage?	» Do your homework on the competition. Emphasise your competitive advantage and what makes consumers choose your product over your competitors' products.
Your current growth and market traction	» Has the business gained traction and interest from customers? » If you have introduced a product into the market, what is the current take-up and churn rate? » Do you have existing channels (e.g. social media) where you can market your product?	» Demonstrate that you have a credible growth trajectory and clearly communicate what the growth levers of your business are, and importantly, how you can profitably scale them. » Show how well your product is doing and give investors a sense of how much interest the product could gain with additional support.
Your growth strategy	» How are you planning to reach new customers? » What is the pricing model? » How are you planning engage customers?	» Provide an overview of how you will scale up your sales process and partners to achieve your new revenue target. Be specific, investors want to see goals, KPIs, sales processes, pricing options, potential partners, amongst others.
Team	» How many people are in your team? » Who is shaping the concepts behind your product? Who is selling it? » Who is in management?	» Present the team behind the solution, their skill level and experience, and how the team will be structured to deliver on your milestones.
Financials	» In what ways can you demonstrate the potential growth and revenues of the business? » If costs are high, how can these be reduced?	» Think of your financial model as evidence that your business is, or has the potential to become, profitable. Calculate your projected costs, acquisitions, sales, revenues and profit margins, and define your growth rates. The standard financial model is a three statement model (profit & loss statement, balance sheet and cash flow statement), capturing all the critical numbers in your business and enabling investors to review and benchmark them. The model is also useful to explain the use of funds and demonstrate financial growth.
Impact	» Does your solution offer more than financial returns for investors? » Can you align your solution around ESG or SDG trends?	» Increasingly, investors are integrating impact considerations into their mandate. Present the benefits of your solution including social, economic, and environmental impact, as well as generating financial returns.
Risks	» What can undermine the potential of your solution? » Are there any risks to the market you are operating in or targetting?	» Be upfront about any risks in your pitch. Some sectors and industries are considered higher risk, often due to things like price variability and external shocks, or the local context, including political stability and regulations.
Funds needed and their use	» What will you be using the funding for? » How long should resources last? What is the timeframe for your investment agenda? » When do you expect the investment to yield results?	» Present multiple scenarios and funding allocation alternatives to ensure the most robust plan for the investment. » Suggest a timeline for how long it will take to turn the funds invested into profits. » Consider and share when you might need follow-on funding to scale.

5 tips for nailing your pitch

Most investors complain about the quality of pitches that startups put forward. They want to see professional business plans and businesses with the right documentation, systems and processes that are ready for funding. Founders that can demonstrate these attributes therefore have an immediate advantage.

1 **Set yourself apart through the quality of your financial assumptions and projections.** Early stage founders need to put as much time into projections as their story, and leave time for potential investors to rigorously test assumptions in presentations and discussions. Later stage investors, such as venture capital firms, often want to see some level of product market fit for startups.

2 **The story is important.** Investors are looking for founders who have a connection to the problem they are trying to solve and who are obsessed with making sure their solution can solve it. Demonstrating you understand the market you are operating in and the customers you are trying to reach is critical. This is particularly relevant at the pre-seed stages. Building a business is hard and investors want to see you have a passion for it.

3 **Be clear on how the business will scale.** Many startups in Africa look to scale abroad. Being clear about this plan and how you will offshore your IP and business operations to overcome exchange controls in many countries across Africa, is critical to allay concerns for potential investors.

4 **Be professional.** This goes beyond a slick slide deck and includes how you engage investors. First impressions are critical in fundraising and it is important that startups do their homework on investors, accelerators and hubs. Further, basics like having a well-formatted and written business plan, having all the right legal documentation, like a tax clearance certificate, go a long way to inspiring confidence in investors.

5 **Be aware.** It's important founders are aware of their own limitations and constraints and build a team around them with the right expertise and experience. No one founder has everything, and in most cases founders fall into two buckets. A polished capital raiser who can speak eloquently and convincingly recall the numbers. These founders often think well on their feet and are well-received by funders. While they have lots of vision, they are often loose on the details and lack the focus of their counterparts, "operators". Operators are not always the best fundraisers. They can come across clumsy and do not have the corporate presenter's polish. But they know their business inside out and are obsessed with making it work for customers. Both profiles work. What's important is that you know where your strengths lie and you are confident you have the right partner to complement your strengths. Further, it is always good to have someone on your team or as an advisor, with previous experience in running a business or scaling up business operations. This is particularly important when investors are looking for experienced industry professionals within teams that can ensure teams can implement their plans.

Reading the signpost: Sharing the deck with investors after the pitch can also help them reflect on your idea before making a decision. Having an abridged deck (excluding sensitive information) in your arsenal is also a useful tool to help sell your products or service to potential clients.

Checking the compass: Nailing your pitch

» The most successful fundraising pitches you need to know

Getting to 'yes'

The stage between pitching and closing can be frustrating. More often than not, you're not going to be given detailed reasons for being turned down by investors, and in many cases you may not even hear back from investors at all. If you are unsuccessful with your fundraising efforts, talk to colleagues, other startups and investors to understand what you might be missing in your presentation, or what you could do to improve your pitch. If nothing else, feedback from presenting your business plan can provide you with new ideas to build a stronger business model. The fundraising process can take time and be a tedious process, so it's important to be patient. It can take a founder dozens, if not hundreds of conversations before attracting an investment.

Reading the signpost: Although patience is needed, avoid spending so much time on the fundraising that the rest of the business suffers. Structuring the team in a way that can accommodate the founder's absence in daily operations can be crucial to ensure the sustainability of the business.

Checking the compass: Getting to yes

» Critical steps to take after nailing your pitch

© Endeva/Illume Creative Studio

Closing the deal

Destination: Closing the best deal for you and your investors.

Getting there: Closing the best deal is a mix of art and science. There are common instruments used to facilitate the process between investors and startups including due diligence and terms. Be transparent and open, and remember you are trying to find the best deal for both of you. You have the right to say no!

How should you negotiate with investors?

Great news. After a few pitches, some investors are expressing interest in your startup and are ready to join your funding round. Now it's time to negotiate. Negotiating is about creating a long-term business partnership between investors and entrepreneurs, and it can often reveal a lot about the way people approach business. Keep this list in mind as you negotiate with investors. It will help you understand what they're thinking.

- **Keep an open mind:** Being too firm on your terms can slow or stall negotiations. You don't need to fold on every issue, but you should be looking for opportunities to listen or reach a middle ground. If there's something you absolutely cannot budge on, consider why that's the case and if there's a way to get the same outcome in a more agreeable way.
- **Negotiation should come from a place of trust:** To negotiate well, you also have to establish trust. Your attitude towards your investor will affect the outcome of the negotiation. Be open about what you want and your reasons, and invite the same from your investor – you may be able to find solutions to each other's problems.
- **Get on the same page early and often:** At the end of a discussion, summarise the key terms negotiated and decisions made. Ask if you're aligned or if you misunderstood anything. Better to confirm you're on the same page from the beginning and consistently throughout the process than at the end, when misunderstandings could create obstacles.

Checking the compass: Negotiating with investors

- What percentage of your company should investors get

When do you say no?

If the specific investor or the conditions offered in the term sheet are not a good match, you might risk committing to giving up more control of the company than you originally planned. Raising funding is a two-sided deal, and you need to make sure that the people gaining a stake in the company understand and support your vision. If the idea is good and the business model is solid, your focus should be on finding the right investor for you, to help build the business, and not hinder its growth. This might mean that timelines are shifted, but it can be the best decision for your business in the long run.

Looking through the binoculars: Not accepting funds at all cost with Kaba Delivery in Togo

Kaba Delivery has been bootstrapping since its launch. From the start, the co-founders were committed to remaining self-sufficient and not opening the capital to external investors. Their goal was to understand their business model in depth and test its profitability. Despite being approached by investors interested in their business, the Kaba Delivery team opted to decline the offers until they had a full understanding of the profitability and the value of the company.

Co-founder and CEO, Ruphin Tiou Tagba Alit, highlights that it's important for an entrepreneur to position themselves into a win-win situation when speaking with investors and not accept funding at all costs.

She adds that it's important to understand the investor's vision and investment strategy since a US investor won't have the same investment approach as an Africa-focused investor. And it's prudent to only carry out due diligence with investors who are aligned with your vision.

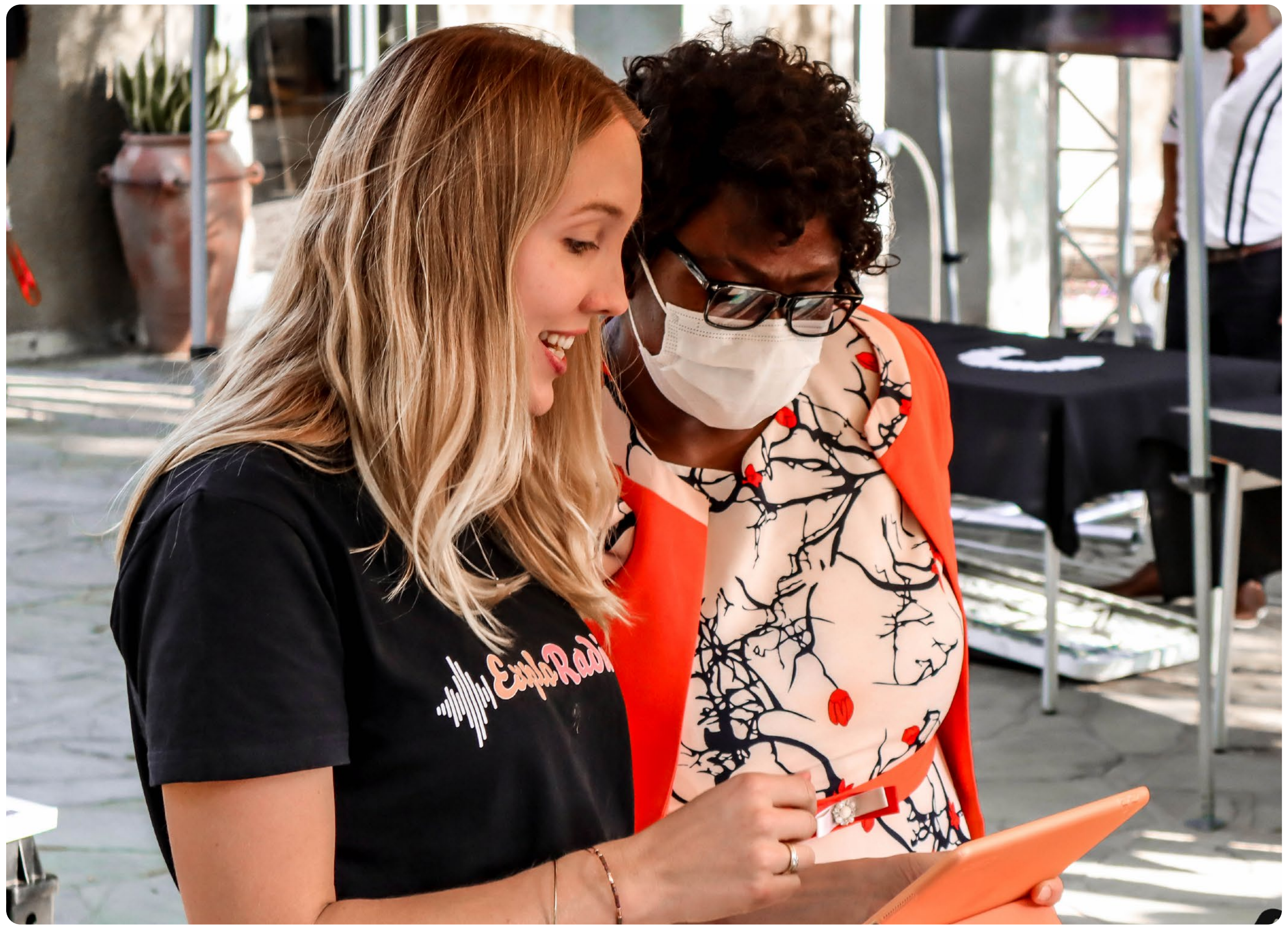
Agreeing on the term sheet

When you're closing the deal, you will need a term sheet. A term sheet is a nonbinding agreement that shows the basic terms and conditions of an investment. The intention of the term sheet is to facilitate discussions, negotiations and agreements in principle of key terms. If agreements are reached, the investors and entrepreneur formalise legally binding obligations through definitive agreements.

The term sheet lays the groundwork for ensuring that the parties involved in a business transaction agree on most major aspects. Some of the items spelled out in the term sheets include the company valuation, investment amount, percentage, voting rights, liquidation preferences, anti-dilution provisions and investor commitments.

Checking the compass: Agreeing on the term sheet

» **How to read a startup term sheet**
» **Term sheet template from Corporate Finance Institute**
» **Standard Series A term sheet**



Moving to due diligence

After signing a term sheet, be prepared for due diligence. Due diligence is the process of reviewing all the different elements of the business. Investors carry out due diligence to ensure target companies are in order, their documentation organised, and current assets and liabilities are known. Knowing what the investors might ask for will help you prepare your documentation.

Financial due diligence — An assessment of the financial health of a company. It includes scrutinising a company's historical and current performance by reviewing financial statements, assets, debts, cash flow and projections.

Legal due diligence — A risk assessment to investigate any potential liability of the target company that could impact the transaction. It typically includes the examination of all the material contracts, including management and ownership of the business, partnership agreement, licensing agreement, guarantees, and loan financing information.

Operational due diligence — An assessment of a company's operational risks and opportunities. It includes investigating the business model and operations of their target to evaluate the operational processes and facilities in place.

IP due diligence — An assessment of the quantity and quality of a target company's intellectual property assets. While these assets are intangible, they are often an important contributor to the company's overall value and something that can set them apart from their competition.

Checking the compass: Moving to due diligence

» **Due diligence checklist for startups**

What do you do after you close?

Destination: Keeping your investors happy and preparing for your next round.

Getting there: You've closed the deal. It's time to focus on delivering the milestones you've raised for. It's important to keep your investors updated on how this is going and to avoid surprises. It's also time to start thinking about your next fundraising round and ensure you start planning early to avoid a last-minute rush.

Managing expectations

Although the importance of proper communication between investors and founders seems obvious, expectations are not always met, and the effects can hinder both parties. Whether you are a founder or an investor, it's critical that you maintain an honest and transparent relationship from the start. Communications should include:

- Regular discussions about the business in general. Investors don't want to be surprised. Even if there are no specific challenges the startup is currently facing, regular communication ensures that everyone is on the same page and that opportunities are seized. Share regular emails listing your current top priorities, current account balances, key points regarding your latest KPIs, and other updates in terms of challenges and press.
- Founders are expected to ask for help from investors, especially in early stages when dedicated teams are not defined and founders have to take care of aspects of the business such as accounting, human resources, operations, and admin, which may not be their natural strength. From pricing to product direction, market segmentation to customer acquisition, this is a critical period and it's an opportunity to crowd-in advice and support from your investors.

Investor relations

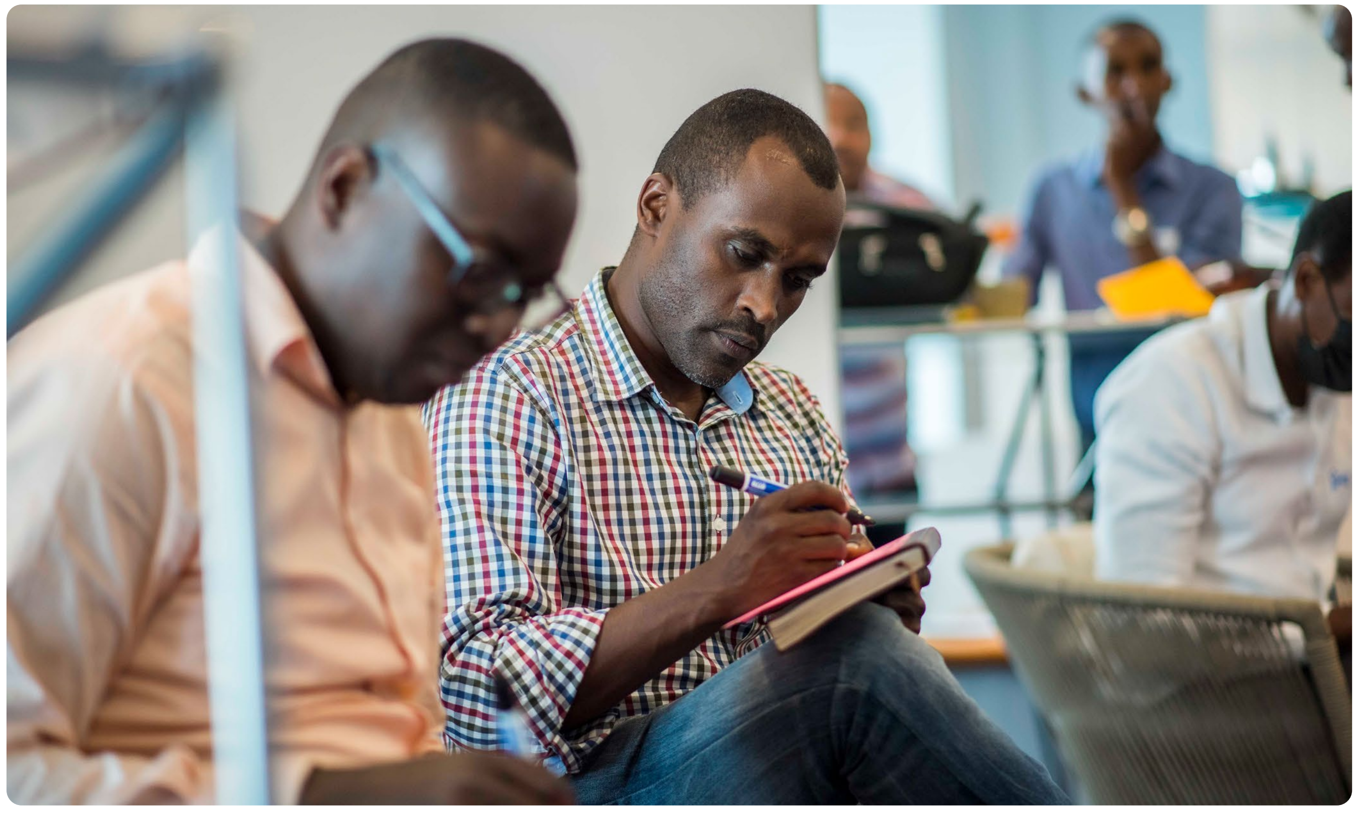
Regardless of company size, the importance of investor relations cannot be overstated. Even the youngest companies should communicate regularly with existing and potential stakeholders. Investors need to understand the performance, wins and challenges that your company is facing so that they can make sound decisions on whether to continue investing or supporting your company.

A detailed investor relations plan should build the confidence of current and potential investors, reassuring them that your business is both well-managed and confident about future success. It should also help establish a good working relationship with investors that you can rely on. Beyond the benefits for investors, effective investor relations publications can also reassure existing internal teams that they are working for a company that has growth potential.

Some of the information to include in an investor relation statement include:

- **Financial status:** Turnover, sales, profit and costs compared with the same period the previous year, plus investment secured since your last announcement. Include information such as the amount of cash or cash-equivalent funds available to you, which should demonstrate that you would be able to at least cover your liabilities should the worst happen.
- **Operational status:** Number of employees and employee growth, expansion of premises and projected growth.
- **New developments:** Recent customer orders and pipeline, relevant senior appointments, introduction of new products and significant partnerships.

Reading the signpost: There are certainly further best practices to master investor relations. Many experienced investors also have their own perspective on how to collaborate with founders. Some investors don't want to get involved as frequently as others. Above all, you should ask your investors for their expectations.



Looking through the binoculars: Managing investor relationships with Wattnow in Tunisia

Wattnow addresses companies' energy waste problem by providing them with a solution to optimise their consumption and/or their energy production. Wattnow's solution has a hardware component to capture data, and a software component to transform the collected data into actionable information. The solution targets companies operating in a wide range of sectors, it is cost-effective and easily deployable thanks to its "user experience". Throughout his fundraising journey, Issam Smaali, founder and CEO of Wattnow, has been able to raise more than $1.5 million through different rounds, from many investors. From his experience, maintaining a strong communication with investors is key and founders shouldn't neglect this aspect after receiving their money and insists on the importance of keeping your investors up-to-date on what you're building, your business metrics and milestone achivements. Issam regularly sends newsletters to his investors.

Checking the compass: Investor Relations

» How to maintain good investor relations

Getting prepared for your next round

You figured it out, it's a cycle! After closing a funding round, you're most likely to start preparing for the next one. You'll be following the same process, starting with answering the questions: Do you need to raise or not? If so, why and how much?

CHAPTER 2

Country Overview

2

6 things to know about doing business in South Africa

1 **South Africa has the third largest economy in Africa, but it is ripe with informality and inequality.**

» South Africa has one of the highest GDPs and GDP per capita in Africa, but the level of inequality in the country means this is concentrated in certain areas and groups of the population. The informal economy plays a major role in helping sustain livelihoods for the majority of people. More than a third of the population is unemployed.

2 **South Africa is home to the top startup ecosystem in Africa.**

» South Africa has one of the most mature startup ecosystems on the continent. Its two major metropolitan areas, Cape Town and Johannesburg, are consistently considered amongst the top ecosystems on the continent, and the country is ranked first in the “African Ecosystems of the Future” by Financial Times’ FDi Intelligence and Briter Bridges. It also boasts the first incubator in Africa, the Bandwidth Barn.

3 **Access to talent is a major asset for the ecosystem, but education and skills remain a major challenge.**

» South Africa has a young population, most of whom are not employed or educated, despite South Africa being home to several of the top universities in South Africa. Only 7% of the population has a tertiary education[3], but critically many individuals don’t even matriculate from school. The result is a very low literacy rate and further inequality in society between those that are educated and those that aren’t[4]. However, there are initiatives outside of the education system emerging, aimed at boosting digital and entrepreneurial skills. Edtech and e-learning play a major role here. Further, companies like Amazon Web Services (AWS) and Microsoft have selected South Africa as a hub due to the relatively high level of digital skills in Cape Town and Johannesburg.

4 **The country is struggling to keep the lights on.**

» Eskom, the state-owned energy company, has struggled to keep electricity flowing. Nearly 85%[5] of the population has access to the grid, with nearly three quarters of rural areas reporting access, but load shedding has contributed to rolling blackouts across the country, forcing those who can to look for alternatives. The government has passed regulation to provide more opportunity for off-grid solutions and several renewable energy startups have emerged to address this demand.

5 **Digital and financial inclusion is high.**

» More than 80%[6] of the population has a bank account and there are many non-bank alternatives available. This has contributed to the rise in fintechs in the country and supported the transition to e-commerce. Given the high level of bank account penetration, mobile money has not been as successful as in other nations, but there are many mobile-enabled banking and payment apps that leverage the existing banking infrastructure. Nearly 70% of the population were active internet users as of January 2022, with close to half using social media. Nearly all adults in South Africa have access to a mobile phone, and many have access to multiple phones and SIM cards. More than half of South Africa, 36 million, access the internet through mobile phones. Smartphone penetration has been growing, and about a third of the population, 20-22 million people, use a smartphone.

6 **South Africa has a good business environment, but it’s highly regulated.**

» South Africa is the most regulated market in Africa. The government is very active in most sectors, and there are government industrial policies and charters for all the key business sectors. Further, there are stringent exchange controls that make it hard to get money in and out of the country, raising concerns for international investors. This creates clear guidance for where and what businesses can do, but it also limits the grey areas in which startups often exist.

Get to know the ecosystem

South Africa's ecosystem journey

Pre-2000
The beginning of the movement

The South Africa Venture Capital and Private Equity Association (SAVCA) was established in 1998. The first official ecosystem initiative was launched in the Western Cape in 1999 with the establishment of the Cape Innovation and Technology Initiative (CiTi). In 2000, CiTi established the first incubator in Africa, the Bandwidth Barn.

2000-2010:
Putting Cape Town on the map

In 2009, Silicon Cape was founded to further attract talent and entrepreneurs to the Western Cape and position it to the world as an emerging IP and technology capital. In 2009, the South African government introduced Section 12J as part of South Africa's Income Tax Act. It provided investors with tax benefits to invest in local businesses. A number of 12J funds were set up in response. In 2010 the government built on this by easing exchange controls for approval for investments into the rest of Africa.

2010-2020:
Momentum building

2013 was a watershed moment for the ecosystem. The number of investment deals made in South Africa jumped from 32 deals a year before 2014 to an average of 129 deals after. SiMODiSA was established in 2014 to further support the startup ecosystem in South Africa and give a collective voice to startups and investors. In 2016, the SA SME Fund was established through the CEO initiative with R1.4bn to allocate capital venture capital or growth oriented equity funds. In 2019, Naspers Limited, the largest technology company in South Africa, which made its money by being an early investor in China's Tencent Holding, and selling its stake, launched Naspers Foundry with its first investment in SweepSouth. Naspers Foundry has allocated R1 billion to invest in early stage startup companies.

2020-present
The road ahead

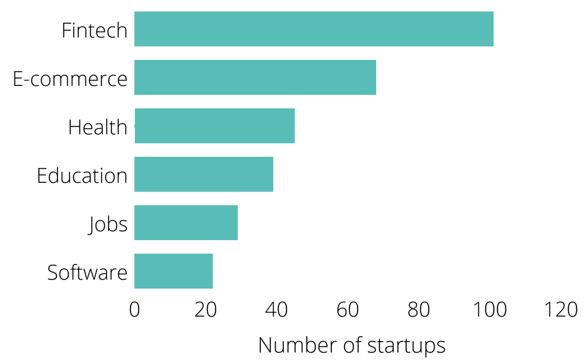
2021 was another watershed moment for the industry. Funding into South Africa startups exceeded $1bn with more than 10 deals being over $20 million. Jumo Bank, Yoco, Ozow, MFS Africa, TymeBank and Stitch lead the fundraising, but a number of non-fintech startups also had successful funding rounds including Carry1st, a gaming and content platform, and Planet42, a mobility company. Yuppie Chef, an e-commerce platform, was acquired by Mr Price Group in South Africa.

It is also a period of transition for the regulatory environment in which startups operate. The South African government chose not to continue with Section 12J. However, progress has been made on the Startup Act of South Africa. The initial position paper was released defining startups separating from other small and medium businesses and looking to strengthen the legal environment they operate in. The aim is that the forthcoming Startup Act will provide a more sound basis for the ecosystem in South Africa.

Ecosystem overview

705+ startups	**$2.7b+** in disclosed funding between 2015-2022
56 sectors	**20** raised $20m+
285 products	**6** raised over $100m

Top Sectors

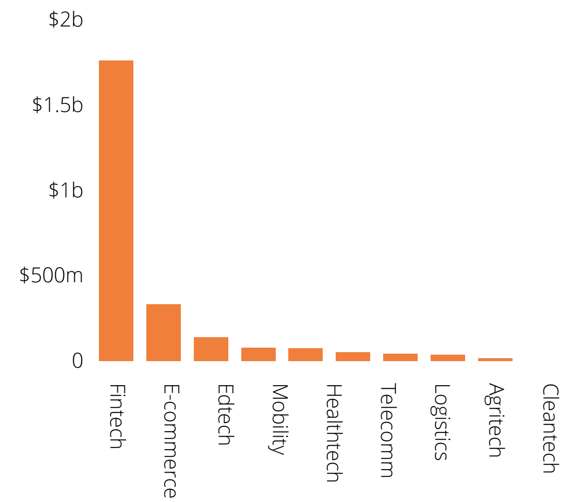


Top Funded

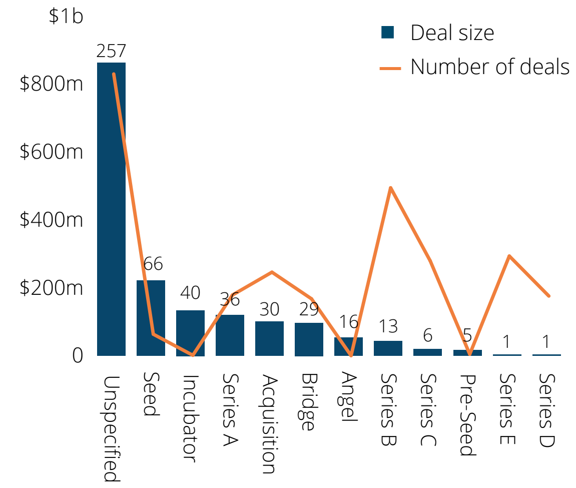
ZEPZ | TymeBank
We Buy Cars | YUPPIECHEF.COM
getsmarter | VALENTURE INSTITUTE
Planet42 | WhereIsMyTransport
LifeQ | hearX
CASSAVA TECHNOLOGIES

Investment trends

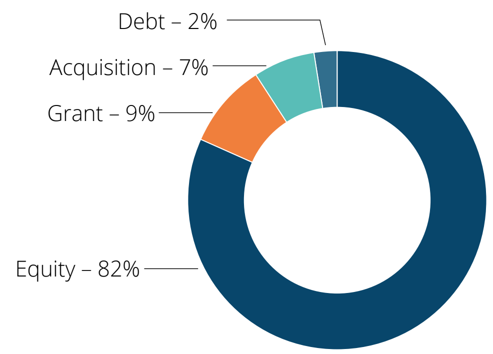
Funding by Sector



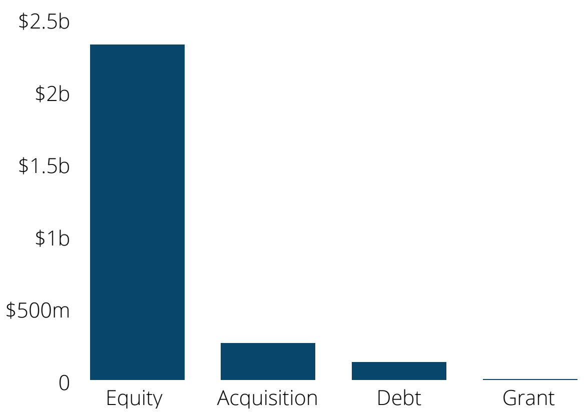
Funding by Deal Stage



Share of Deals by Deal Type



Funding by Deal Type



These figures leverage Briter Intelligence data, which tracks the startup ecosystem and deals in the space. Please see "notes about the data" for more information.

What ecosystem support is available to you?

Below we provide an overview of the different types of support ecosystems, what they offer, what startup founders use them for and notable examples to help you on your fundraising journey.

© Endeva/Illume Creative Studio

Type	Description	Use case	Examples
Hubs	Support structures that offer services, including incubation and acceleration programmes, and coworking spaces.	» Access co-working spaces. » Get industry exposure. » Plug into local events. » Participate in training programmes.	Workshop17, AlphaCode, InvoTech, iHub
Accelerators	Programmes to assist startups with building or scaling their business.	» Technical assistance » Investor readiness when fundraising. » Access to networks of investors.	Catalyst Fund, Grindstone, Founders Factory, Startup BootCamp
Nonprofits and associations	There are a number of nonprofits and associations in South Africa that support the ecosystem either through advocacy, convenings or direct support.	» Participate in ecosystem-wide initiatives » Connect with other ecosystem organisations » Participate in free training » Access free resources	Silicon Cape, Cape Innovation and Technology Initiative (CITI) South Africa Venture Capital and Private Equity Association (SAVCA), SiMODISA
Universities	A number of universities are plugged into the ecosystem looking to support startups directly and commercialise IP generated within universities.	» Commercialising IP generated in Universities	LaunchLab at Stellenbosch University, MTN Solution Space at UCT Graduate School of Business
Law firms / legal companies	There are a number of law firms and legal companies that focus specifically on helping startups navigate the complex legal and regulatory environment in South Africa.	» Advice on setup and registration. » Advice on offshore IP.	Bowmans, Dommisse Attorneys, Legalese
Government	There are several government agencies providing financial and non-financial support to startups.	» Access incubation support. » Access affordable, low cost financing. » Address red tape like visas, IP, sector-specific regulations, etc.	Technology Innovation Agency (TIA), Small Enterprise Development Fund (SEDA), Women's Empowerment Fund (WEF), Western Cape Government

Hubs

Briter intelligence data notes 85 tech hubs in South Africa supporting startups. The majority, 39, are in Cape Town, followed by 25 in Johannesburg. This includes Bandwidth Barn, Innovation City, Inner City Ideas Cartel and Workshop17 in Cape Town; and AlphaCode, JoziHub, mLab, The Innovation Hub and Tshimologong Precinct in Johannesburg. There are only four hubs in Durban and two in the Eastern Cape. Notable hubs include InvoTech in Durban, iHub in Port Elizabeth and Cortex Hub in East London. The result is that most early stage startup founders looking for ecosystem support need to be located in one of South Africa's two major metros.

Accelerators

There are 25+ accelerators in South Africa. Notable examples include Endeavor, Catalyst Fund, Founders Factory, Grindstone, Savant Technology Incubator, Startupbootcamp, amongst others. A number of these accelerators have partnerships with existing venture capital firms or corporates and use them as a way to identify and cultivate future investments. There are also a number of international accelerators that South Africa startups have participated in. These include the Alchemist Accelerator, Y Combinator, Google for Startups and 500 Startups.

Several of these accelerators provide support for specific sectors or have specific programmes aimed at certain sectors. For example, Injini in Cape Town is an edtech accelerator. Endeavor South Africa is working with the Dutch Entrepreneurial Development Bank on an agtech accelerator, the BFA Catalyst Fund is working with the UK Government and others on a fintech accelerator with a climate resilience focus, and Digital Health Cape Town focuses on digital health solutions. While accelerators can be very beneficial for early stage startups, it is not a prerequisite to raise funding. In 2022, only about a quarter of all startups identified in South Africa that have successfully raised funding, have been through some form of an acceleration programme[7].

See examples of accelerator programmes you can apply to below:

Organisation	Description	Link
Resources		
Catalyst Fund	Catalyst Fund, managed by BFA Global, is a global accelerator that supports inclusive fintech innovators and facilitates the growth of innovation ecosystems in emerging markets.	
BioCiTi	BioCiTi, established by CiTi in 2019, is a specialised biotech incubator that provides African entrepreneurs a platform where science, business and investment can come together.	
Endeavor South Africa	Endeavour regularly hosts accelerator programmes with partners targeting startups across a range of sectors.	
Founders Factory Africa	Founders Factory offers build or scale accelerators for startups and scale-up businesses in Africa.	
Grindstone	Grindstone South Africa regularly hosts programmes with partners like that SASME Fund, Knife Capital, Thinkroom, Deloitte, ABSA, and Google for Startups, amongst others.	
Injini	Injini's Acceleration Partnership is an EdTech-specialised venture development programme uniquely designed to support high-growth, high-impact companies using technology and innovation to address pressing education challenges across sub-Saharan Africa.	
Savant	Savant regularly hosts accelerator programmes. More recently they launched the Build Programme 2022 focused on greentech, agritech, medtech, renewable energy and IoT.	
Startupbootcamp Afritech	Startupbootcamp Afritech regularly hosts accelerator programmes. They are currently hosting the Scaling African Solutions for African Challenges African targeting startups disrupting industry sectors including AgriTech & Supply Chain, IoT & Connectivity, Machine Learning (Data Analytics), Cybersecurity, Clean Tech and RegTech.	
Google for Startups	A three-month accelerator programme for seed to series A businesses.	

Universities

There are a number of university initiatives in South Africa aimed at supporting early stage startups in South Africa. For example, the Solution Space at University of Cape Town's Graduate School of Business, which is sponsored by MTN and connects startups, corporates and academia in an effort to advance social innovation and entrepreneurship. It also hosts a tech transfer and research office. Stellenbosch University is home to LaunchLab, which hosts programmes and events, provides hands-on support to startups and connects them to their tech transfer office, Innovus. The University of Witwatersrand has its own innovation investment fund that provides a platform for alumni and others to invest in startups originating from Wits. Cape Peninsula University also hosts a Business Innovation and Incubation Centre. It's important to note that all of these university initiatives have tech transfer offices that are responsible for the commercialisation of IP that is developed within these universities.

Nonprofits and associations

There are several nonprofits and associations in the space. SiMODiSA is a nonprofit association of startup ecosystem stakeholders in South Africa shaping the regulatory and policy for startups in the country. They are actively engaging the government and industry around the forthcoming Startup Act in South Africa. They also run SiMODiSA Digital Portal which connects entrepreneurs with resources and provides a range of business services, tools and support needed to build successful businesses. The other notable nonprofit is Silicon Cape, which was launched in 2009 in the Western Cape. Silicon Cape partners with various stakeholders across the Western Cape ecosystem to attract talent, entrepreneurs and investors. It offers tech tours to investors and ecosystem enablers from outside of South Africa, and offers resources to startups, hosts hackathons and advocates on behalf of the startup ecosystem. It is also a member of the steering committee shaping the forthcoming Startup Act in South Africa. Another of the most notable nonprofits is the Cape Innovation and Technology Initiative (CiTi). CiTi was established in 1999 and in 2000 set up Africa's first incubator, Bandwidth Barn. They have since rolled out other incubators across the Western Cape focusing on key sectors like edtech (Injini) and biotech (BioCiTi), as well as specific areas of development (Khayelitsha Bandwidth Barn). They have also set up two training facilities aimed at cultivating tech talent in Cape Town and Johannesburg through their CapaCiti campuses. In addition, they have launched tech clusters in fintech, datatech and traveltech to bring together business, government, society and entrepreneurs. Through their VeloCiTi initiative they offer a number of programmes aimed at entrepreneurs where they provide hands-on support for early stage startups, women in business, B-BBEE support for enterprise and supplier development, and fundraising support.

Organisation	Description	Link
Resources		
Endeavour resources for entrepreneurs	Endeavor's resources for entrepreneurs.	
SiMODiSA Digital Portal	An entrepreneurial community based platform with curated content from the ecosystem.	

Government

The government has grown its involvement in the support ecosystem. In the Western Cape, for example, the local government has a JUMP programme for entrepreneurs. It's a partnership between the Western Cape, Google and other stakeholders. They offer a JUMP mobile platform that provides assistance for entrepreneurs to assess their funding readiness and match with existing funders, list their business on their interactive map for funders to find, access government support, find resources to support your businesses and even assess the health of your business. The Western Cape has also launched the Redtape Reduction Unit to assist startups with navigating the complex legal environment in South Africa. They aim to assist startups on an individual basis with everything from visa to IP issues. Wesgro also plays a role here. They are connected to various government agencies in South Africa and can assist startups with everything from accessing funding from government programmes to IP and visas.

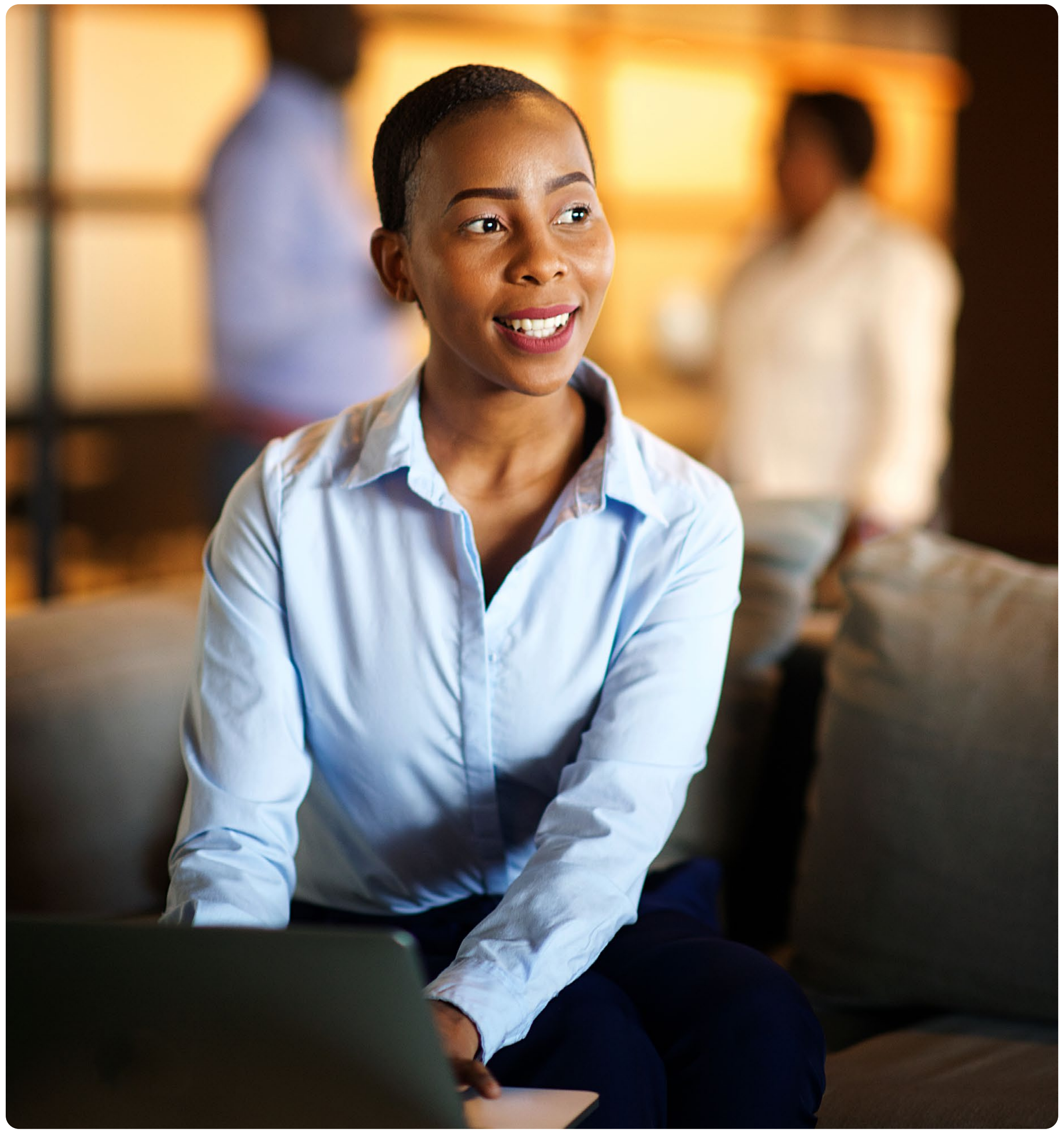
At a national level, the Technology Innovation Agency (TIA) has established programmes targeting young innovators to access risk funding, mentorship and business skills support. It's targeted at young entrepreneurs between the ages of 18 and 30 who are not currently funded by the TIA. It also offers a Global Cleantech Innovation Programme that offers clean technology innovation and entrepreneurship access to training and mentoring, support in finding funding, opportunities to showcase your solutions and an opportunity to win cash prizes or in-kind support. The TIA also offers broader incubation and acceleration support.

The Department of Communications and Digital Technology (DCDT) also plays a role in supporting early stage startups in South Africa. They offer four areas of support. The first is a digital platform that identifies startups that have developed solutions that are ready to go to market. Second, they look at where the government can be the first buyer of these startups' solutions as a major challenge for early stage startups is getting their first client and revenue. Third, they connect solutions with other accelerator and incubation funds the government has established. Last, they provide direct assistance to these startups by profiling their solutions at events, such as the Dubai Expo, helping them with the branding of their products and helping them with patenting solutions with the CIPC including trademarking and IP registration.

Organisation	Description	Link
Government support		
Technology Innovation Agency	Access TIA's programmes.	
Western Cape	Download the Jump app.	
Western Cape	Access the Redtape Reduction Unit.	

Legal services

Lastly, there are a number of legal companies offering specialised support for startups. Outside of the major law firms, ENSafrica, Cliffe Dekker Hofmeyr, Webber Wentzel, Norton Rose Fulbright and Bowmans, firms like Dommisse Attorneys and Legalese offer targeted support for startups. Dommisse Attorneys provides support to those looking to offshore their IP and has been involved in many ecosystem initiatives aimed at easing restrictions or setting up initiatives to better assist startups with this journey. Legalese provides support to early stage startups with specific expertise on laws and regulations impacting upon technology business, and more general services for business registration, tax services, labour laws and more.



What funding options are available to you?

The starting point for determining what funding options are available to you is to decide which stage of fundraising you are currently at. Below we provide a breakdown of the stages of funding, the key characteristics of startups in these phases in South Africa, the deal range, notable startups, instruments and funders. Armed with this information you can then assess the instrument and appropriate funders.

Stage	Key characteristics	Deal range	Notable startups	Instrument	Funder
Pre-seed	Proof of concept	$15k - $300k	The Student Hub, Healdraft, Akiba Digital, Oyi, Khula!, LocumBase	Grants, Equity, Debt, Crowdfunding, SAFEs	Accelerators, Angels, Government, Banks, Foundations
Seed	MVP testing	$1m - $5m	Zindi, Bamba, Inseco	Equity, Crowdfunding, SAFEs	Venture Capital, Angels, Banks
Pre-series A	Increasing market share	$1m - $5m	OrderIn, Mobiz	Equity	Venture Capital
Series A	Expansion to new markets	$2m - $50m	Stitch, Whereismytransport, Naked Insurance	Equity	Venture Capital
Series B	Expansion to new markets	$50m - $200m	Luno, Ozow, Aerobotics, SweepSouth	Equity	Venture Capital
Series C+	Expansion to new markets	$100m - $300m	MFS Africa, Yoco, Clickatell	Equity, debt	Venture Capital, Banks
Merger or Acquisition	Expansion to new markets	$30m - $100m	Tymebank, SnapScan, GetSmarter	Equity, debt	Venture Capital, Banks

Instruments

1 Equity

Equity is the largest contributor to the South Africa investment landscape. Equity funding accounted for 85% of the disclosed funding raised by startups since 2017. Aside from venture capital firms, there are several government agencies, banks and corporates that are also involved in the equity space. The fundraising rounds for equity tend to be angel, pre-seed, seed and pre-Series A, followed by Series A, B and C in South Africa.

2 Debt

While equity captures the headline, debt still plays a critical role in startup financing in South Africa. Disclosed funding into startups that have leveraged debt instruments totals more than $120 million, with nearly all funding deployed at later stage funding rounds: Series C and beyond. However, there are a number of initiatives from the government that aim to provide low-cost debt financing to support startups at earlier stages. In addition, given the depth of South Africa's financial sector, banks have developed business models for financing small businesses and startups and there are a number of non-bank debt financing options.

3 Revenue based financing

Revenue-based financing is also gaining traction in South Africa, where founders raise funding in return for a percentage of future revenues rather than giving up ownership of the business. It is usually limited to a certain multiple of the original investment. This means that investors can offer shares in the revenues of a good business model with good cash flow, without investors having to worry about their exit or the next fundraising stage. Startups typically use this for asset financing. Untapped Global has recently launched a platform specialising in revenue-based financing. It has now financed assets for more than 5,000 entrepreneurs who work across sectors such as clean water, solar, e-mobility and inclusive fintech[8].

4 Grants

In South Africa, there are a number of grant options available for startups. The largest provider of grants to startups are accelerators and incubators. They have contributed close to $1.2 million to startups in South Africa through nearly 30 grants. These include Google Launchpad, AlphaCode Club, Catalyst Fund, Norrsken Impact Accelerator, Google for Startups and Katapult Ocean, amongst others.

The government is also involved in startup grants. For example, the TIA was explicitly set-up to support technological innovation across all sectors of the South African economy and has a number of funds offering grants to support this mission. TIA implements a regional SME seed fund on behalf of the DTIC that aims to support technological innovation and entrepreneurship for startups at the pre-revenue stage. They provide grant funding of up to R650,000 for research and development to build out an initial product offering and bring it to market. They work with incubators and regional development agencies to source opportunities. To date, there have been four disclosed deals to startups totalling $125,000.

Foundations such as the Mastercard Foundation, the Michael & Susan Dell Foundation and Google.org have also provided grants to startups. Between them they have made six grants totalling $2 million.

Below is an overview of the funding provided and notable examples for reference.

Type	Examples	Number of deals	Total amount raised*
Incubator or Accelerators	Google Launchpad, Alphacode Club, Catalyst Fund, Norsken Impact Accelerator, Google for Startups and Katapult Ocean	25	$1.2m
Foundations	MasterCard Foundation, the Michael and Susan Dell Foundation and google.org	13	$2.6m
Government	Technology Innovation Agency (TIA)	4	$125k

* Only includes disclosed funding

5 Crowdfunding and online marketplaces

Uprise.Africa is one of the leaders in crowdfunding in South Africa. They offer equity crowdfunding whereby individual retail investors can invest directly into startups. Startups can market their offerings on crowdfunding platforms to attract retail investors, and Uprise.Africa additionally provides marketing and campaign support, and profiles startups on their platform. Startups must cover the cost of on-boarding, marketing and other fundraising campaign activities, as well as give Uprise.Africa a percentage of the funding raised. Uprise.Africa recommends that the minimum amount of investment that startups should be looking at on their platform should be R2 million[9]. While it is still early days for equity crowdfunding, there have been some notable success stories such as Drifter Breweries which raised R3.9 million through Uprise.Africa.

The Angel Investment Network is also doing something similar. It's a marketplace that has been developed to connect startups with angels in South Africa. Another online platform offering a similar service is FinFind, which was developed by USAID in partnership with the Small Enterprise Development Agency (SEDA) to match businesses looking for finance with appropriate funders. It includes startup finance, expansion finance, equity finance, cash flow bridging finance, debtor finance, contract finance, asset finance, franchise finance, supplier finance, import and export finance, finance to buy out a partner, property finance and grant funding, amongst others.

Looking through the binoculars: Matching making platforms in South Africa

Many of these emerging trends are aimed at opening up the investing space to more participants by allowing more retail investors direct access to financing startups and enabling startups to access a wider pool of capital. More information on these can be found below.

Organisation	Description	Link
Resources		
Angel Investment Network	Matching platform for angels in South Africa and Entrepreneurs.	
FinFind	Matching platform with a range of financing options.	
Uprise Africa	Equity crowdfunding.	

© GIZ/Serge Marlon Muhizi

Funders

Accelerators

Accelerators are also increasingly moving into the early stage funding space. For example, Founders Factory Africa (FFA), Grindstone, Catalyst Fund and Startupbootcamp provide funding as well as technical expertise in return for equity. FFA invests £150,000 into each venture they support as part of their build programme. Catalyst Fund provides pre-seed capital to early stage startups in the fintech and climate resilience space. They offer $100,000 to startups in addition to $100,000 of venture building support, as well as $175,000 of funding for access to business tools. Grindstone has recently launched an investment fund worth $5.6 million to invest in startups that are already part of or have completed their accelerator programme[10]. Startupbootcamp is an accelerator that also provides funding to early stage startups.

The largest provider of grants to startups are accelerators and incubators. They have contributed nearly $1.2 million to startups in South Africa through nearly 30 grants. These include Google Launchpad, AlphaCode Club, Catalyst Fund, Norrsken Impact Accelerator, Google for Startups and Katapult Ocean, amongst others.

Banks

Banks are entering the equity arena, no longer just as potential clients, but also investors. For example, Standard Bank has a venture partnership with Founders Factory that directly invests into other startups, like Nomanini, a fintech company based in South Africa operating across Africa, as well as into other funds, like Hlayisani, a venture fund focused on ESG investing across Africa. Old Mutual, an insurance company in South Africa, partnered with Anthemis Group to target later stage fundraising for insurtechs. NedBank makes investments through their Corporate and Investment Banking (CIB) division including into notable startups like Aerobotics and WhereIsMyTransport.

In addition to the increasing role banks are playing in providing equity to startups, they still provide debt financing. NedBank and Standard Bank both provide financing for startups. NedBank has an API marketplace which allows startups to leverage its banking infrastructure.

Angels

The angel investing community has made a recognisable shift in the last few years. South Africa is home to nearly 50,000 millionaires and startup founders who have made successful exits and are using their new found wealth to invest back into the startup ecosystem[11]. Angel networks like Dazzle Angels, Josie Angels, South African Business Angels Network (SABAN) and Impact Amplifiers have grown in prominence and are often a great starting point for startup founders looking to raise at the ideation or pre-seed stage. These angel networks are often location or theme based. For example, Jozi Angels is a network based in Johannesburg, whereas Dazzle Angels is a female-focused angel fund, led and funded by businesswomen.

Venture capital firms

There has been an increase in the number of venture capital firms targeting startups at earlier deal stages in the last few years. This includes Entrepreneurs for Entrepreneurs, Enygma, Launch Africa, Norrsken, Imperial Africa, amongst others, who are emerging as seed investors. AfricaInvest, a large pan-African early stage funder, also has South Africa on its radar and plans to open an office here soon. In some cases VCs are setting up their own accelerators, for example, Grindstone is owned by Knife Capital, a later stage venture capital firm.

While there has been increased deal activity from these investors at the earlier stages, the majority of capital is still deployed at later stages by traditional venture capital firms and private equity groups. South African venture capital firms want to see a business that already has some revenues and traction before investing. This typically pushes them to the Series A through C rounds, which are stages associated with more criteria for funding. Some of the most active venture capital firms in South Africa include HAVAÍC, Kalon, 4Di, Knife Capital, CRE, Naspers, Twitch, Goodwell, NedBank Ventures, E Squared, Hlayisani Capital and SilverTree. NedBank Ventures, Naspers and Hlayisani reflect a growing trend in South Africa and abroad for corporates to set up their own venture funds or partner with existing ones. Corporates have also become involved in the venture capital space. More recently, Imperial has partnered with Newtown Partners, an early stage venture capital firm, to invest in disruptive startups in the supply chain and logistics industry, with an initial investment of $20 million.

Looking through the binoculars: The Southern Africa Venture Capital and Private Equity Association (SAVCA)

Venture capital firms in South Africa are supported by the Southern Africa Venture Capital and Private Equity Association (SAVCA). SAVCA boasts 180 members in South Africa collectively managing more than R205 billion. They play a broad role ranging from advocacy and thought leadership, to capacity building and networking. They are a good starting point for any early stage founder looking to understand the equity landscape and current trends. You can check out the SAVCA membership matrix which provides high-level information on the investment preferences of their members.

Government

The **government** is getting involved in the equity space in South Africa. The Department for Trade, Industry and Competition (DTIC) coordinates and drives this in line with South Africa's industrial strategy. This is often an overlooked opportunity for startups as the financial assistance is perceived to be difficult to navigate and access. However, there are many good entry points. For example, the Industrial Development Corporation of South Africa (IDC) manages a technology venture fund on behalf of the DTIC to provide business support and seed capital for the commercialisation of innovative products, processes and technologies.

The most notable example in South Africa of government Involvement in funding startups is the SA SME Fund. The SA SME fund was established by members of the CEO Initiative – a collaboration between government, labour and business to address some of the most pressing challenges to the country's economic growth – as an avenue of support for the SME sector. It has R1.4 billion in committed funding which it invests inaccredited fund managers – venture capital or growth oriented equity funds – that invest directly in scalable small and medium enterprises with the best potential for growth and sustainable employment creation in the South African economy.

The Government of South Africa also plays a role in providing debt financing to startups. For example, the Small Enterprise Financing Agency (SEFA) provides loan funding to businesses of between R2 million and R10 million. They aim to market to businesses that are more risky. Similarly to banks, they require a loan application, but unlike banks, they don't require collateral.

The IDC also plays a role here. There are two schemes aimed at supporting early stage startups offering a mix of debt and equity financing. The first, the Gro-E Youth Scheme, targets early stage founders 35 years and younger. Their funding ranges between R1 million and R50 million per deal. They offer favourable interest rates and equity pricing. The second is the Khoebo Innovation Promotion Programme (KIPP) which offers grants, equity, loans and a hybrid of all three. It provides medium to long-term funding at a low cost for startups with a maximum funding of R7 million per deal.

Checking the compass: Government funding options in South Africa

An overview of some relevant government debt financing options for startups can be found below with links to their website for where you can find more information.

Initiative	Agency	Amount
Small Enterprise Financing Agency (SEFA)	Small Enterprise Development Agency (SEDA)	R2m - R10m
Gro-E Youth Scheme	Industrial Development Corporation of South Africa	R1m and R50m
Khoebo Innovation Promotion Programme (KIPP)	Industrial Development Corporation of South Africa	Up to R7m
SME Seed Fund	Technology Innovation Agency	Up to R650k
Women Empowerment Fund	National Empowerment Fund	R250k to R10m

Other options

Business Partners is one of the leading business loan providers for viable small to medium businesses in the world. They provide loan finance ranging from R500,000 to R50 million for expansion, working capital, equipment, takeovers, property, franchises or management buy-outs. They also launched a VC fund in 2022 and invest in startups in the clean energy, agri-processing, biotech and ICT sectors of up to R25 million.

Are there funding options targeting female founders?

There are a number of funds targeting female founders in South Africa.

GRINDSTONE

Grindstone Ventures

Grindstone partnered with Knife Capital to raise US $6.5m (R100 million) for Grindstone ventures. Grindstone ventures is led by an all female team and will invest primarily in early-stage innovation driven and/or technology companies that are female-led.

AFRICA TRUST GROUP

Enygma Ventures and Empress Fund

Africa Trust Group is focused on addressing the funding gap for female founders at the seed stage. Africa Trust Group manages two funds focusing on female founders. The first, Enygma Ventures, focuses on investing in early stage majority-women-owned businesses in Southern Africa. The second, the Empress Fund, is an angel syndicate fund focused on innovation financing solutions for women-owned and women-enabling businesses in Southern Africa in the agri-processing, energy and climate sectors.

Alitheia Identity
GROWING BUSINESSES

Alitheia IDF

A dedicated gender lens investing fund, Alitheia IDF was launched in 2021 with $100m. It is targeting Ghana, Lesotho, Nigeria, South Africa, Ghana, Zambia, and Zimbabwe. The aim is to target female founders offering products and services targeting females. The fund's investors include the African Development Bank, Bank of Industry Nigeria, FinDev Canada, Dutch Good Growth Fund and the European Investment Bank (EIB).

National Empowerment Fund
Growing Black Economic Participation

Government

The Government in South Africa is also playing a role in addressing access to finance for female founders. The National Empowerment Fund (NEF) has disbursed over R1.6m towards nearly 500 enterprises in South Africa. Nearly half of this support has been to black women owned businesses. More recently they have raised R141m from the DTIC for a Women's Empowerment Fund (WEF) where they have invited black women entrepreneurs to apply for startup and expansionary business loans. The loans range between R250,000 to R10m for each transaction. Business owners have up to five years to repay the loan and there is no interest for the first six months, then 1.5% fixed for the remainder of the term. The loans are accompanied by incubation support, entrepreneurial training, online business planning and mentorship support. Eligible businesses need to be majority owned, controlled and managed by black women, registered as a company in South Africa, have a clear tax certificate and be located in rural areas and or townships.

What can you learn from other startups?

Stitch

Stitch was founded in 2019 in Cape Town, South Africa. Stitch is an API fintech company that enables businesses to more easily and cost-efficiently accept, manage and send payments, and access financial data from user accounts. Like many South African startups raising internationally, Stitch is registered outside of South Africa, but its headquarters are in Cape Town, and it currently operates across South Africa and Nigeria.

Fundraising journey

Stitch has raised a total of $27 million in disclosed funding through three rounds since 2021. The first disclosed round was a seed round announced in February 2021 for $4 million, with a seed extension announced in October 2021 for $2 million. The round was led by The Raba Partnership, and investors included existing fintech founders of Venmo, Klarna and Flutterwave, and the founding team from Plaid and Revolut. The latter seed round was used to launch their solution and continue to grow their team on the ground in Nigeria. In 2022, they raised $21 million for their Series A funding led by Spruce House Partnership and included PayPal Ventures, TrueLayer, Firstminute Capital, The Raba Partnership, CRE Venture Capital, Village Global, Zinal Growth (the investment vehicle of Checkout.com founder Guillaume Pousaz) and others, including founders of Chipper Cash, Quovo and Unit. The funding has been used to expand the team, launch new product offerings and look to new markets across Africa.

Amount	Deal Date	Stage	Type	Investors
$4m	February 2021	Seed	Equity	First Minute Capital, The Raba Partnership, Africa Angels Network (now CRE Ventures), Village global, Norrsken, Future Africa, 500 FinTech, Iqram Magdon Ismail
$2m	October 2021	Seed Extension	Equity	First Minute Capital, The Raba Partnership, Africa Angels Network (now CRE Ventures), Village global, Norrsken, Future Africa, 500 FinTech, Tom Blomfield, Matt Robinson, Emilie Choi, Charlie Delingpole
$21m	February 2022	Series A	Equity	The Spruce House Partnership, Zinal Growth, PayPal Ventures, TrueLayer, First Minute Capital, The Raba Partnership, Africa Angels Network (now CRE Ventures), Village Global

Other highlights from Stitch's journey

Stitch has also led initiatives aimed at strengthening the startup ecosystem in which it operates. Their aim is to make it easier for any businesses to launch and scale financial solutions using the Stitch API. In February 2022, Stitch partnered with Paystack to host a showcase for founders across Africa to present their solutions and get support on fundraising, as well as product and strategy advice for growing their solutions. Ten startup founders were selected from a list of 100 applications. They also hosted a “stitchathon” (hackathon) to encourage local developers in Cape town and Lagos to build solutions on their API.

Checking the compass: Stitch

» More recently, Stitch developed a guide that answers some of the key questions founders have when setting up or expanding their business in South Africa - from legal, IP, tax and banking considerations, to the tech and talent landscape, to payments solutions and opportunities for startup support.

Lessons learned

» Stitch prioritises a strong culture and has positioned itself well to continue to attract fantastic talent. This has been critical in their ability to attract funders.

» A number of their investors are fintech founders and builders themselves, and this has helped Stitch to leverage their expertise and experience in building their product.

» Due to the nature of its business, the Stitch team works extremely closely with clients – acting as extensions of their teams to help not only with integration of its API but with marketing, positioning, UI/UX and to ensure their clients are best positioned to leverage the API for growth. Deep work with clients, combined with wider ecosystem events like hackathons and startup showcases, help to stimulate the ecosystem, and attract new B2B clients and potential new talent.

» Disruptive technology businesses like Stitch are typically pushing the boundaries of regulation, which means that it’s critical to remain on top of the regulatory and policy discussions and find ways to feed into it. Stitch is very involved in regulatory and industry forums in Nigeria and South Africa around open-banking to ensure their learnings from integrating product offerings to best benefit merchants and consumers are fed into regulations and policies.

SweepSouth

SweepSouth is a home service company that connects clients to on-demand domestic cleaners, gardeners and more through their too or online booking platform. At the end of 2019, they made their first international expansion into Kenya. SweepSouth has also expanded its offering through its SweepSouth Connect platform to include services like handymen, plumbers, electricians, locksmiths, carpet cleaners and nannies. In 2021, they acquired FilKhedma in Egypt. FilKehdma is an online marketplace for home maintenance and improvement services such as plumbing, carpentry, electricity, air conditioning, painting and appliances. FilKhedma provides SweepSouth with an entry point into North Africa. In April 2022, SweepSouth launched in Nigeria.

Fundraising journey

SweepSouth has raised over $17m in disclosed funding since 2015 through seven rounds. Their first funding round was led by Newton Partners, a local seed fund established by Vinny Lingham and Llew Claasen, and also included Pule Taukobong from African Angels Network (AAN) and Polo Leteka Radebe's Identity Development Fund (IDF). This round proved to be important for SweepSouth as it gave them access to investors who had been entrepreneurs themselves and could provide them with strategic insight and expertise.

In 2019, they were the first company to receive investment from Naspers Foundry, Naspers' venture capital fund. Naspers participated in both rounds in 2019 and led the pre-Series C round with further investments from Michael & Susan Dell Foundation and cash from existing investors Smollan, Vumela, CRE VC and Black Coffee. These rounds provided SweepSouth with funding to build out their product offering through SweepSouth connect and expand into new markets in Africa including Egypt, Kenya and Nigeria. In 2020 they received funding from Futuregrowth for an unspecified round. Naspers also participated in the latest unspecified round in September 2022 that was led by Alitheia IDF with participation from Michael & Susan Dell Foundation, Naspers, Futuregrowth Asset Management, Endeavor Catalyst, Endeavor's Harvest Fund II, Caruso Ventures and E4E Africa. The purpose of the round is to further scale it's operations in the recent markets he has expanded to.

Below is overview of SweepSouth's fundraising journey:

Amount	Deal Date	Stage	Type	Investors
Undisclosed	May 2015	Unspecified	Equity	Newton Partners, African Angels Network (AAN), Identity Development Fund (IDF)
$125k	August 2015	Incubator or Accelerator	Equity	500 Startups
$608k	January 2016	Unspecified	Equity	Vumela Fund, Newtown Partners
Undisclosed	May 2017	Series A	Equity	Smollan Group
$2,1m	June 2019	Series B	Equity	Naspers
$3,3m	October 2019	Pre-Series C	Equity	Michael & Susan Dell Foundation, Naspers, Smollan Group, Vumela Fund, Africa Angels Network (now CRE Ventures), Black Coffee
Undisclosed	July 2020	Unspecified	Equity	Futuregrowth Asset Management
$11m	September 2022	Series B2	Equity	Alitheia IDF, Michael & Susan Dell Foundation, Naspers, Futuregrowth Asset Management, Endeavor Catalyst, Endeavor's Harvest Fund II, Caruso Ventures and E4E Africa

Other highlights from SweepSouth's journey

SweepSouth won the first ever Startup South Africa pitching competition hosted by SiMODiSA. They have won a number of other notable awards including Best Small Company at the SAVCA Industry Awards in 2017.

Lessons learned

- Building a business that creates a real life impact to your users and adds value to peoples lives has been invaluable. Having real meaning behind the work you do makes the hard times easier.
- Valuations don't matter as much as you think at the pre-seed stage. It's more important to raise capital to start building a viable product and market fit and get investors that are willing to be part of your growth and development journey.
- You don't need to raise too much too early. It's more important that founders don't dilute their ownership too much.
- It is valuable at early stages to work with investors who have been entrepreneurs and who have entrepreneurial mindsets, having faced common start-up challenges before and overcome them successfully.
- Pro-actively engage your investors and demonstrate your learnability. This will encourage them to provide you with more input and open up to your networks.

Aerobotics

Aerobotics was founded in 2014 by fifth-generation citrus grower James Paterson and ex-Uber operations and logistics manager, Benji Meltzer. The company is headquartered in Cape Town and is the leading global provider of analytics, digital agriculture data and services to the high-value tree, vine and bush production markets. Aerobotics services commercial customers in 18 countries. The company uniquely collects, processes, stitches and analyses multi-temporal and multispectral high-resolution sources including imagery from drones, fixed-wing aircraft, high-revisit-frequency satellites, field-based sample observations from smart hand-held devices and sensors to inform its proprietary agronomic computer vision-based models at scale.

Fundraising journey

Aerobotics has raised a total of $20 million since 2017 over five rounds. The funding has been used to invest in the development of their tech and process scalability, and to develop an extensive and broad customer base, predominately in South Africa, the United States, Portugal and Australia. Aerobotics' 2020 Series B was led by Naspers Foundry and followed by other notable South African, African and European investors. Their Series B round was oversubscribed, highlighting the growing interest that investors have in agri-tech and food-tech startups.

Amount	Deal Date	Stage	Type	Investors
$600k	2017	Seed	Equity	4Di Capital, Savannah Fund
$2.4m	2018	Series A	Equity	Nedbank Venture Capital, 4Di, Savannah Fund, AgFunder, INGWE, Angelist and individual investors Joe Caruso, Lee Edwards, and Justin Sprat
$2m	2019	Series A	Equity	Platform Investment Partners
$15m	2020	Series B	Equity	Naspers, Platform Investment Partners, Cathay AfricInvest Innovation Fund and FMO

Other highlights from Aerobotics' journey

Aerobotics was part of the fifth cohort of Google's San Francisco-based Launchpad accelerator. They are also an alumnus of the London-based Startupbootcamp Insurtech.

Lessons learned

- Being first to market isn't always a sure win. It often comes with the challenge of having to create the market yourself, validating and building product-market fit at your own expense (as opposed to exploiting an existing market created by someone else).
- It's generally impossible to predict the real-world environment. Building products that allows you to be reactive and agile in production, rather than preventative in development, is often optimal.
- Culture doesn't scale, it morphs. It isn't realistic to expect the same culture with a team of 100 eight years in, that you had as a team of four at the beginning. Adopt and acknowledge this as you grow, enabling the team to develop the culture, rather than prescribing a top-down approach based on previous experiences.
- Build a culture of radical candour, with high frequency, constructive and critical feedback. Performance reviews should be redundant as feedback should be shared as near to real-time as possible.
- It's often beneficial to hire for attitude (in the form of culture and values fit) over aptitude.
- Unknown unknowns (ignorance) can be the biggest risk to a startup. Attempt to generate enough surface area in your knowledge to build a basic understanding of gaps (which in turn could inform strategies)
- Aspire to be approximately correct rather than certain. All decisions are ultimately approximations and involve some form of instinct/guess-work. It's important to acknowledge this, particularly in cases where making a decision timeously is more important than the "perfect" decision made slowly.
- Boundaries and constraints are often a prerequisite for creativity. Guardrails can help a team explore more effectively.

What regulations impact you as a startup?

How do you register your startup?

The first is basic business hygiene. You need to register your business as a private company or as an external company “carrying out business” in South Africa. You then need to register with SARS to get your tax clearance certificate. This includes registration for income tax, employee-related taxes such as PAYE, UIF and COID, and Value Added Tax for businesses with an annual turnover of more than R1 million. If you do not have these in place, then you will not be able to access the majority of funding identified in this guide. You will also want to review the current labour law, rules and processes around visas, and data protection regulation in South Africa, as well as sector specific regulation. South Africa has many regulations in place for what businesses can and can’t do. While this can be frustrating for startups, it does at least provide clarity on what is acceptable rather than constantly needing to engage with the regulator. Further, it helps you to ensure that you minimise surprises for investors while on your fundraising journey.

Checking the compass: Registering a business in South Africa

South Africa introduced BizPortal which is essentially a one-stop-shop for registering a business. An entrepreneur can reserve a company name, register a company, obtain a B-BBEE certificate, create a domain name, open a business bank account, obtain a company tax number from SARS, obtain a company UIF number from the Department of Labour Unemployment Insurance Fund, and obtain a company CF number from the Department of Labour Compensation Fund. All of this is done in one place at a cost of just R125 for registering a company and R50 for reserving a company name (which is optional). Access it here. More guidance on how to register your business and relevant Acts that need to be considered when operating a business can be found here.

Are there tax incentives for startups?

You will likely also want to review the current potential tax incentives that could be applicable to your business. South Africa has quite high taxes. Corporate taxes on profits in South Africa are 27%, the dividend withholding tax is 20% and capital gains tax is 21.6%[12]. While South Africa does not yet have tax breaks for startups, there are certain incentives for research and development that can be applicable to startup businesses. It is contingent on revenue generating activities, but it offers a deductible of 150% for non-capital expenditure related to R&D activities. 100% is automatically deducted, while the remaining 50% is subject to government approval. If you are able to qualify as a small business corporation you do not pay income tax on the first R78,750 of taxable income. Any taxable income above R78,750 will be subject to tax on a progressive scale. Smaller entities that can qualify as micro businesses can voluntarily register for ‘turnover tax” and reduce taxes even further[13].

BEE

You should familiarise yourself with Black Economic Empowerment (BEE) policies and regulations in South Africa. BEE is the South African Government’s policies to transform South Africa following the end of apartheid. BEE policies often place requirements on corporations for what type of businesses they can work with. Businesses earning over a certain revenue are required to have BEE partners in place. Getting your head around this should be a priority for startup founders looking to work with corporations or governments in South Africa.

Checking the compass: A Guide to BBBEE for Business Owners in South Africa

Fundinghub, a company that assists startups and small businesses in finding loans for their business, has put together a short guide to BBBEE for business owners in South Africa. It provides a starting point for knowing where you need to be B-BBEE compliant or wjhether you are exempt. It also explains the BBBEE scorecard which is used to evaluate your level of compliance for BBBEE dealings.

Access it here.

Exchange controls and IP

The most important legal consideration to be aware of when you are starting to raise is exchange controls, which includes intellectual property (IP). Exchange controls present the biggest barrier for early stage startups trying to attract funding internationally. Simply put, the exchange control regulations in South Africa prohibit transactions where capital or the right to capital is, without permission from the National Treasury, directly or indirectly exported from South Africa. This extends to IP as well as it can be quantified financially. IP generates revenue and therefore tax must be paid in if the IP is owned there. For international investors, this means that getting their money or assets out of South Africa after they’ve made an investment is subject to government approval. This often discourages international investment and forces startups to look to locate offshore when raising from international investors.

What most startups do is register a completely separate business offshore in a more favourable jurisdiction with limited exchange controls. The IP is then licensed to the offshore entity and the entity puts in place investment and to develop and own new IP. Over time the business is less reliant on their South African IP and they pay diminishing taxes on it over time. There has been talk of easing these restrictions and no longer making them subject to government approval, but nothing material has happened yet.

The result of this is that many startups spend significant time and resources figuring out how to set-up offshore structures and get an approach from SARB to licence their IP to the offshore entities instead of investing in their business. This also feeds into the startup support ecosystem as there are a number of legal practices and tools focused solely on offshoring businesses and their IP.

Checking the compass: Exchange controls and IP

Local law firm Dommissee Attorneys shared inputs into how you can think about moving your IP offshore with ventureburn in 2019. See here.

Are there any regulations or policies you should keep track of?

The Startup Act movement in South Africa

Outside of exchange controls and intellectual property, there is little current legislation impacting directly on the startup ecosystem. However, there are developments afoot. The South Africa Startup Act movement has put forward a position paper with an initial emphasis on defining startups separately from small-medium enterprises along the following guidelines:

- Legal definitions for startups, startup ecosystem and high-growth enterprises.
- Labelling (to distinguish from other labels such as small enterprises, technology enterprises, SMEs, entrepreneurial businesses, and many others).
- Harmonisation of policies and Acts that have a direct bearing on startups.
- Specific interventions that are needed to support qualifying startups with the potential to become high-growth firms.

The position paper has been getting considerable traction from the current government and it is worth startup founders familiarising themselves with the current recommendations.

Checking the compass: Startup Act movement in South Africa

Check out the Startup Act for all the latest developments and the most recent position paper.

CHAPTER 3

Investor Catalogue

3

This catalogue presents some of the notable investors investing in startups in South Africa. Note that it is not an exhaustive list. The investors included are based on known investments in the selected countries. Similarly, the stages reflect deals investors have disclosed as well as the stages of interest noted on the investor website.

"Global investors" refer to investors that invest across Africa.

"Local investors" include investors that are headquartered across different locations, but have actively invested in South Africa.

500 Global

500 Global is an early-stage venture fund and seed accelerator.

Founding date	2010
Headquarter	United States of America
Investors type	Venture Capital
Sector Focus	Big Data & Analytics, BioTech, Cyber Security, E-commerce, Education, Entertainment, Events, FinTech & DFS, FoodTech, Health, Internet of Things, Jobs, Logistics, Manufacturing, Marketing, Mobility, On-Demand Services, PropTech, Real Estate, Sport, Telecommunications, Travel
Stages	Pre-seed, Pre-Series A, Seed,Incubator or Accelerator

Contact

@500Startups
@500-startups
500.co

Global investor

Chandaria Capital

Chandaria Capital is a Nairobi-based Venture Capital Fund, it is the professional investment vehicle for the Chandaria Group, one of the largest privately owned business groups in Africa.

Founding date	2016
Headquarter	Kenya
investors type	Venture Capital
Sector Focus	Big Data & Analytics, E-commerce, Education, Entertainment, FinTech & DFS, Food & Beverage, FoodTech, Health, Logistics, Software, Travel, Utilities
Stages	Series A, Pre-Seed, Seed, Pre-Series A

Contact

@ChandCapitalKE
@chandaria-capital
info@chandariacapital.com
chandariacapital.com

Global investor

Endeavor Catalyst

Endeavor Catalyst is an innovative co-investment vehicle that operates globally, designed by Endeavor Entrepreneurs to contribute to his long-term sustainability.

Founding date	1997
Headquarter	United States of America
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Health, Logistics, Mobility, Software, Waste Management
Stages	Series A, Series C, Series B

Contact

@endeavor_global
@endeavor_2
contact@endeavor.org
www.endeavor.org

Global investor

Future Africa

Future Africa is a platform that provides capital and coaching to African's innovators.

Founding date	2019
Headquarter	Nigeria
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, Health, Insurance, Internet, Jobs, LegalTech, Logistics, Marketing, Media, Mobility, On-Demand Services, PropTech, Real Estate, Software
Stages	Pre-Seed, Seed, Pre-Series A, Series A

Contact

@anafricanfuture
@anafricanfuture
hello@future.africa
www.future.africa

Global investor

Global Innovation Fund

The **Global Innovation Fund** invests in social innovations that aim to improve the lives and opportunities of millions of people in the developing world.

Founding date	2014
Headquarter	United Kingdom
investors type	Impact
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Logistics, Mobility, Sanitation, Telecommunications, Utilities, Waste Management
Stages	Series B, Series A

Contact

@globalinnovfund
@global-innovation-fund
hello@anstriconfuture.com
www.globalinnovation.fund

Global investor

Google for Startups

Google for Startups Accelerator Africa is a three-month accelerator program for Seed to Series A technology startups across the African continent.

Founding date	2011
Headquarter	United States of America
investors type	Accelerator
Sector Focus	Agriculture & AgTech, Big Data & Analytics, CleanTech, E-commerce, Education, Entertainment, Events, FinTech & DFS, Green Economy, Health, HR Tech, Insurance, Logistics, Mobility, On-Demand Services, Professional Services, Software, Travel, Waste Management
Stages	Series B, Series A

Contact

@googlestartups
startup.google.com/accelerator/africa/

Global investor

Kepple African Ventures is an early stage venture capital fund that invests across Africa.

Founding date	2019
Headquarter	Japan
investors type	Corporate Venture Arm
Sector Focus	Agriculture & AgTech, CleanTech, Digital Financial Services, E-commerce, FinTech & DFS, Health, HR Tech, Jobs, Logistics, Manufacturing, Marketing, Professional Services, PropTech, Real Estate, Sanitation, Software, Utilities, Waste Management
Stages	Pre-seed, Seed, Pre-Series A, Pre-Seed, Series B, Series A

Contact

@keppleafrica
admin@kepple-fund.org
kepple-africa-ventures.com

Global investor

Launch Africa Ventures is a Pan-African niche Seed Fund investing specifically in B2B and B2B2C driven early-stage tech startups.

Founding date	2019
Headquarter	Mauritius
investors type	Venture Capital
Sector Focus	AgTech, Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, Health, HR Tech, Insurance, Internet of Things, Jobs, Logistics, Marketing, Media, Mobility, On-Demand Services, Professional Services, Renewables, Software, Utilities
Stages	Pre-seed, Pre-Series A, Seed, Series A

Contact

@ycombinator
@launch-africa
info@launchafrica.vc
www.launchafrica.vc

Global investor

microtraction

Microtraction is a venture fund that invests in Africa's most in early stage growth-driven technology startups.

Founding date	2016
Headquarter	Nigeria
investors type	Venture Capital
Sector Focus	Big Data & Analytics, E-commerce, Education, FinTech & DFS, FoodTech, LegalTech, Marketing, Mobility, Software
Stages	Pre-seed, Pre-Series A, Seed, Series A

Contact

@microtraction
@microtraction
www.microtraction.com

Global investor

Village Capital supports impact-driven, seed-stage startups.

Founding date	2009
Headquarter	United States of America
investors type	Private Equity
Sector Focus	Agriculture & AgTech, CleanTech, Digital Financial Services, E-commerce, Education, FinTech & DFS, Food & Beverage, FoodTech, HR Tech, Jobs, Logistics, Media, On-Demand Services, Professional Services
Stages	Incubator or Accelerator, Seed

Contact

@villagecapital
@village-capital
dahler.battle@vilcap.com
vilcap.com

Global investor

Y Combinator is an American seed money startup accelerator operating globally.

Founding date	2005
Headquarter	United States of America
investors type	Accelerator, Venture Capital
Sector Focus	Agriculture & AgTech, BioTech, CleanTech, Cyber Security, E-commerce, Education, Fashion, FinTech & DFS, FMCG, FoodTech, Health, HR Tech, Insurance, Internet, Logistics, Manufacturing, Marketing, Media, Mobility, PropTech, Real Estate, Renewables, Software
Stages	Incubator or Accelerator, Seed

Contact

@ycombinator
yclegal@ycombinator.com
www.ycombinator.com

Global investor

4Di Capital is a venture capital fund manager focus on high-growth technology venture opportunities in the Southern and Eastern Africa region.

Founding date	2008
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Aerospace, Agriculture & AgTech, Airlines, Big Data & Analytics, BioTech, Education, FinTech & DFS, Health, Insurance, Internet of Things
Stages	Pre-Series A, Series, Seed B

Contact

@4dicapital
@4di-capital
www.4dicapital.com

Local investor

AgVentures is an agri-tech investor that is dedicated to unleashing Africa's agrifood potential by transforming the sector through innovative and disruptive technologies.

Founding date	2018
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Food & Beverage, FoodTech, Software
Stages	Series A, Series B

Contact

@savant_sa
@agventures-africa
info@agventures.africa
www.agventures.africa

Local investor

Cactus Advisors is a pan-Africa focused, multi-disciplinary business advisory firm.

Founding date	2015
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Digital Financial Services, FinTech & DFS
Stages	Seed, Series A

Contact

zach@cactusadvisors.com
www.cactusadvisors.co.za

Local investor

CRE Venture Capital is a venture capital firm that invests in tech startups in Africa.

Founding date	2014
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Big Data & Analytics, CleanTech, Digital Financial Services, E-commerce, Education, Entertainment, FinTech & DFS, Health, Information Technology, Internet, Jobs, LegalTech, Logistics, Mobility, On-Demand Services, PropTech, Real Estate, Renewables
Stages	Pre-Seed, Seed, Series A, Pre-Seres A

Contact

@cre_vc
@cre-venture-capital
info@cre.vc
www.cre.vc

Local investor

Endeavor South Africa is a non-profit network in South Africa that identifies and supports innovative, high-impact entrepreneurs.

Founding date	2004
Headquarter	South Africa
investors type	Impact
Sector Focus	Education, FinTech & DFS, Jobs, Mobility, Security, Software
Stages	Series C, Series B, Pre-Series A

Contact

@EndeavorSA
@endeavor-south-africa
marketing@endeavor.co.za
www.endeavor.co.za

Local investor

Entrepreneurs for Entrepreneurs Africa (E4E Africa) is an early stage investor supporting mission-driven founders in South Africa.

Founding date	2020
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, Digital Financial Services, E-commerce, FinTech & DFS, FoodTech, Insurance, Logistics, Robotics
Stages	Pre-Series A, Series A

Contact

www.e4eafrica.com

Local investor

Enygma Ventures is an investment fund for female entrepreneurs and women founders, focused on Southern Africa.

Founding date	2019
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Education, FinTech & DFS, Food & Beverage, Health, Jobs
Stages	Angel Round, Seed, Pre-Series A

Contact

@EnygmaVentures
@enygma-ventures-llc-69294a195
info@enygmaventures.com
www.enygmaventures.com

Local investor

FiTech Ventures.

FiTech Ventures is an investor focused on social and financial inclusion through ethical disruption.

Founding date	2018
Headquarter	South Africa
investors type	Seed Fund
Sector Focus	Digital Financial Services, FinTech & DFS
Stages	Seed

Contact

@lister_chris
@vantage-capital
chris@collab2.co.za
www.fitechventures.com

Local investor

Grindstone Ventures is a post-seed fund that supports early-stage innovation-driven companies to enable them to deliver capital growth and sustainable cash yields over the long term.

Founding date	2013
Headquarter	South Africa
investors type	Fund, Venture Capital
Sector Focus	Sector Agnostic
Stages	Seed

Contact

grindstoneventures@grindstonexl.com
www.grindstonexl.com/gs-ventures/

Local investor

Grovest is a venture capital trust specializing in investing in startups, early stage pre and post revenue companies, series A, series B, growth capital, and mature companies based in South Africa.

Founding date	2014
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Aerospace, Agriculture & AgTech, Airlines, Big Data & Analytics, BioTech, Education, FinTech & DFS, Health, Insurance, Internet of Things
Stages	Pre-Seed, Seed, Pre-Series A

Contact

@Grovest_SA
@grovestsa
info@grovest.co.za
www.grovest.co.za

Local investor

HBD Venture Capital is a closed private equity fund managed by Knife Capital.

Founding date	2000
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Big Data & Analytics, Education, Health, HR Tech, Internet of Things, Jobs, Manufacturing, On-Demand Services, Software
Stages	Seed

Contact

enquires@hbd.com
www.hbdvc.com

Local investor

IDF Capital is a specialist entrepreneurial financing institution, managing and administering funds for corporate and institutional clients.

Founding date	2008
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	FinTech & DFS, Mobility
Stages	Series A

Contact

idf.co.za

Local investor

Innovation Edge is an innovation catalyst and social impact investor.

Founding date	2014
Headquarter	South Africa
investors type	Impact
Sector Focus	Development, Education, Health, Social Work
Stages	

Contact

@InnovationEdge1
@innovation-edge-za
info@innovationedge.org.za
www.innovationedge.org.za

Local investor

Inspired Evolution is a specialised investment advisory business dedicated to two principle investment themes: clean energy infrastructure-type development and project finance investments; and energy and resource efficiency growth investments.

Founding date	2007
Headquarter	South Africa
investors type	Fund
Sector Focus	CleanTech, Renewables
Stages	Pre-Series E, Series B, Series C, Series A

Contact

@inspired-evolution-investment-management-pty-ltd
info@inspiredevolution.co.za
www.inspiredevolution.co.za

Local investor

LeapFrog Investments invests in high-growth financial services and healthcare companies in emerging markets

Founding date	2007
Headquarter	South Africa
investors type	Private Equity
Sector Focus	FinTech & DFS, Health, Insurance, Logistics, Mobility
Stages	Series C, Acquisition, Series E, Series D

Contact

@LeapFrogInvest
@leapfroginvestments
team@leapfroginvest.com
www.leapfroginvest.com

Local investor

Jozi Angels is an angel network in Johannesburg that exists to grow the startup ecosystem and facilitate the growth of innovative startups in South Africa.

Founding date	2016
Headquarter	South Africa
investors type	Angel
Sector Focus	Health, Marketing, Research, Travel
Stages	Angel Round

Contact

@jozi-angels
www.joziangels.co.za

Local investor

My Growth Fund is a venture capitalist, supplier development and enterprise development firm in South Africa.

Founding date	2013
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Sector Agnostic
Stages	

Contact

@mygrowthfund
@mygrowthfund
info@mygrowthfund.co.za
www.mygrowthfund.co.za

Local investor

Knife Capital is an equity investment firm focusing on innovation-driven ventures with proven traction.

Founding date	2010
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Big Data & Analytics, Education, Health, HR Tech, Internet of Things, Jobs, Manufacturing, On-Demand Services, Software
Stages	Series A, Pre-Series A, Pre-Series B

Contact

@KnifeCap
@knife-capital
info@knifecap.com
www.knifecap.com

Local investor

Naspers Foundry is a division of Naspers set up in 2019 to invest in early-stage technology companies.

Founding date	2018
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, Big Data & Analytics, E-commerce, Education, FinTech & DFS, Insurance, Jobs, Media, Mobility, On-Demand Services
Stages	Series A, Pre-Series A, Series B, Pre-Series B, Pre-Series C

Contact

@NaspersVentures
@nasperslimited
communications@naspers.com
www.naspers.com

Local investor

Newtown Partners is a venture capital firm that actively invests in emerging, disruptive technology startups.

Founding date	2014
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	FinTech & DFS, Health, Insurance, Jobs, Logistics, On-Demand Services
Stages	Series A, Seed

Contact

info@newtownpartners.com
www.newtownpartners.com

Local investor

Phatisa is a private equity fund manager focusing on the food value chain and affordable housing.

Founding date	2005
Headquarter	South Africa
investors type	Private Equity
Sector Focus	Agriculture & AgTech
Stages	Seed, Series A, Pre-Series A

Contact

@PhatisaGroup
@phatisa
investorrelations@phatisa.com
www.phatisa.com

Local investor

RMB Ventures Limited is a private equity arm of Rand Merchant Bank.

Founding date	1995
Headquarter	South Africa
investors type	Private Equity
Sector Focus	Big Data & Analytics, Digital Financial Services, E-commerce, Food & Beverage, Logistics, Manufacturing, Media, Oil & Gas, Software
Stages	Series A

Contact

@RMBCIB
andrew.aitken@rmb.co.za
www.rmbventures.co.za

Local investor

SAAD Investment Holdings (SAAD) is the investment arm of the Tree of Life group that buy, build and grow businesses for long-term sustainability and the benefit of all stakeholders.

Founding date	2006
Headquarter	South Africa
investors type	Private Equity
Sector Focus	E-commerce, Logistics
Stages	Angel Round, Seed,

Contact

@saad-investment-holdings
info@saad.co.za
www.saad.co.za

Local investor

Savant Venture Fund invests in early stage technology start-ups that are investor-ready with market-ready hardware innovations and demonstrable demand.

Founding date	2004
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Agriculture & AgTech, BioTech, CleanTech, Health, Internet of Things, Renewables
Stages	Incubator or accelerator, Pre-Series A,

Contact

@savant_sa
@savant-technology-incubator
www.savant.co.za

Local investor

Silvertree Holdings is a holding and operating company that invests in early and mid stage digital companies in Sub-Saharan African markets.

Founding date	2013
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Digital Economy, E-commerce, FinTech & DFS, Food & Beverage, FoodTech, Insurance, Travel
Stages	Acquisition

Contact

@SilvertreeHold
@silvertree-internet-holdings
info@silvertree.holdings
www.silvertreebrands.com

Local investor

Technology Innovation Agency (TIA) is a national public entity that serves as the key institutional intervention to bridge the innovation chasm between research and development from higher education institutions, science councils, public entities, and private sector, and commercialisation.

Founding date	2019
Headquarter	South Africa
investors type	Government
Sector Focus	Cyber Security, Development, Health, Mobility, Research, Software
Stages	Incubator or Accelerator

Contact

@technology-innovation-agency
customerservice@tia.org.za
www.tia.org.za

Local investor

The Raba Partnership is an investment partnership focused on partnering with entrepreneurs in emerging technology ecosystems.

Founding date	2019
Headquarter	South Africa
investors type	Partnership
Sector Focus	CleanTech, Digital Economy, Digital Financial Services, FinTech & DFS, Renewables
Stages	Seed, Series C, Series A, Series B

Contact

@rabacapital
info@rabacap.com
www.rabacap.com

Local investor

Umkhathi Wethu Ventures (UW Ventures) is a multi-stage investor that provides growth and replacement capital across the equity-cycle. Its activities span from high-growth venture to mid-market private equity opportunities.

Founding date	2017
Headquarter	South Africa
investors type	Venture Capital
Sector Focus	Big Data & Analytics, Digital Financial Services, FinTech & DFS, Health, Insurance
Stages	Seed

Contact

@umkhathi-wethu-holdings-pty-ltd
info@umkhathiwethu.co.za
www.uwventures.co

Local investor

Verdant Capital is a specialist corporate finance firm with exceptional experience transacting across the African continent.

Founding date	2013
Headquarter	South Africa
investors type	Private Equity
Sector Focus	FinTech & DFS
Stages	Pre-Series A, Series A

Contact

@verdant_capital
@verdant-capital
edmund.higenbottam@verdant-cap.com
www.verdant-cap.com

Local investor

CHAPTER 4

Resources

4

Resource list: South Africa

Local accelerator programmes

- Catalyst Fund
- Endeavor
- Founders Factory
- Grindstone
- Savant
- Startupbootcamp

Government support

- Small Enterprise Development Agency (SEDA)
- Gro-E Youth Scheme
- Khoebo Innovation Promotion Programme (KIPP)
- SME Seed Fund
- Women Empowerment Fund
- Technology Innovation Agency
- Western Cape Jump App
- Western Cape Redtape Reduction Unit

Offshoring your IP

- Local law firm Dommisse Attorneys shared inputs into how you can think about moving your IP offshore with Ventureburn in 2019

Participating in the Startup Act movement

- South Africa introduced BizPortal which is essentially a one-stop-shop for registering a business. Access it here.
- More guidance on how to register your business and relevant Acts that need to be considered when operating a business can be found here.

Templates and other guides

- Check out Endeavor's resources for entrepreneurs
- SiMODiSA resources for entrepreneurs in South Africa

Glossary

Investor lingo

Investors tend to have their own lingo when it comes to describing operations and opportunities. This cheat sheet equips you with the basics, so you'll know the lingo when you start interacting with investors:

Average Customer Value (ACV)	How much revenue the average customer brings to the business over a set time.
Annual Recurring Revenue (ARR)	Refers to revenue that a company expects to receive from its customers for providing them with products or services. The measure is primarily used by businesses operating on a subscription-based model. Annual recurring Revenue = Monthly recurring revenue x 12
Bottom line	The net income of a company, including earnings, profits and earnings per share (EPS). It's called the bottom line as it references the last line of a financial statement, showing net profit or loss over a period of time.
Burn rate	The rate at which a company spends its cash over time, also known as negative cash flow. The cash can come from both revenue and investments and indicates the period of time when spending on operations exceeds cash coming in. $\text{Burn rate} = \frac{\text{Start cash balance} - \text{End cash balance}}{\text{Number of months}}$
Cap table	A spreadsheet that breaks down who owns what percentage of equity in a startup.
Carried Interest	The percentage of profits that will be paid to the manager or general partner as compensation for managing a fund.
Cash flow	The money coming in and out of a business.
Churn rate	The rate at which individuals depart from the collective group. This can also be the rate at which customers stop buying or cancel subscriptions of products or services. $\text{Churn rate} = \frac{\text{Lost customers}}{\text{Total customers at the start}} \times 100$

Common Business models	The core operations, business structure and framework of a company, including how it delivers and captures value.

Business-to-Consumer (B2C)	Businesses that sell products and services directly to consumers. Example: E-commerce platform Jumia, sells products online to customers across Africa
Business-to-Business (B2B)	Businesses that sell products and services to other businesses. Example: Fintech company Paystack provides businesses with various payments solutions to pay and get paid.
Business-to-Business-to-Consumer (B2B2C)	A combination of the B2B and B2C model, where a business provides products to another business, such as an e-commerce website, who in turn sells these products to consumers. Example: Online marketplace Famunera connects suppliers and farmers of agricultural products and inputs to customers and farmers.
B2B B2C (Business-to-Business and Business-to-Consumer)	A company that sells products and services to both businesses and consumers. Example: Solar energy company Lumos Solar provides solar homes systems and clean power solutions to individuals and businesses.
B2G (Business to Government)	A business selling products and services to government,federal agencies and ministries. Example: UrbanLogiq integrates and visualises data to provide fast insights for governments.
C2C (Consumer-to-Consumer)	A model where consumers trade and transact with each other using a third-party platform, such as a digital marketplace for the sale and purchase of household items. Example: Online platform AirGiftr connects shoppers to travellers to buy and send purchases.

Cliff	The vesting schedule of employee stock options, or the minimum amount of time an employee is required to work at a company to earn the right to buy shares.
Customer Acquisition Cost (CAC)	The cost associated with acquiring a new customer, including sales and marketing, amongst other expenses.
Customer Lifetime Value (CLV)	An estimation of the total revenue generated from a single customer, from first to last purchase. CLV is also used in the calculation of net profit contributed.
Deck	A deck is a collection of slides which showcases key information about the company, including an overview of core operations, the products and services, past clients and credentials, and team structure.
Dilution	The decrease in share of ownership, when a company issues new shares, or employees exercise their stock options, which decreases the ownership share of existing stocks.
Dividends	The sum of money paid to a company's shareholders out of its reserves or profits. All stakeholders that have ownership in a company are entitled to receive a share of the company's profits.
Exit strategy	An investor or founder's plan to sell their shares of (or exit) a company.
Founder's agreement	A contract between the founders of the company that outlines the roles, responsibilities, obligations and structure of the company.
Key Performance Indicator (KPI)	A set of measurable objectives that help businesses and individuals set targets, track progress and gain insights into productive and non-productive activities.
Liquidation	The point at which a business is closed, and the assets and inventory are sold.
Management Fee	A payment made to an individual or business for managing a fund. The fee usually ranges from 2% to 2.5% of committed capital and is typically charged every year the fund is in operation.
Monthly Recurring Revenue (MRR)	All of your recurring revenue normalised to a monthly amount. This is a metric typically used by subscription and SaaS companies. $\text{Monthly recurring revenue} = \text{Total number of active customers} \times \text{Average billed amount}$
Minimum Viable Product (MVP)	A stage of product development where the product has the basic features needed to be introduced into the market, but is subject to alterations and modifications to improve it at a later stage.
Net dollar retention (NDR)	A calculation of how much revenue has grown or diminished over time. It's a metric often used to measure performance over time, including both new and recurring customers. $\text{Net dollar retention} = \frac{\text{Starting MRR} + \text{Expansion MRR} - \text{Contraction MRR} - \text{Churn MRR}}{\text{Starting MRR}} \times 100$
Payback period	The time taken for an investor to recoup the cost of an investment, also known as the breakeven point.
Patient Capital	An investment offering a longer period of time before expecting financial returns or profits, often with the expectation of larger returns in the future.
Profit Margin	A measure of the relative profitability of a company, accounting for the costs of all business activities. $\text{Profit margin} = \frac{\text{Sales} - \text{Expenses}}{\text{Revenue}}$
Proof of Concept	A demonstration that a business idea or concept is feasible, based on testing and verification.
Priced round	An equity investment that has been based on an agreed valuation and the price per share.
Pivot	A change in direction, business model or strategy.
Portfolio	A collection of investments made by an investor.
Product-market fit	The extent to which a product is meeting market needs and demand.
Term sheet	A nonbinding agreement that shows the basic terms and conditions of an investment.

Traction	This indicates that a company, industry, or geographical area is gaining interest and attention from local and/or international stakeholders, including investors, customers and media.
Revenue Run Rate (Annualised Run Rate)	A method used to make projections about the financial performance and revenues of a company for the year or period ahead. $\text{Revenue run rate} = \frac{\text{Revenue in a period} \times \text{Days in a year}}{\text{Days in a period}}$
Round	This refers to each time a company raises funding. A round can also be described through the use of stages, such as Series A.
Return on Investment (ROI)	A measure of the performance and profitability of an investment. $\text{Return on investment} = \frac{\text{Gains from investment} - \text{Cost of investment}}{\text{Cost of investment}} \times 100$
Runway	Refers to the amount of time (typically measured in months) a company is solvent and can keep operating without the injection of additional funds, either from revenue or investments.
Unicorn	A startup that has surpassed a $1 billion valuation.
Unique selling proposition (USP)	The element of your product or service that gives you an advantage over your competitors to meet market needs and demand.
Valuation	A quantitative assessment of a company's total worth, including considerations for all aspects of the business, such as revenues and customer base. $\text{Pre-money valuation} = \frac{\text{Investment sum}}{\text{\% equity taken}} - \text{Investment sum}$ $\text{Post-money valuation} = \frac{\text{Investment sum}}{\text{\% Equity taken}}$
Vested interest	A special concern or interest in something, typically used to rationalise a personal reason for undertaking a role or making an investment.
Virtual data room	A software, platform or repository that is used to securely store and distribute important documents, and is often used to facilitate investments and transactions during the due diligence process.

Investment stages

The fundraising process is typically structured to correspond more or less to the defined 'investment stages', which refer to the development of the startup and a set of associated milestones (e.g. having a business plan, a product, being revenue generating, scaling to new markets, structuring for a merger or an acquisition, etc.). These milestones are particularly relevant for venture capital.

It might be useful to think of the investment stages as levels, where you need to complete one level before you can 'unlock' the next. Investment stages are not necessarily associated with specific funding amounts, but can provide you with signposts on where you are on your growth journey based on a range of expected milestones. Each stage has different requirements and expectations for the amounts of capital to be injected, so it's important to understand where your business stands and what type of financing you are looking for. Due to the underlying assumption that startups will need a capital injection at numerous points of its journey, these 'disbursements' are referred to as 'funding rounds'.

The following table provides an overview of some of the most commonly used terminology for investment stages:

Angel	A round where the business receives funding in return for equity from individuals unrelated to structured funds.
Accelerator/ Incubator	Early stage round often accompanied with trained, mentorship, in-kind support, and small tickets of grant or equity funding.
Pre-seed	One of the very first rounds of fundraising for a business, sometimes even before there is anything more than an idea in place.
Seed	Refers to one of the first injections of capital to help your startup grow. It is often the first equity funding raised and provides capital to develop a product or prototype, carry out market research, and onboard or ensure financial sustainability of the early startup team.
Series A	This funding stage is somewhere in between early and growth stage funding. Companies look to raise a Series A round once they have gained initial traction and are reaching certain performance indicators, such as building a customer base or generating revenue.
Series B-F+	After Series A, the subsequent Series B, C and beyond is associated with the growth of a company, such as growing your product suite or expanding your team or offices to new markets.
Acquisition	When one company acquires the majority or all of the shares of another company. An acquired company might be merged with the acquirer, or dissolved to remove them as a player in the market, with the assets, products and customers transferred to the acquirer.
Merger	Two or more companies coming together to form one company, thus enabling the new merger to offer better products and/or increase their market share.
Initial Public Offering (IPO)	A process where a company becomes publicly listed, offering shares or stocks of the company available for purchase to the public.
Undisclosed	If you're following startup and tech media, you might notice that a lot of the press releases don't mention the stage of funding. This is referred to as an 'undisclosed' round, meaning that the involved stakeholders (company and investor) do not wish to share the details of the investment. There are many possible reasons for this, such as not wanting to divulge financial information or existing investors with competitors.

There are also rounds that can happen in between the different stages identified above. For example, you may have a pre-Series A, B or C, or a bridge round, which are interim rounds of funding. Given the vast range of deal sizes in these different stages, they are often referred to in much broader terms associated with different phases of the company's growth:

Ideation stage	At the ideation stage, the company exists primarily as an idea or a concept, with the plan for the product still being developed. At the ideation stage, the business model is still subject to change, and it involves a process of defining and refining what the business will be and how it will work.
Early stage	An early stage company is still developing the different elements of the business, from the product to the team, and the strategies of the business model. The company is just starting to gain traction, is in the process of building a user base, and is starting to generate revenue.
Growth stage	The growth stage is when a company has finished the primary development of the product, has an established customer base. It has raised at least a Series A round, and/or is generating revenue.
Scale stage	The scaling stage is the point where a company is hoping to expand different elements of the business. For example, looking to introduce new products, enter new markets and/or further grow the team.
Maturity stage	The maturity stage typically refers to when a company has reached a level of growth and scale, and is no longer considered a startup. This may also be the point at which they are considering going public through an IPO.

Investment types

Investors leverage a range of investment types or vehicles. Depending on your business model and plans, you may have a preference for one type or another.

Acquisition	The purchase or sale of most or all of a company's shares and/or assets by another.
Blended Finance	An approach to structuring investments that allows multiple stakeholders to co-invest, even if their underlying objectives are different.
Bootstrapping	A business that is funded without external sources injecting capital. There are typically two ways to avoid resorting to external investment: 1) using personal funds to finance operations; or 2) generating enough revenue from sales to sustain the cost of running the business.
Convertible Note	A type of short-term debt that can be converted into equity at a later date.
Crowdfunding	A fundraising practice, usually based on the presence of a digital platform, that allows individuals and businesses to source capital from many individuals who can contribute their preferred amount.
Debt	The capital raised through the sale of a debt instrument or a fixed income item. A key difference with equity funding lies in the fact that debt needs to be paid back and counts as a liability on the company's balance sheet.
Equity	Funds that are invested into a company in exchange for a share of the company.
Grant	A sum of money, often awarded for a particular purpose, that does not need to be repaid.
Guarantee	A formal assurance that a loan will be repaid to the lender, even if the borrowing party defaults.
Leveraged buyout	This occurs when one company acquires a controlling share in another, publicly-traded company. Leveraged buyouts are typically financed with high levels of debt and borrowed money.
Merger	The combination of two or more companies. A merger can occur through an acquisition and the two terms are often referred to together as mergers and acquisitions (M&A).
Mezzanine Finance	An investment vehicle that sits between debt and equity. Lenders of mezzanine finance can convert debt to equity.
Non-Equity Assistance	Refers to support that is provided without requiring equity in return.
SAFE	An agreement between an investor and a company that allows an investment to take place without the price of the share in advance and instead ensures that the investor has the rights to equity in the company in future funding rounds or in the event of liquidation.
Securities	A fungible and tradeable financial asset, including equity, debt, or a combination of the two, as well as derivatives, which can be bought, sold, and traded.
Trade Finance	Any form of transaction domestically or internationally that provides financing for trade flows, including both imports and exports.
Venture Capital	A type of loan provided to venture-backed firms experiencing fast growth, typically raised from specialised banks.
Venture Debt	A type of loan provided to venture-backed firms experiencing fast growth, typically raised from specialised banks.

Investor types

Funding can come from a wide range of sources. Understanding the type and stage of funding you're looking for can help you decide which investor type is best suited to you.

Angel	An individual that provides early stage funding for startups through personal funds, typically in return for equity or, in the case of non-priced rounds, convertible notes or SAFEs. Angels sometimes work within syndicates or rolling funds to distribute funds, meaning that they collaborate or partner with a network of angel investors to find interesting opportunities.
Bank	A financial institution that offers a breadth of financial services, such as loans, deposits, wealth management, banking and currency exchange. Banks are often considered a traditional form of company financing, though it can be difficult to access funds as banks often require some sort of collateral for receiving a loan. Banks are not necessarily structured to lend to high risk targets, but several banks have in recent years set up corporate venture arms to support startups.
Corporate Venture Arm	A branch of a corporation that provides venture capital to businesses in exchange for equity.
Debt Providers	Any form of financial institution that commits to providing capital in return for set payments that are repaid through agreed-upon terms.
Development Finance Institution (DFI)	An institute, typically owned by national governments or representing regional and international banks, that provides patient and risk capital for public and private sector projects with overarching social, economic and environmental objectives, which are prioritised over financial returns.
Donor	A person, institution or organisation that donates capital to an individual, company, project or government. Donor funding can be particularly important for development-focused projects and initiatives that have large impact potential, and where traditional financing would not be accessible due to low financial returns and viability.
Family Office	A private firm that manages the wealth and assets of a high-net-worth individual or family.
Friends & Family	Gifts, equity finance and loans provided through close relationships in the very early stages of funding to get a business up and running.
Fund	A pool of collective investments that are managed and invested by a firm.
Impact Investor/ Fund	Investment firms and individuals that target high-impact sectors and industries, with positive and measurable social, economic and environmental development objectives alongside financial returns.
Micro VC	Similar to a traditional venture capital firm, but that focuses on smaller investments.
Pension fund	A scheme that provides pension payments to individuals when they retire. Pension funds typically invest money to increase the pool of money in the fund.
Private Equity	A company where accredited and institutional investors and funds join forces to invest directly into companies or engage in acquisitions.
Venture Capital (VC) Firm	An investor organisation that provides funding to high-potential and high-growth companies, typically in return for equity.

Endnotes

1 https://static1.squarespace.com/static/5ab2a4d655b02c29746fc58c/t/5f9965075821db030309fb48/1603888430592/FFA_28102020.pdf

2 https://about.crunchbase.com/blog/when-to-raise-money-startup

3 https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_ZAF.pdf

4 https://www.statssa.gov.za/

5 https://www.statssa.gov.za/

6 https://www-businessinsider-co-za.cdn.ampproject.org/c/s/www.businessinsider.co.za/amp/85-of-adults-in-south-africa-now-have-a-bank-account-world-bank-2022-7

7 https://disrupt-africa.com/south-african-startup-ecosystem-report-2022/

8 https://techcrunch.com/2022/05/19/how-untapped-global-plans-to-bring-the-revenue-financing-model-to-african-startups/

9 https://ventureburn.com/2019/03/uprise-africa-what-startups-should-know-qa/

10 www.businessinsider.co.za/a-new-venture-fund-is-investing-r100-million-in-south-african-startups-2021-11

11 www.investcapetown.com/wp-content/uploads/2018/09/Cape-Town-Tech-Ecosystem-Infographic_Updated-2018.pdf

12 https://www.sars.gov.za/tax-rates/income-tax/

13 https://www.sars.gov.za/businesses-and-employers/my-business-and-tax/research-and-development-incentive/

Published by:
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices:
Bonn and Eschborn, Germany

E: info@giz.de
I: www.giz.de/en

Photo credits / sources:
© Endeva/Illume Creative Studio
© GIZ/Serge Marlon Muhizi