



The SA Startup Act

Unlocking economic growth & opportunities for all



Agenda: 20 Sept 2024

- Background & Context
- Stories & case studies from leading start-ups & entrepreneurs
- The AU Framework
- The SA Startup Act: What & Why
- Business Case & Asks
- Q & A



SA STARTUP ACT MOVEMENT IN NUMBERS



811

THE NUMBER OF
ORGANISATIONS
SUPPORTING
THE MOVEMENT



80

TOTAL PIECES OF
MEDIA COVERAGE



44 mil+

MEDIA REACH



**“Money won’t create
success, but the
freedom to make it will.”**

3

NELSON MANDELA



THE SA STARTUP ACT

Background & Context

“With regards to the South African Startup Act, I would like us to consider that... If we are serious about promoting entrepreneurship, we need to think about how we boost startup activity.”

– PRESIDENT CYRIL RAMAPHOSA, 2021

Definition | What is a startup?

An early-stage, high-growth private company with an innovative and scalable business model (often leveraging technology). Potential to meaningfully **advance economic growth, job creation, and technological advancement** and **increase the taxable revenue base in South Africa**. *[Note: Any proposed legislation will include clear eligibility criteria and processes to successfully qualify as a startup and ensure appropriate guardrails].*

The Startup Act Movement | Who are we?

- Formed by key stakeholders (startups, industry associations, academia, black entrepreneurs and angel investors, local VCs and others).
- A collective effort and call for interventions, policies and laws to remove barriers, accelerate investment and enable high-impact startups to unleash economic growth and innovation.
- **Key focus areas:** regulatory simplification, access to finance, skilled talent, and market access.

Progress | Moving forward together

- Alignment with National Development Plan (NDP) and global best practices (e.g., Tunisia, Nigeria, Kenya)
- Government engagement with startup community for policy reform, with clear recognition of startups as critical drivers of innovation and economic transformation
- Drafts of the Startup Act prepared; consultations with ecosystem players ongoing





“My personal goal is to support creating 100 000 sustainable jobs - given our youth jobs crisis in SA.”



Key Concerns

1. More expensive to build a Startup in SA vs. other African markets given SA's costly Exchange Control and IP legislation
2. Very limited catalytic funding from SA Govt for Startups
3. No SA Startup Visas for highly skilled foreigners

Melvyn Lubega

Technology Entrepreneur
Impact Investor
Actuary by Training

Co-Founder of Go1,
SA/Australia's first unicorn

Forbes Listmaker

Companies

Baobab Group
Go1
Breega VC

Investors

Microsoft
Salesforce
Softbank

700+
jobs created

200+
SME content providers

US \$450m
raised (99% ex-SA)

50m+ learners per year



“Our environment should facilitate the rise of new businesses, not prohibit it”



Key Concerns

1. Current exchange control regulation enriching lawyers and prohibiting DFI
2. Barriers to entry in key markets/industries and prescriptive regulation and processes.
3. Lack of guarantees/ incentives to attract the best local talent

Cheslyn Jacobs

Chief Commercial Officer,
TymeBank

TymeBank is one of the fastest growing digital banks around the world offering it customers simple yet powerful financial services products.

Company

Tyme Bank

Investors

ARC
Apis
TenCent
BII
JG Summit
AI Fund

6 000+
jobs created

60 000s+
of SMEs
enabled





“Our laws should empower entrepreneurs to **build better futures in SA, not hold them back or force them out.”**



Key Concerns

1. The regulatory framework makes it very challenging to attract foreign direct investment given SA exchange controls. VC firms are not familiar with this, creating friction in an already challenging process of raising capital.
2. Yoco spent significant time, resources and capital to overcome complex, restrictive legislation - which we could have spent on growing our business, hiring people and supporting our SME customers.
3. There is an expensive regulatory burden in South Africa, increasing the cost of doing business and raising entry barriers. It impacts both ventures like Yoco and the SMEs we work with.

Katlego Maphai

CEO & Co-Founder, Yoco

Yoco is a market-leading digital payment platform that offers small business payments, software and credits.

Investors

TPG
 Greyhound Capital
 Hodosophia
 Partech
 Quona
 Velocity Capital
 Raba

200,000+

South African SMEs enabled

R 50 Billion

payments processed in South Africa

R 2 Billion

capital disbursed to advanced to SMBs



Why does startup legislation matter to Africa & the AU?

Startups spur economic development by:

1. **creating jobs** in the digital economy
1. driving the **research- innovation** pipeline
1. **unlocking the potential of our economies** through their services and products.

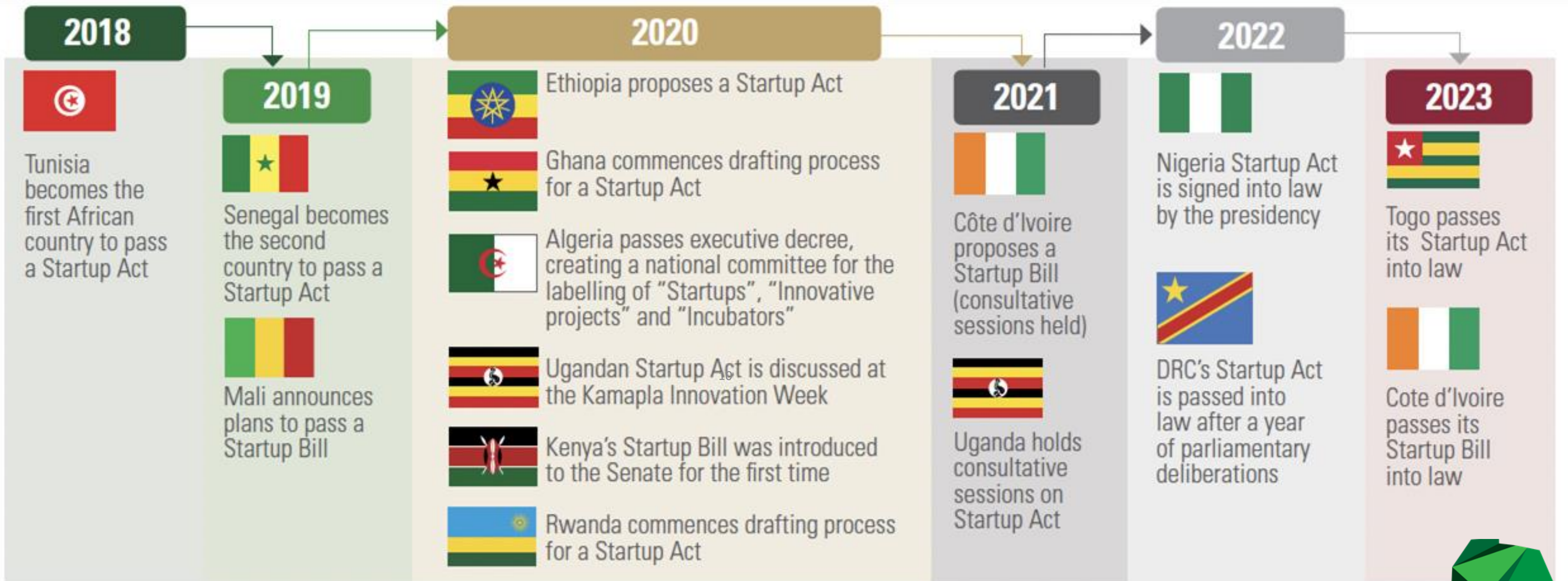
Yet Africa received *less than 1%* of global **venture capital flows in 2022*** despite an increase in global funding.

- AU Member States have a critical opportunity to **create the harmonised marketplace** that will **drive greater investment** in Africa's innovation ecosystem
- Collectively, Member States and startups can **signal policy innovation fit** for advanced technologies and modern challenges.
- Facilitating startups' operations and creations through **targeted ease of doing business** unlocks our innovation potential.



THE AFRICAN UNION STARTUP MODEL LAW & POLICY FRAMEWORK

Africa Startup Legislation Progress



Key Components in Startup Acts

Labelling

Approach to 'labelling' startups, particularly to ascertain **which businesses are eligible** for the available support and incentives.

No single legal definition; rather a series of criteria taking entire lifecycle into consideration.

Taxation

Targeted tax incentives **lower the cost of capital** for small businesses, startups, and those that invest in intellectual property.

The specific design must interact with the chosen labelling approach.

IP

Startups can leverage IP rights to **attract investors, scale activities** and establish collaboration agreements.

Failing to protect and enable commercialisation of IP rights risks **jeopardising a startup's entire business model**.

Data & AI

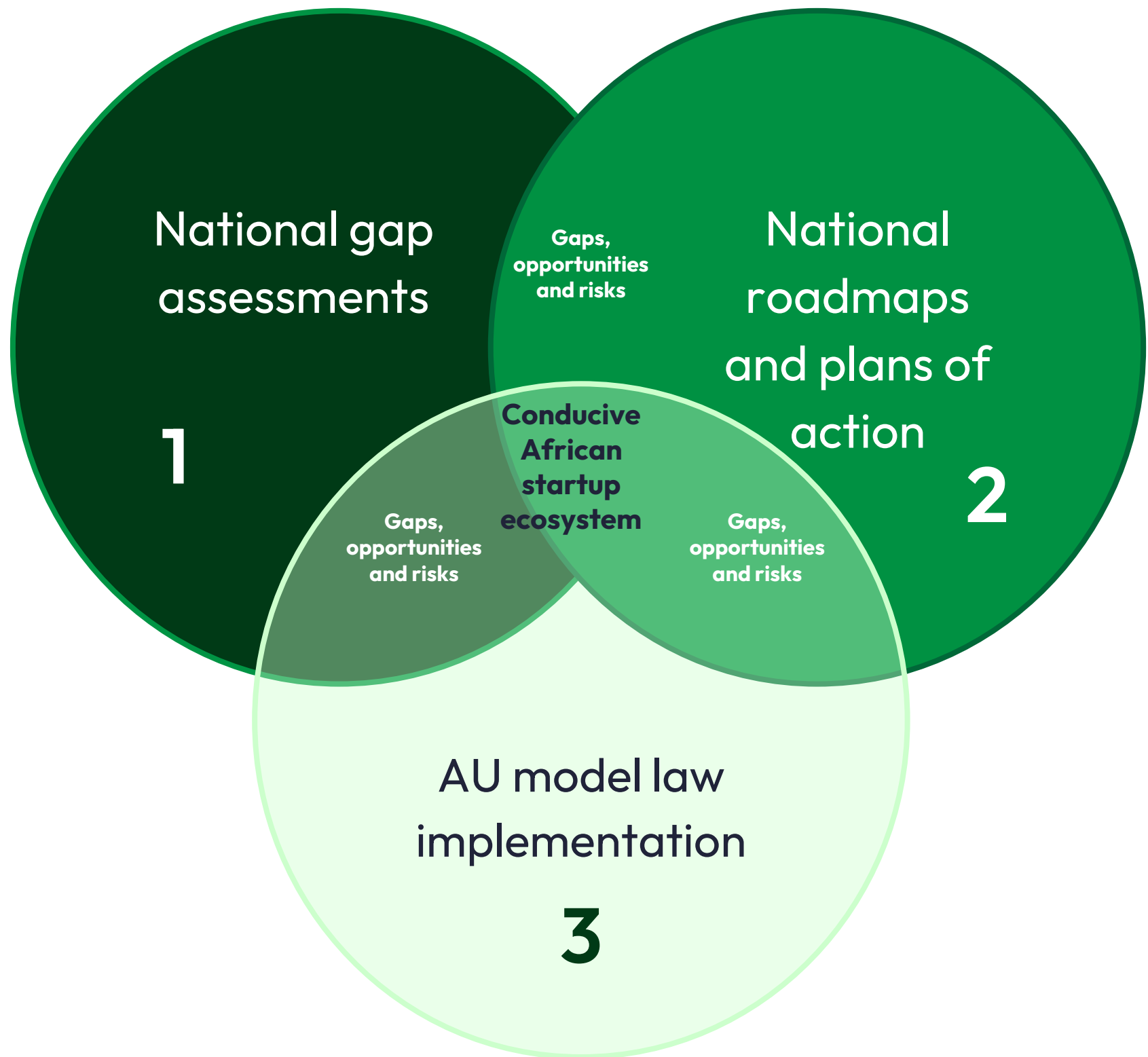
Given AI's emerging adoption and its potential contribution to the African economy, **thoughtful AI regulation** is key to realise the potential economic and technological gains.

Member States should develop regulation that keeps pace with the new innovation; through national strategies that **promote flexibility and proportionality**.



THE AFRICAN UNION STARTUP MODEL LAW FRAMEWORK

National implementation roadmap



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Executive Summary

The Problem | Why are we concerned?

- SA has significantly dropped in Worldbank 'Ease of Business' rankings and is less attractive to startups and investors compared to counterparts.
- Fragmented policies and complex regulations hamper startup growth and investment.
- Very limited access to finance for startups.
- Restricted ability to expand globally.
- Shortage of skilled talent, and many entrepreneurs forced to leave to pursue growth / survival.



The Result | Impact on South Africa

- Onerous for startups to do business.
- Significantly fewer successful startups
- Much lower job creation
- Much less investment into SA
- Limited skills transfer
- Inhibited innovation, IP and technology development
- Low economic growth & transformation.

The Solution | Priority Proposals

1. **Appropriate startup-specific laws** that include controls to identify or label '**Qualifying Startups**'.
2. Modernise **Exchange Controls**: Remove inhibiting regulatory barriers that hamper globalisation and investment into Qualifying Startups.
3. Remove barriers that inhibit attraction and retention of highly skilled talent in the form of **special startup visas**.
4. Introduce **tax incentives** to encourage investment in Qualifying Startups & reduce set-up costs.

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Proposal 1 | Exchange Control Modernisation

What | Proposal Summary

- Conducive regulations that are appropriate to the business activity of start-ups.
- Remove the inhibiting impact of Exchange Controls that restrict business operations, investment in innovation, and attracting financial capital.
- Streamline Exchange Control admin processes to enable greater certainty, shorter lead-times & lower overhead.

Why | The Benefits

- Significantly greater access to financial capital for Qualifying Startups.
- Enables global business expansion and investment in IP / tech.
- Reduced compliance and operational overhead frees up resources that can be channelled towards employment opportunities, customer acquisition and fundraising.
- Higher job creation and taxable revenue for SA Inc.

Key Proposals

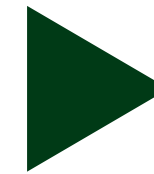
1. **Risk mitigation:** 'Qualifying Startups' who meet the criteria must be formally confirmed as such before benefiting from relaxations - e.g. early-stage / newly established based on objective factors, innovative, **R&D/operational entity in SA.**
2. **Process Modernisation:** Transactions involving Qualifying Startups should be reported to SARB through an expedited process. Complex and costly **prior approval** should not be required before the relevant transaction is implemented.
3. **Startup & Investor-friendly Structures:** Permit vanilla shareholding structures that are permissible in other jurisdictions to ensure that our startups are not penalised.
4. **IP Commercialisation:** Provide Qualifying Startups with the freedom to commercialise and transact with their IP in the best interests of their businesses.

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Proposal 2 | Special Start-Up Visas

What | Proposal Summary

Fast-tracked work visas for highly skilled foreign employees at Qualifying Startups through special visa dispensation.



Why | The Benefits

Better access to top global talent and scarce skills, which is essential for local skills transfer and the growth and success of startups.

Key Proposal: Special Startup Visa

- Automatic and fast-tracked visa approvals for foreign skilled employees that Qualifying Startups may require to scale and grow their businesses.
- Extended visa duration for foreign highly skilled professionals willing to contribute to South African Qualifying Startups.

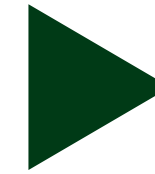
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Proposal 3 | Tax Incentives

What | Proposal Summary

A set of tax incentives to **stimulate access to financial capital for Qualifying Startups**. This will be done by:

- encouraging third party investment into Qualifying Startups
- simplifying tax registrations for Qualifying Startups and enabling re-investment of such taxes into business growth



Why | The Benefits

Benefits include the following:

- attracting more investors and unlocking diverse funding sources, providing Qualifying Startups with the resources to develop and scale their innovative products and services
- enabling Qualifying Startups to overcome financial hurdles, reach key milestones faster, and achieve sustainable growth.

Key Proposals

Financial capital is the lifeblood of star-ups, fueling innovation, growth, job creation and ultimately higher taxable income for SA Inc. We must significantly increase access to financial capital.

1. **Encouraging third party investment into Qualifying Startups:** Introduce incentives to encourage capital contributions to early stage funding entities by venture capital (VC) investors that invest in Qualifying Startups in South Africa. This will not only increase the availability of financial capital, but also access to the skills and networks of those VCs.
2. **Simplifying tax registrations for Qualifying Startups & offer tax breaks in early years:** Simplify the registration for, and administration of, PAYE and VAT for Qualifying Startups, allowing them to reinvest such taxes into the growth of their businesses. This will increase available capital and reduce administrative burdens, allowing them to focus their financial and operational resources on what matters: growing revenue, innovating and creating jobs.



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5 Year Outlook: A thriving SME sector will drive job creation, economic growth and poverty alleviation



**+1 million
job opportunities**

80% black youth

**+200k high growth entrep jobs lost
each year to offshore market**



**R910 billion
GDP contribution**

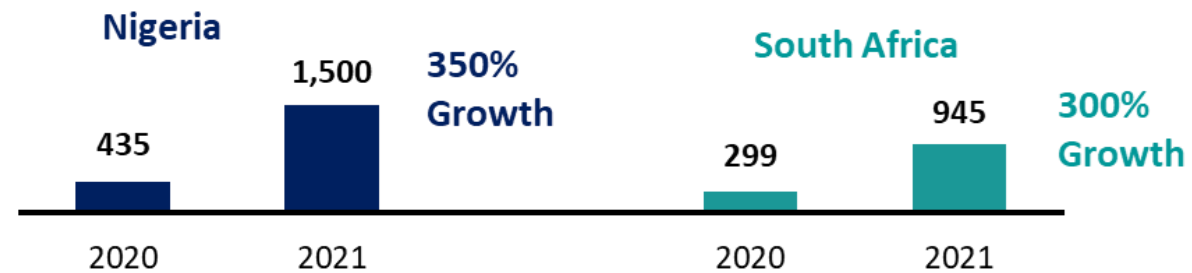
**R175 billion of annual revenue
by high-growth SA
entrepreneurs**



**R450 billion
Foreign Capital Raised**

**R90 billion minimum will be raised
by SA businesses**

VC Market
\$m



Significant upside & FDI potential for South Africa, as Africa is only 0.7% (\$4.3bn) of Global VC Market (\$643bn) and the global market is growing ~200% a year

Worldbank Ease of Business rankings:

2008: SA & Mauritius held joint 1st position in Africa, & in Top 50 globally

2019: SA fallen out of Top 50 globally & Nigeria moved up 20 spots

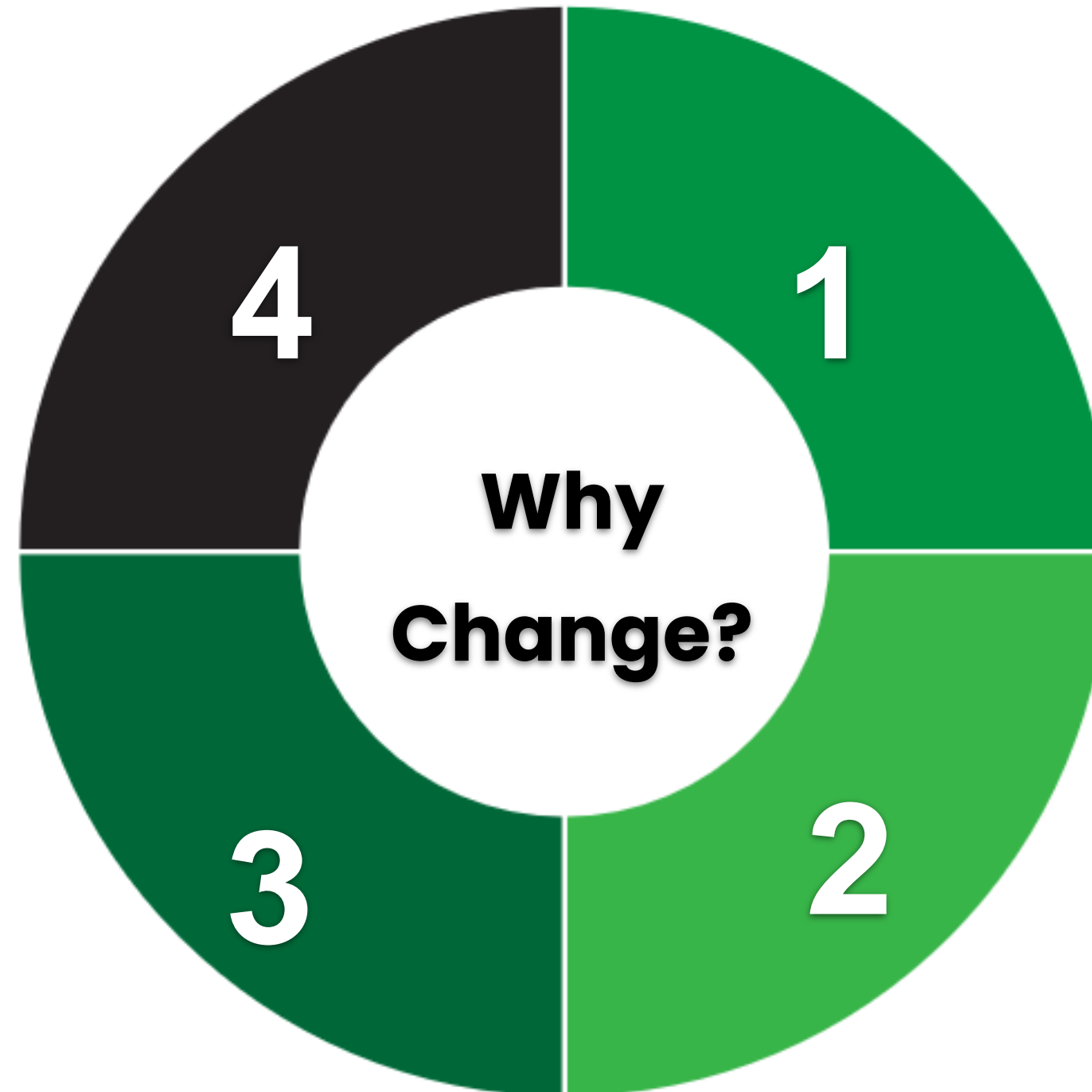
30x SA High-Growth Medium-Sized SMEs (2021 sample)

- Average 2021 revenue: R233m per year per business.
- Total in 2021: R6 bn
- 5781 jobs created between 2017-2021
- Average headcount in 2021: 450 per business
- Diversity > 75%



The Case for Change | Unlock Entrepreneurship & Economic Growth

Exempt Qualifying Startups from inhibiting regulations, bureaucratic practices and complexity



Attract foreign capital and skills to ignite our economy, develop our people, and accelerate innovation.

Give entrepreneurs more resources and time to focus on what matters most: **business growth, innovation and job creation.**

Enable meaningful access to **global and local market opportunities**, driving economic development and higher tax revenue potential.

Align **South Africa to global best practice** and make it a more **attractive, competitive jurisdiction** for business.



Recommendations

Revisit existing laws and understand their **unintended impact** on our economy and employment rates

Engage with the startup ecosystem to ensure **real-world solutions** and economic transformation



Exempt Qualifying Startups from **inhibiting regulations, bureaucratic practices and complexity**

Create more **efficient and appropriate processes** to increase **clarity** and reduce **complexity**





ASK

**Sponsor the development of
a South African Startup Act**



Q & A



We look forward to moving on with the journey of achieving an enabling entrepreneurship ecosystem in South Africa.

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