Case Studies on the Regulatory impact on the growth of South African Startups

South African Startup Act Movement

February 2023

South Africa STARTUP ACT

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UKaid from the British people

SA Startup Act Case Study Research

The SA Startup Act Movement with the support of FSD Africa commissioned a case study research project, which can be used to make the business case for startup policy reforms, as stipulated in the SA Startup Act Position Paper 2021. The case studies aim to demonstrate the negative impact of hindrances targeted through the SA Startup Act Position Paper relaxations, as well as case studies outlining the positive impact addressing such relaxations may have on the national economy.

The project entailed desktop research and limited fieldwork in so far as sourcing, collating, formulating, and documenting a set number of case studies based on the different relaxations outlined in the SA Startup Act Position Paper.

The research is intended to:

i. Showcase real life case studies of the experiences of startups with domestic investments and the challenges experienced when raising foreign investments. This will help make the case for policy reform in the financial sector.
ii. Make the case for special tax dispensation for qualifying startups to increase availability of financial capital.
iii. Make the case for employment flexibility and special skills visas to help startups attract and retain high-skilled talent and enable them to be globally competitive.
iv. Make the case to address Exchange Control Limitations, which will help alleviate limitations on offshore movement of South African Intellectual Property, and limitations placed on the amounts of money moved offshore.
v. Outline the value proposition of the recommended startup policy reforms to various stakeholders.

South Africa STARTUP ACT

About the SA Startup Act Movement

The South Africa Startup Act is a proposed Economic Bill that may be introduced as a stand-alone Act, or a set of proposed amendments to an existing Act (such as the National Small Enterprise Act) that outlines a set of provisions with which to support the ecosystem that supports the creation of high-growth enterprises, where such enterprises are in the formation, or early growth-phases, thus being considered startups, and with the overarching purpose of accelerating socio-economic growth, development, competitiveness and the transformation of the South African economy through the increased involvement and impact of successful startups.

The purpose of the Act is therefore to outline ways in which to accelerate the success and contribution of startups and high-growth firms to the national economy, by removing and/or reducing those burdens that are keeping such firms from playing a larger role and having a greater impact in the national economy.

Relaxations contained in the 2021 SA Startup Act Position Paper

The case studies aim to inform the need for policy relaxations contained in the SA Startup Act Position Paper 2021. The relaxations served as the main delineation of both case study candidate selection, as well as balancing efforts to have an equal distribution of case studies amongst the different relaxations.

The following four relaxations are proposed in the Position Paper:

- Relaxation 1: Provide tax breaks and incentives to encourage investment in Qualifying Startups.
- Relaxation 2: Remove barriers that inhibit access to skilled talent.
- Relaxation 3: Remove inhibiting regulatory barriers that hampers globalisation and investment into qualifying startups.
- Relaxation 4: A qualifying startup to be exempted from preferential procurement limitations.

Financial Sector Deepening (FSD) Africa

Established in 2012 and supported by UK Aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across sub-Saharan Africa. FSD Africa work to reduce poverty through a 'market systems development approach, which aims to address the structural, underlying causes of poverty by improving how financial market systems function.

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Research partner for the project

VS Nova Pty Ltd is a South African based management consultancy that conducts strategy and research work on behalf of members of the SA Startup Act Movement, including the annual reporting on early-stage VC activity for the Southern African Venture Capital Association.

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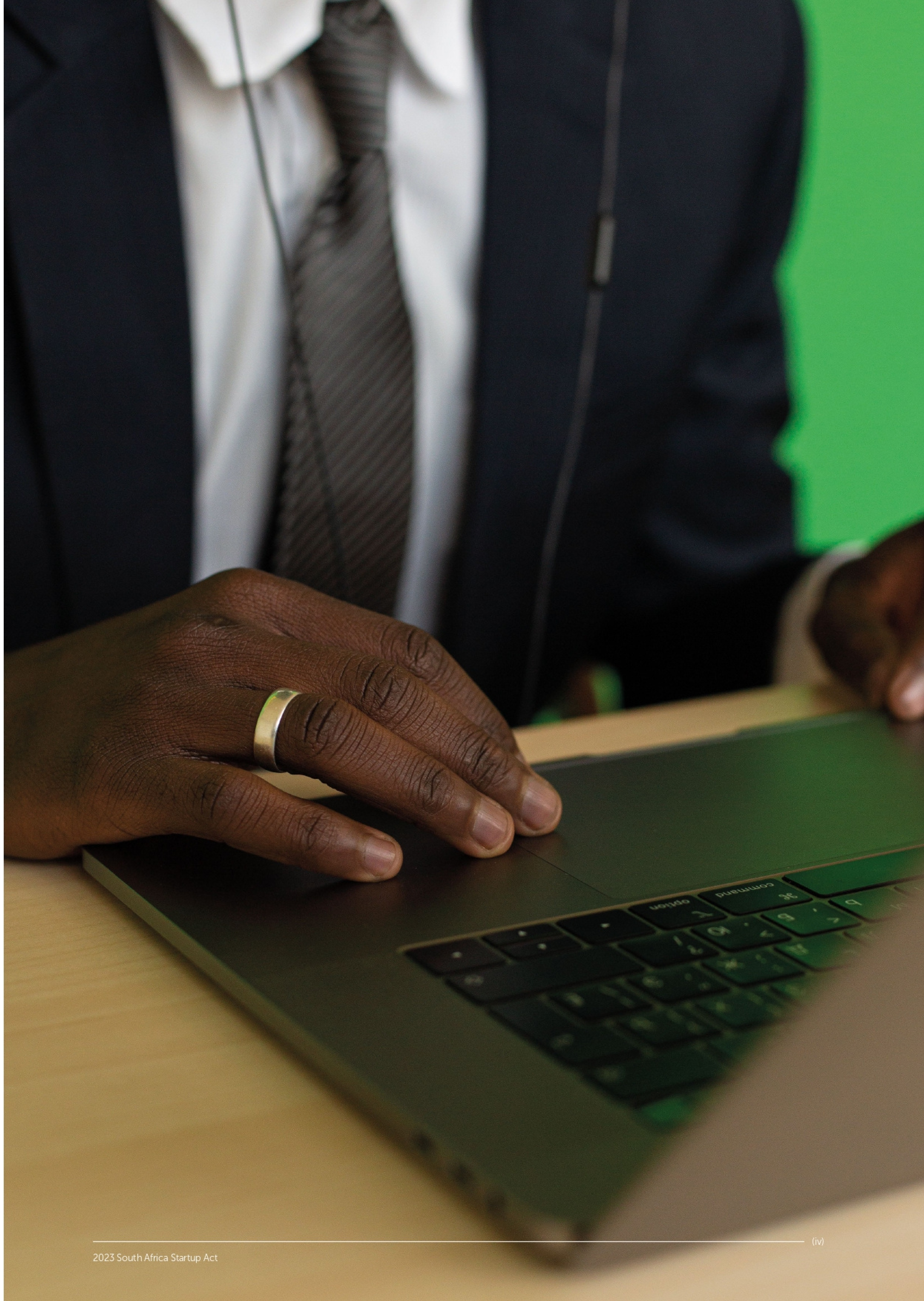
FOREWORD FROM THE CHAIRPERSON

When the South Africa Startup Act Movement was created in 2020, our mission was very clear - to create an enabling environment for high impact, high growth South Africa startups that will grow and scale their businesses globally. This would be done by aggregating a growing ecosystem of investors, capacity builders, academia, incubators, accelerators and startup networks, that will collectively lobby and advocate for policy reform. South Africa has a unique opportunity to grow its economy and contribute towards job creation, by strengthening its technology startup sector. Tunisia, an African pioneer in establishing a Startup Act for its country, is a great example of how a vision to position itself as an innovative business hub for startups at the crossroads of the Mediterranean region, Europe and Africa, can reap such rewards.

Our 2021 Startup Act Position Paper was a good starting point, as it established a clear foundation which outlined our recommendations to the government, on how to nurture and enable South African technology startups. It is important to note that, over the years we have been a startup ecosystem that has been speaking amongst itself and not effectively engaging key policy makers. But in the past 18 months (since October 2021), there has been great awareness and activism which has attracted the attention of the President of South Africa and his office, and various other ministers who are now aware of this great startup community that exists and aims to be part of the solution and not the problem in creating jobs and growing the South African economy.

The aim of this report is to highlight real life examples of men and women that wake up every morning in the hope of building a prosperous South Africa, through growing proudly South African technology startups. It further cements the need for startup policy reform, because in the absence of that, we will lose technology talent, lose investments, lose jobs and one of the few avenues that can revive our ailing economy. For government, this report can be used to understand qualitatively, the challenges created by the current South African policy framework. The recommendations outlined in the 2021 Position Paper provide guidance on how we can collectively find solutions to such challenges. For investors, entrepreneurs and everyone else in the startup ecosystem, this report can assist you in understanding the 'power of the collective' and encourage you to join the SA Startup Act Movement.

Matsi Modise
Chairperson
SA Startup Act Movement



EXECUTIVE SUMMARY

South Africa Startup Act

Startups are significant and growing employers in South Africa. Tech startups in South Africa, as of May 2022 employed over 11, 000 people. Fintech is the largest employer, counting 4, 387 employment positions, or 40% of all startup jobs. It also attracted the greatest number of deals according to the 2022 SAVCA VC survey.

South Africa is losing its status as the premier breeding ground for high-growth startups on the African continent, with many high-growth businesses leaving South Africa resulting in a loss of economic competitiveness and growth opportunities. Operating amidst a restrictive policy environment compared to competitor countries, the most significant regulatory challenge facing high-growth firms is the difficulty of securing international investments while domiciled in South Africa.

The South Africa Startup Act Movement (SUA) calls on the President of South Africa to unleash the growth and innovation embedded in our entrepreneurs and youth. This can be achieved by exempting newly established qualifying enterprises with a turnover of less than R100 million from the limitations of exchange controls, preferential procurement, a lack of tax incentives, access to highly skilled staff, and laborious red-tape that constrain their growth and ability to contribute to job creation, and in doing so accelerate the social and economic spill over of such startups to the rest of South Africa.

> *"There is growing awareness that there is a subset of firms in the economy - high-growth firms (HGFs) - that contribute disproportionately to net employment growth. These firms also contribute disproportionately to innovation and productivity growth."*[2]

The key policy challenges facing South African high-growth firms include:

(a) onerous, timeous, and costly **restrictions on transferring South African IP** to a foreign company, a core requirement for startups to expand their businesses;
(b) cumbersome and expensive **exchange control restrictions** that require prior approval to raise offshore capital ;
(c) **Capital Gains Tax** triggered too early; and
(d) no **incentives** for risk capital investments in high-growth startups (amplified with the ending of Section12J).

The proposed policy reforms outlined here are expected to stimulate high-growth firms to create jobs, contribute to the national GDP, and enable South African founders to access capital from foreign investors.

The following case studies contextualise the South Africa Startup Act and show that the **South African Exchange Control regime is the principal obstacle in the growth journey of high-growth startups wanting to take on international markets**. Other forms of red-tape and regulatory constraints targeted through the Startup Act inhibit and frustrate founders, but South African Law, through Exchange Controls deny founders the option to set up international companies AND remain South African. In other words, South African Law fundamentally prevent our entrepreneurs and youth to contribute meaningfully to the development, transformation, and growth of the South African economy.

The intention with the Startup Act is to reduce and relax existing policies and regulatory barriers impacting on high-growth startups, where such startups must pre-qualify. The Startup Act is about creating fewer, not more regulations, simplifying the growth trajectory of South African startups, and accelerating social and economic impact.

The following document recounts the experiences of startup founders, investors, and advisors with South Africa's policies in their shared efforts to create successful growth journeys. Each case study touches on one or more of the regulatory barriers targeted through the relaxations included in the SA Startup Act Position Paper. The case studies, denoted below in bold italics, involve actual founders, investors and advisors who participated on the condition of anonymity. Their voices can be heard throughout the document, through quotes taken from interviews and displayed anonymously in highlighted text.

[2] Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa. Prepared by Economic Policy, National Treasury.

South Africa has functioning and well-resourced capital markets

South Africa, with a larger GDP than Finland, the world's leading innovation economy, is blessed with enviable capital markets.

R 8bn
combined portfolio of VC fund managers invested in 2021 SA.

R 1.3bn
invested into early-stage startups in 2021

R 200bn
South African Private Equity assets in 2022

USD 157 bn
SA pension fund industry in 2020.

Small firms matter more when they grow: the need to enable growth

The economic foundational belief in the role and value of small firms' rests in the ability of such enterprises to grow, because, when growth happens, businesses innovate for change and create social and economic impact in the form of paying wages and creating new jobs.

Growth correlates with the size of the market, and no market is bigger than the global market. The objective for most startups is to penetrate the global market for new and innovative products and services. International growth offers opportunities for inward Foreign Direct Investment, as well as expanding the tax base by creating a larger revenue base. South Africa desperately needs both FDI and an increase in taxpayers.

Young firms account for about **20% of employment** but create almost half of new jobs on average across OECD countries[3].

To truly scale into global markets require accessing global capital

A pivotal consideration when setting up global operations, is to position the business for international investment. Creating offshore businesses to access global markets, is **done on the insistence of international investors.**

Establishing a foreign domiciled company by a South African startup is essentially about housing the startup's IP rights, both existing and future IP, in the foreign territory. This enables both the founders and the investor to have ownership in the entity that will have title to future IP created through the deployment of the investor's capital. If not, the investor cannot and will not invest.

Achieving this objective is essentially constrained in South African Law as it involves overcoming the restrictions of South African Exchange Control regulations.

The first case study in the report - ***Going global requires global investors*** - outlines the context in which South African founders and their investors navigate the intricacies and challenges of obtaining exchange control approval. It features the work of a law firm, supplemented with the results of a poll amongst founders that moved their businesses offshore.

80.8% of startups polled through this research had **set up a foreign based company** to attract foreign capital. More than 67.3% were instructed by their investors to do so as a **prerequisite to investment**.

[3] "No Country for Young Firms?", Policy Note, Directorate for Science, Technology and Innovation Policy Note, June.

Rather than investing capital, the company loaned the money from the foreign office to the South African company, amounting to an investment loss of approximately two million Euros. The overall assessed GDP loss including both investment and taxes expatriated in the above way, was estimated by the company to be between three and four million Euros.

No country for small firms

> *The top 10% of South African companies earn 86% of all income whilst the bottom 50% earn only 1.6% of income"*

Startups are critical to the competitiveness and sustainability of an economy but can do so only if there is due recognition for the ***Need for level playing grounds***, the subject of case study six.

South African supply chains are monopolised by large firms and multinationals, making it very challenging for small firms to bring innovative and new products to market. This is aggravated through BBBEE where many startups, most Level 4 BBBEE firms, face enormous and sometimes impossible obstacles when trying to attain Level 1 BBBEE; the latter a requirement for firms offering products and services in competition with large and multinational firms and multinational firms, or doing work with the SA Government.

BBBEE ownership impedes investment

The biggest impediment in attaining Level 1 BBBEE is the ownership requirement of the BBBEE codes, in principle dictating 100% shareholding from black individuals. This impedes investment as most VC investors, especially foreign VCs, don't meet this requirement.

> Taking on a non-black investor, even if the founders are black individuals will weaken or even obliterate the BBBEE position of the startup.

Case study six relays the experiences of an engineering firm, 100% female owned, and operational in the domain of Science, Technology, Engineering, and Mathematics. Despite being a global triumph for Women in STEM, this company was effectively barred from Level 1 procurement because the founders were unable to find a suitable black individual shareholder.

A black entrepreneur who participated in this research project detailed how his business, set up in the US but operating from South Africa, opted to establish an international footprint to allow for international investment. The business has been hailed in local and international press as being a new breed of African success.

Except, none of this success effectively reverts to South Africa as the founder, recognising the regulatory obstacles in operating as a South African startup, and realising that he would not get any preferential treatment from international investors, chose to operate as an international domiciled company, and in doing so, managed to secure a substantial sum from a foreign VC.

Red tape keeps foreign founders and their investors at bay

> *It was the combination of inefficient tax; Exchange Controls; trapping of IP; and rigid visa regime. Each of these individually make SA uncompetitive. Add them together and we are nowhere."*

For high-growth firms, growth continues even after the startups surpassed the defined SME demarcations. Losing this protection can come at a time when high-growth firms are still midway in their growth trajectories, impeding, or even completely disrupting their progress.

For this reason, some founders forego the opportunity to grow, choosing to remain small, and rather avoid the red tape and other limitations involved in operating a large firm.

> *Local regulations, especially in regard to tax and BBBEE compliance, are forcing us to turn into something we don't want to be."*

Best to stay small: Size matters in South Africa explains how founders set up multiple structures to manage growth without exceeding statutory limitations, doing so at great cost as well as weakening opportunities to become industry leaders and globally valuable businesses.

The need to play to our own strengths and leverage local advantages of cost and talent

The eighth case study recounts how the founders of a local startup and its investors realised that its business model should rather be flipped on its head. The founders recognised that a better strategy could be to ***Play to our strengths*** by raising money for the US operations, in the US, thereby allowing for payment of US sales and marketing expenses in US dollars; whilst on the flipside capitalising the South African development hub where the company had a clear cost advantage.

Doing so in practice though, brought the startup in direct conflict with Exchange Controls.

The purpose of a business is to create a customer – Peter Drucker

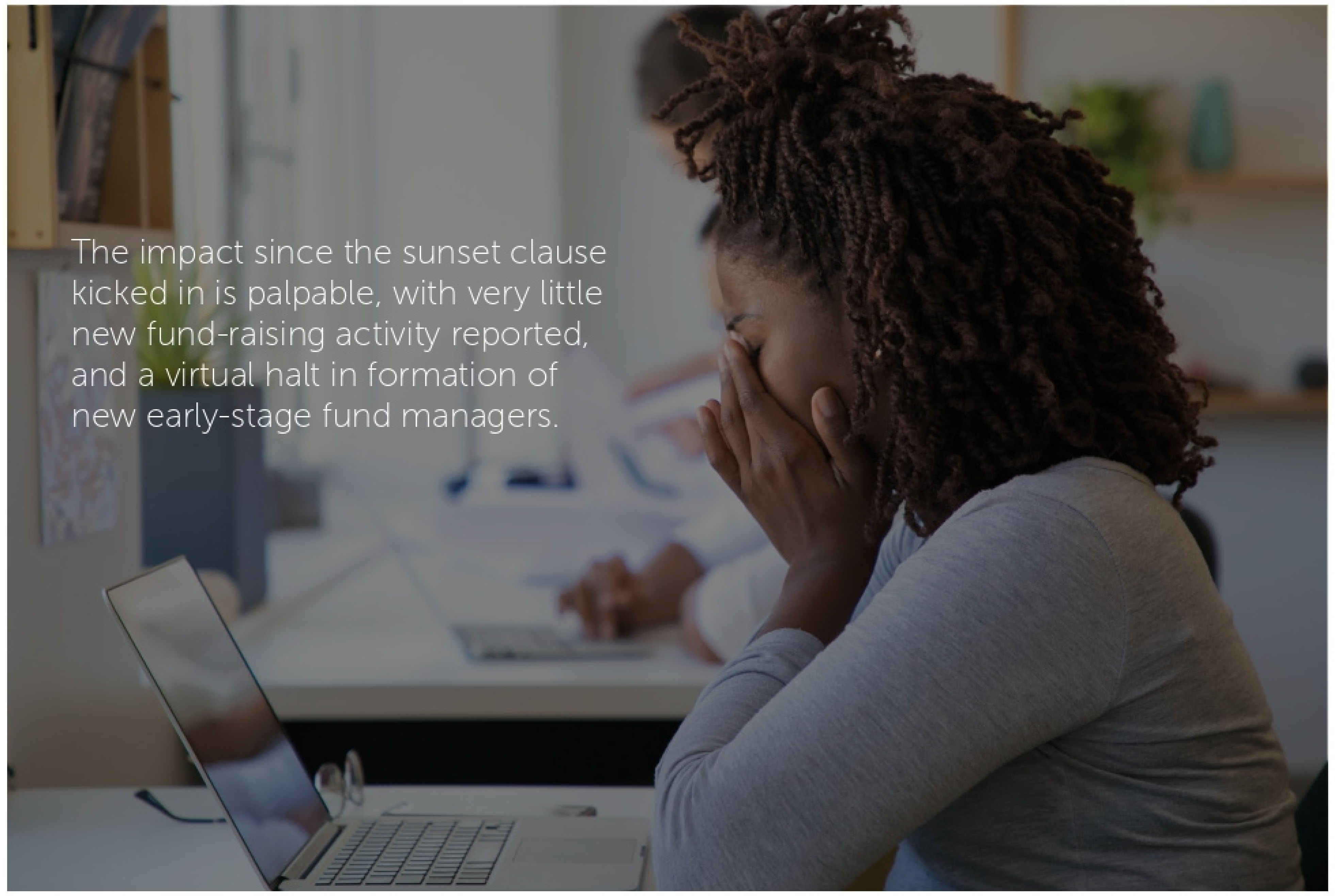
When firms pursue opportunities in new markets, ***it is not always about the red tape***. In this case study, the efforts of leading South African engineers solving a problem in a niche market based outside South Africa, shows that sometimes, the founders have no choice other than to move the business to a foreign market. But for the South African economy to have any future benefit from this, requires an enabling regulatory regime that allows founders to do relocate in a way that benefits both their startups, and the South African economy.

Capital follows incentives. We have no incentives left to invest in startups.

Capital and access to markets are key constraints facing startups anywhere in the world. Obtaining capital and supportive partners in our home market would be considered a logical place to start, especially given enviable financial systems, and the difficulties South African founders experience in trying to acquire foreign capital; the subject of the first two case studies. But despite having high net-worth individuals interested and willing and able to invest in startups, local conditions don't align to make this happen.

This wasn't always the case as R12 billion was raised from private investors between 2017 and 2022 through the so-called Section 12J tax incentive. National Treasury in 2021 announced its decision to discontinue the incentive following its own review of the impact of the scheme. National Treasury threw out the ***baby with the bathwater***. Rather than make additional adjustments to the incentive as was the case in many other developing countries trying to improve the investment conditions for their startups, it was simply terminated.

Apart from enlarging the pool of funding that saw actual high-growth tech entrepreneurs draw on much needed early-stage capital from South African investors, 12J created opportunities to slow the brain-drain of young fund managers hungry to ply their trade in their home country.



Going global brings high-growth startups into conflict with SARB Exchange Controls

Exchange Controls restrict South African tech startups directly and indirectly in various ways, most notably an outright prohibition on structuring the startup as being held by an offshore holding company; the need to obtain Exchange Control approval when taking South African IP offshore; and the financial and administrative impact on day-to-day business when receiving payments from foreign customers.

Out of a small sample of 52 startups, **122** of those individuals and their families formally **emigrated**.

Managing Exchange Controls and other regulations beyond the skills of most founders

Engaging with and obtaining Exchange Control approval is a complex undertaking and the skills to do so fall outside those of normal founders. ***Journey without a destination*** explores the trial-and-error approach of South African founders in trying to establish a dual footprint by having an operating base in South Africa and an investment base in the EU or US.

After months of pitching to more than 100 potential suitors, the founders featured in this case study got used to the standard feedback received: none of the investors were interested in putting capital into a South African domiciled company.

The startup incurred more than R2 million in legal fees. The 2021 average VC investment round in South Africa for comparison's sake was R7.93 million.

Investors know that SA has very restrictive laws that makes doing business difficult which in turn makes fund raising difficult. Our investors did not want to invest in a South African based company and forced us to create an American offshore company before they invested."

Unicorn in a cage: coping with Exchange Controls can be difficult, costly, and self-defeating

When chickens come home to roost profiles the ongoing tussles facing a leading and globally successful South African startup, bidding to become a South African Unicorn. This would-be Unicorn is severely constrained by the exchange control restrictions enforced on it through its original approval obtained from the SARB.

Unicorn: a term used in the VC industry to refer to a private startup with a **valuation of over US$ 1 billion**.

Many startups which would otherwise be registered in South Africa may instead be registering their innovation-based businesses outside, to take advantage of jurisdictions that enable freer transfer of IP between parties where there are international investment interests.

– Tech entrepreneurship Ecosystem in South Africa (Google and OC&C)

Even when able to secure Exchange Control approval, the consequences on structure and operating limitations can hold a business back through complexity, restrictions, and costs.

Isn't it easier to simply relinquish ties with South Africa and operate offshore?

Others, well-aware of the above challenges opted to conduct business as non-South African firms. Doing so, as recounted by those interviewed, reduced the burdens of red tape, compliance, and costs.

A local startup accelerator is featured in case study four - ***Golden goose shoved offshore*** - recounting the way in which it gradually changed its own policies to straightaway encourage potential Fintech candidates to set up offshore holding companies into which to house IP and possibly in the future accommodate international investment.

This is not ideal either, as it is costly for South African founders to set up a truly foreign domiciled company. Founders must balance the regulatory realities of operating a business in South Africa where for example Fintech startups can be disqualified from serving the very customers that paid their school fees, due to the need for such startups to meet the financial sector's requirements that can include Level 1 BBBEE status.

A major concern voiced by the accelerator was the difficulty of attracting and retaining foreign skills. This had been compounded in recent times due to losing local talent to international markets because of the incredible demand for Fintech skills and experience across the globe.

Broadbased Black Economic Empowerment (BBBEE) is a policy of the South African government which aims to facilitate broader participation in the economy by black people. A form of affirmative action, it is intended specially to **redress the inequalities created by apartheid.**

Red tape keeps foreign founders and their investors at bay

I am a foreigner in South Africa; you fight tooth and nail for everything. The political and economic environment doesn't really support positive contributions from foreign nationals

Interviews included the experiences of foreign founders and their South African based startup, which they ended up operating as a foreign branch, rather than a South African entity.

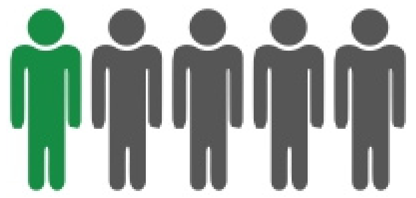
The registration processes and requirements were experienced to be vastly more complex and time-consuming than expected, with the founders eventually opting to simply operate in South Africa as foreign nationals. This begs the question if ***South Africa is really open for business?*** since the resulting tax base was not South Africa, and the net impact on the South African economy accordingly vastly less than would have been the case if the company was set up as a South African entity.

Waiting two years to obtain a South African Trademark Registration, and three years for a simple response from PSIRA (a statutory instrument of the South African government) were **unacceptable delays** in the race to bring products to market in the shortest possible time.

Investors, geographically unconstrained, prefer foreign to local startups

Local investors are not limited to invest in South African startups, as capital is global, and so too are investment opportunities. By having to overcome the various challenges outlined in the above case studies, some investors choose to rather invest in foreign owned startups free of the red tape and uncertainty inherent in South African businesses.

In the competition for capital, South African founders are at the back of the line, sometimes even from their own investors, because of the comparative complexities they bring to investments.



The investor interviewed for the last case study reported having screened upwards of 820 investment proposals in the last three years, **1 in 5 involving a South African domiciled startup.** Because of Exchange Controls and additional regulatory burdens, it ended up not making a single investment into any of the South African domiciled opportunities.

The last two case studies reveal how local early-stage venture capital is not currently incentivised to invest in South African founders. ***Put the baby back in the bathwater*** profiles the missed opportunity when local incentives for investing in entrepreneurial businesses were terminated by the South African government, whilst ***The World is an investor's oyster*** recounts the experiences of a local investment firm snubbing an impressive South African pipeline, to invest solely in non-South African domiciled businesses.

Enabling growth by removing Exchange Controls and easing the red tape

The Startup Act Position Paper proposes four broad relaxations, aimed at exponentially fast-tracking the contribution from high-growth startups to the social and economic transformation of our economy.

RELAXATION

1 Provide incentives to encourage investment in qualifying startups

Put the baby back in the bathwater and ***The World is an investor's oyster***, speaks to Relaxation One and the need for appropriate incentives to encourage investment in South African startups. Capital is critical to fuel the growth of any business. South Africa, with a large base of high-net-worth individuals and globally recognised capital markets should not have a lack of early-stage capital with which to empower its own entrepreneurs.

The SA Startup Act Movement calls for appropriate incentives with which to channel South African capital to our future entrepreneurs. This can be achieved by applying the lessons from the South African 12J experience, as well as similar incentive programmes offered in startup-friendly tax jurisdictions in India, the UK, US, and Chile. By removing the complexity and uncertainty presented by startups in having to comply with South African regulations such as Exchange Controls and IP assignment to offshore entities, South African founders will be able to compete on level terms for local and international capital.

RELAXATION

2 Ensure access to talent

Access to talent is a critical challenge facing all startups, especially those in the Fintech sector where there is a global demand for financial engineering and technology skills. ***The Golden goose shoved offshore*** outlines some of the competitive forces at play in growing and leveraging the Fintech Cluster in South Africa. It speaks also to the need for a complete rethink of Exchange Controls as this accelerates the brain-drain by making it less attractive for entrepreneurs to utilise South African based skills and IP.

So too are foreign citizens wanting to start and operate businesses in South Africa disincentivised from localisation, because of the difficulties in obtaining employment visas. ***Is South Africa really open for business?*** concludes with many foreign founders choosing to operate as foreign citizens in South Africa, thereby defeating the objectives of growing the local tax base, attracting FDI, and creating South African job opportunities.

An aspect critical to the SA Startup Movement is the need to value foreign skills and efforts, both in contributing scarce skills to the pool of talent vital to drive local technology and business clusters and creating skilled employment positions in the South African technology clusters. Equally, foreign investors should be assisted to swiftly localise and invest in their South African operations through an inward investment desk competent in the needs and objectives of technology startups.

In some instances, ***it is not always about the red tape***, as South African startups take their business interests offshore in pursuit of a specific market opportunity in another country.

RELAXATION

3 Remove barriers to entry

The single biggest obstacle in the quest to position our high-growth startups with international market potential, and truly transform the economy, is the difficulty of obtaining and operating amidst Exchange Control approvals. This is a theme running through the experiences of most startups, investors and their advisors and is covered extensively in ***Going global requires global investors***. The reasons why founders' cross paths with Exchange Controls and the causes for such frustrations are outlined in this case study, setting the scene for the rest of the research. ***Journey without a destination*** and ***When chickens come home to roost*** zooms in on the specific experiences of two South African startups trying to chart a course through the complexities and costly knock-on effect entailing Exchange Control approvals.

RELAXATION

4 Exemption from preferential procurement limitations

> ***"The top 10% of South African companies earn 86% of all income."***

This shocking statistic informs the question as to why the South African economy, having globally recognised startup ecosystems, and countless small firms, is not seeing a larger share of revenue earned by startups? A key challenge is the exclusionary implications of preferential procurement policies that effectively entrench the monopolistic behaviour of large and established enterprises, cementing their grip on the opportunities so important to the growth of startups. Founders ***need Level playing grounds*** as many through experience have surmised that it's ***Best to stay small*** and avoid the regulatory and compliance overhead that comes with growing beyond the demarcated boundaries for SMEs.

The SA Startup Act Movement respects and endeavour to uphold the principles of South Africa's pursuit of racial transformation and equality. Prioritising startup growth is not about the one or the other, but both, as growth leads to social and economic transformation. The Movement proposes that startups for the duration of meeting the requirements of being graded as qualifying startups be given automatic Level 1 BBBEE status, when accessing the supply chains of Corporate and Public South Africa.

Qualifying startups would still need to comply with the provisions of Level 4 BBBEE relevant to the size of the startup business and the industry in which they operate. But, by not being automatically disqualified from rendering services or supplying products in South Africa, qualifying startups will have a better chance when competing head-on with large suppliers and foreign multinationals, and in doing so accelerate the transformation of the South African economy.

South African founders want to live and do business in and from South Africa

The case studies covered in this research demonstrate the tangible costs and fallout of a system that is not conducive to assist South African entrepreneurs - black, white, male, or female, local or foreign - from reaping the benefits with which to transform our economy.

In doing so, it outlines the case for the various relaxations proposed in the 2021 South Africa Startup Act position paper, to reduce the burden of compliance faced by South African startup businesses, many of which are both counterproductive and some going so far as to entrench the monopolistic behaviour of large firms and multinationals which result in the loss of local ideas, talent, capital, and future taxes.

Solving the single biggest impediment - Exchange Controls

Red-tape and regulatory barriers will always be the Achilles heel of entrepreneurs the world over. Some of these featured in the above case studies are truly unique to South Africa and deserve a revisit if we want to increase the meaningful contribution of startups to the South African economy.

> The single biggest impediment though, is South Africa's Exchange Control regime

The SA Startup Act Movement calls for the removal of Exchange Control approvals for qualifying startups, so that founders can easily establish a foreign company, enabling access to international growth capital. It furthermore proposes relaxations that allow for reporting, rather than pre-approval when assigning the IP rights held by the qualifying startup to its foreign company.

In this way, South African founders will have the opportunity to acquire international capital by establishing a foreign based company, able to resource its global pursuits, and become globally valuable. By accelerating the process of bringing on board foreign capital for international market expansion - without the South African founders needing to emigrate financially or physically - the national economy can benefit from the job creation and increased taxes made possible by the efforts of South African founders.

The intention of the SA Startup Act is to create a special dispensation for firms meeting the requirements to be considered high-growth, to streamline regulatory compliance through a reporting, rather than approval process. But this should not be limited to a once off introduction of a new Act or waiting for the process to amend an existing act, as many of the constraints can be removed through other interventions, such as immediately lifting the onerous limitations of exchange control approvals.

Guide to using the document

The document contains eleven individual case studies, some of which include additional interviews with founders and investors relevant to the main themes. To make it easier for consumption, each case study is introduced with a short extract that explains the background and primary theme and contextualise that by referencing applicable relaxations in the Startup Act Position Paper.

Quotes taken from interviews conducted during the research phase have been inserted throughout the text and can be seen easily because they are anonymous and therefore not attributed to any specific individual. Other quotes and references taken from literature including research reports and publications have been cited where used.

Some of the underlying constructs such as Exchange Controls, Intellectual Property and red-tape appear in most of the case studies. The case studies were written to be consumed as a whole, or individually. For this reason, the definitions or background to some of the constructs are repeated in several case studies to allow the reader make sense of the content even if only reading them one by one.

It is suggested that a reader wanting to read case studies individually start with the first case study, as it introduces the constructs and context relevant to the rest of the document.

South Africa
STARTUP ACT

Join the SA Startup Act Movement

Calling all owners of high impact technology driven, innovative and scalable startups, investors, capacity building providers, incubators, accelerators, governments agencies, civil society organisations, and other organisations that provide assistance and aid startups in South Africa, to Join the Movement and raise their voice to government for much-needed policy reform in the startup space.

https://www.startupact.co.za/join-the-movement

For more information contact **info@simodisa.org**