



*The venture capital industry in
Egypt*

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Definition of venture capital

Definition of Venture Capital

- Addresses the funding needs entrepreneurial companies that generally do not have the size, assets, and operating histories necessary to obtain capital from more traditional sources, such as public markets and banks.
- Far from being simply passive financiers, Venture Capital foster growth in companies through their hands-on involvement in the management, strategic marketing and planning of their portfolio companies.
- Venture Capitalists invest alongside management and employees through equity financing and the practice of using stock option plans to motivate all workers. They are entrepreneurs first then financiers.



State of V.C industry in Egypt

- It is now in its infancy stage.
- The venture capital industry can be classified into 2 sectors.

A. The unlicensed venture capitalists

- Those who are performing venture capital activity without a license.

A.1 Entrepreneurs

- using personal and family money and savings as well as co-investors for business startups and seed stage.



State of V.C industry in Egypt(Cont.)

A.2 Family holdings

- some family holdings have started investing and venturing into core and non- core related activities

A.3 Corporate venturing

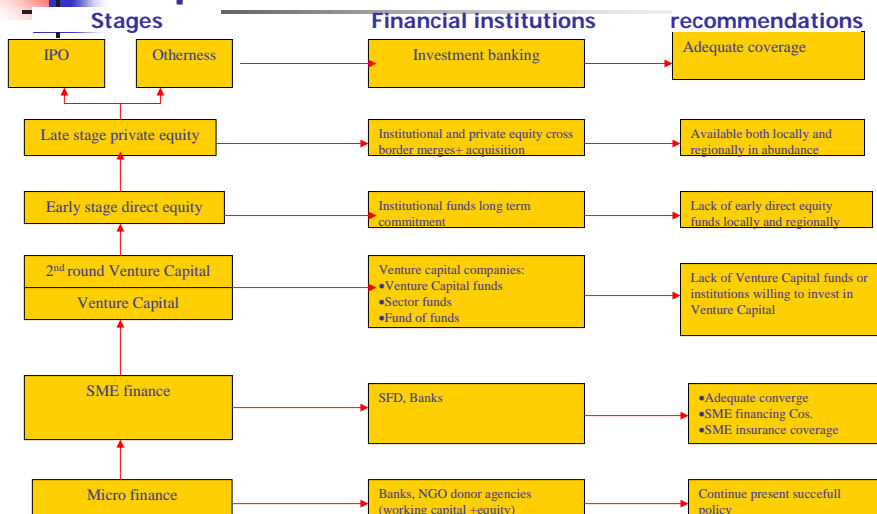
- medium and large privately owned corporate as well as multinational companies have started venturing into new businesses

B. The licensed investors

- They can be divided into:
 - Venture capitalists
 - Direct equity firms mainly late stage or turn a rounds



Equity finance in life cycle of corporations





Investia

- Investia venture capital was established in 1999 licensed from the capital markets authority (CMA) the local regulator.
- The company is family owned and managed by a private sector entrepreneur having worked in his own family enterprises in the shipping agency and trading fields.
- Investia to this date has invested in or started around 10 projects all in various stages of growth using its own capital(including a boot with ENR and a privatization)
- This year will see three to four new projects that hopefully will be realized before the end of this year.
- Investia's focus is on small companies with a special emphasis in investing in Logistics, CIT and financial services



Investia (Cont.)

A. Investment Strategy

1. Some areas in which we invest
 - Information /Communication Technology (ICT)
 - Logistics distribution platforms managements, (Freight Forwarding, Local Distribution)
 - Financial services
2. Selection Criteria
 - Early stage or growth stage equity in non publicly traded companies
 - Proprietary technology or service
 - Green Fields

B. Funding

- Investia has depended on its capital and that of its co-investors that invest directly in projects and now will start looking at creating and managing venture capital and direct equity funds.



Problems facing V.Cs in Egypt

- New field not yet known in Egypt without any local experience staff available although it is very important for Egypt.
- **The government needs to assist in:**
 - Creation of technology clusters
 - Protection of patents and intellectual properties
 - Tax benefits
 - Providing better legal frame work
 - Developing the law in respect to Bankruptcies
 - Using V.C in privatization by selling losing companies without spending money on restructuring and attracting FDI
 - Modernizing the legal system and developing arbitration
- Changing the mindset of Egyptians in accepting risk and depending on themselves in creating business instead of depending on finding jobs to create a broader base of self employed people by reinforcing SME's.
- Creation and education of young entrepreneurs:
 - Business plan competitions
 - Encouraging research in universities and upgrading higher education
 - Incubations in existing businesses

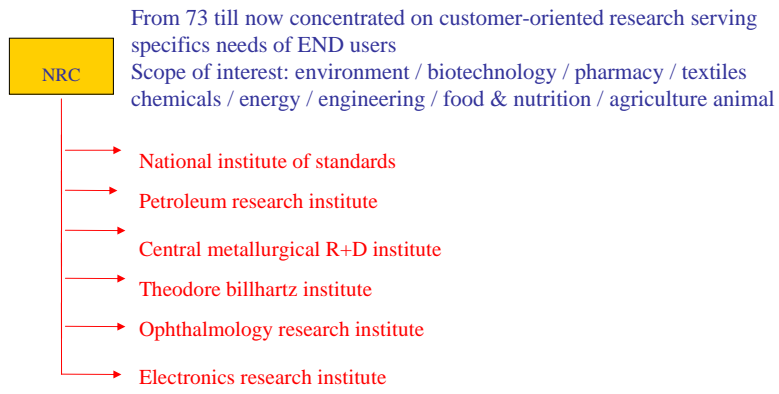


Re- in forcing SME's

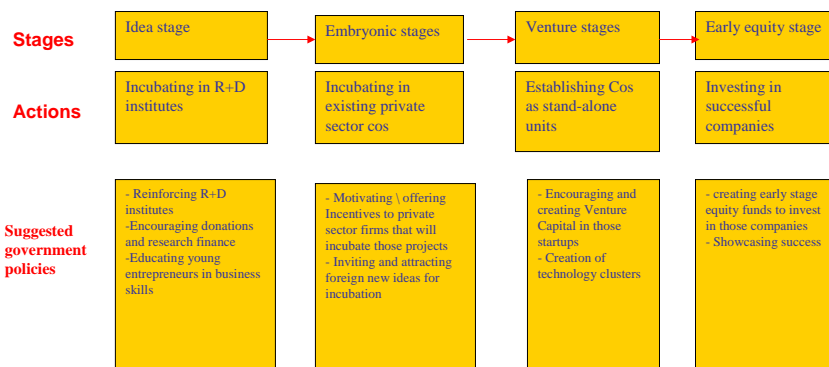
SME'S constitute the bulk of companies in the private sector and should receive:

- Continues programmes provided by government for reinforcing their structures (Euro partnership)
- Encouraging Banks to finance SME's after bolstering their structures and providing credit guarantees against SME lending default
- Inviting competition by licensing SME finance companies in debt and equity
- Providing more services through SFD including marketing and promoting SME services and product abroad

Research and development in Egypt



Stimulating innovation





Revitalizing universities

- There are around 17 state owned universities and 8 privately owned universities with 2.2 students enrolled:
 - Changing the existing business and financial model of universities to finance their growth
 - Creating management schools and MBA programmes based on a practical model and local business needs to fill the acute Gap and shortage in management
 - Encouraging the private sector to invest in the existing government owned universities on P.PP model



Revitalizing universities(Cont.)

- Attracting direct business in research and development worldwide to be performed in our universities for a lower fee structure.
- Encouraging student exchanges as well as exchanging staff to benefit from the worldwide knowledge base.
- Attracting donations\investments\ grants to universities.
- Encouraging the creation of incubator centers in all universities for new ideas.
- Spin offs and spin trough's.



Future of venture capital

- A lot of factors will lead to boost the activity of venture capital such as:
- Creation of industry grouping as well as government support
 - Formation of local associations of V.C's and direct equity cos. (Tunisia 40 members) as well as the birth of a regional grouping the Gulf venture capital association GVCA that held its first meeting in Bahrain with 500 delegates followed by a second meeting in March 2007 in Dubai targeting 1000 delegates government are supporting the activity to encourage a knowledge based economy and a culture of self employment.
- A regional strong direct equity fund base
 - More and more equity funds are being created this will encourage V.C's to invest as they are sure to find more exit scenario's total funds under management in Gulf raised only in 05 exceed 2.5 billion U.S.



Future of venture capital(Cont.)

- Emergence of Islamic Banking
 - Which seeks direct equity participation in corporates.
- Strong cross border M+A activity
 - Due to concentration of wealth in the Gulf after the 9\11 syndrome there is a strong urge for local investment and cross border investments and acquisitions coupled with dual listing activities this is triggered more now by the downturn in local stock exchanges.
- Encouraging creativity
 - A lot of effort in the reigon is going into educating young entrepreneurs and creating business plan competitions as well as incubators and providing adequate funding and the creation of technology clusters (DIC, QTSF, Smart Village) to change the culture of the coming generation to self dependence and self employment.