IMPLEMENTATION PLAN FOR A SOUTH AUSTRALIAN COMMERCIALISATION FUND

JANUARY 2016
This report was prepared by RedFire Consulting Group ACN 131 168 057, AFSL No. 325959 (“RCG”) solely for the person to which it is addressed and is not intended for public circulation or publication. None of the material, or its content, nor any copy of it, may be altered in any way, nor may it be transmitted to, copied or distributed to any third party, without the approval of RCG. All material in this report, unless specifically indicated otherwise, is under copyright to RCG.

This report is provided to the addressee. This report is not directed to, or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation which would subject RCG to any registration or licensing requirement within such jurisdiction.
## TABLE OF CONTENTS

1. Executive Summary .................................................. 4
2. Issues ........................................................................ 12
3. Implementation Plan .................................................. 16
4. Supporting Commentary .............................................. 26
5. Other Considerations .................................................. 30
6. Appendix A – Recommendations from Previous Reports ... 32
EXECUTIVE SUMMARY

Background

Over the past year RedFire Consulting Group (RCG) has completed a series of reports evaluating the South Australian early stage innovation ecosystem and Government funded programs.

To date we have have presented two reports:

- Assessment of the Viability of a South Australian Commercialisation Fund, April 2015, reporting on the state of the early stage innovation ecosystem and considering the merits of establishing a Government funded commercialisation fund; and
- Government-Funded Program Evaluation, November 2015, an evaluation of 21 Government-funded programs covering support for entrepreneur education, proof of concept projects, research to industry collaboration, cluster development, co-working spaces, government procurement, industry development, innovation centres and accelerators.

This report draws together the recommendations from the previous two reports into an implementation plan to improve South Australia’s early stage innovation ecosystem. The plan specifically addresses the core issues we have identified and that affect the ecosystem.

Throughout this report we refer to some, but not all, of the recommendations from previous reports. For completeness, we have summarised all recommendations in Appendix A. Notwithstanding, this report should be read in conjunction with our previous two reports.

It is important to note that our work is focused on early stage high growth companies, not established SMEs or SMEs that do not have high growth potential. There are other Government programs and support mechanisms suitable for these types of SMEs and their particular circumstances.

A number of terms are regularly used when describing early stage innovation activity. Often these terms are misused or used only in reference to the ICT sector. The terms we refer to are: “Startup”; “Entrepreneur”; and “Innovation”. Commonly these terms tend to be associated with the exploitation of an ICT idea with high growth potential.

However, they equally apply to describing a broad range of activities encompassing the formation and development of a company or the creation of something new or the adaptation of something that already exists. In this report we use these terms to refer to the exploitation of any idea with the potential for high growth, no matter the sector.

“Innovation ecosystem” is also often associated with the ICT sector. In this report, innovation ecosystem is used to describe the collection of participants and resources in an economy focused on developing ideas and companies with high growth potential across all sectors. This comprises researchers, entrepreneurs (who may also be researchers), service providers, investors, mentors, government, universities and other institutions. We also interchange innovation ecosystem with “community”.

Core Issues Identified

The core issues we have identified and which are addressed by the implementation plan are summarised below. We have grouped the issues into three categories.

1. Government Administration and Policy

- Government does not have a co-ordinated and integrated approach to developing, implementing and managing innovation policies and programs;
- Innovation policy is administered across multiple Government departments and ministries;
- There is often conflict, duplication and inconsistencies within Government in relation to goals, programs and initiatives;
- There are gaps in the support Government provides, often at points where private sector appetite for investment is limited or non-existent; and
- There is poor data collection and distribution in relation to early stage activity and performance.

2. Entrepreneurial Activity and Capability

- Whilst there is a reasonable amount of entrepreneurial activity in South Australia very little of it is being conducted at scale or in a collaborative manner;
- A related problem is that many actors in the system appear more interested in their own particular endeavours rather than working together as a community. The community is more exclusive than inclusive. This creates roadblocks for new entrepreneurs to become involved and for collaboration to occur and critical mass to be achieved. Successful communities are ones that are open and inclusive and realise that the environment is not a zero-sum game;
- The components of industry support are evident in South Australia, however there is a need to refresh some activities and restructure others. For example, BioSA needs a clearer and sharper focus on industry development and the ICT sector would
EXECUTIVE SUMMARY

benefit from more targeted support from Government.

- The early stage innovation ecosystem is populated with mostly first time entrepreneurs who rely on good mentoring. Yet the quality of mentors is not at a level required to develop a world-class innovation ecosystem. A shortage of global experience and networks is the single biggest issue associated with mentoring; and

- University commercialisation efforts have been hampered by a lack of critical mass, inexperienced resources and inconsistent internal policies and objectives.

3. Investment

- There is a financing gap in South Australia for early stage companies. A financing gap being defined as the gap between the funding requirements of companies that ought to receive investment and the amount of investment available for those companies;

- Angel investment activity is ad hoc and many angel investors lack the understanding, experience and risk appetite to be good long-term sustainable investors; and

- There is virtually no active venture capital activity in South Australia whether from local venture capital firms or representatives of external venture capital firms in South Australia. Brandon Capital, the manager of the Medical Research Commercialisation Fund, being the exception.

Scope of Report

We have been engaged to develop an implementation plan based on recommendations we made in our prior two reports. Specifically, the implementation plan is to cover:

1. The Part A grant objectives and guidelines including who is best placed to advise on the making of grants;

2. Capacity development and skills/mentoring programs for startups and early stage companies;

3. How South Australia can build a stronger ecosystem to support startups and early stage companies;

4. The Part B South Australian Commercialisation Fund (SACF) investment objectives and guidelines;

5. The potential for co-investment in South Australian early stage businesses, the size of the SACF and the likely number and nature of the Venture Capital panel members;

6. SACF Board selection, including composition and criteria;

7. Investment Management Agreement between the SACF Investment Manager and the SACF.

It is also within scope to consider the overarching framework for innovation policy development, implementation and execution.

Process

In developing the implementation plan we consulted widely with the local community by conducting close to 90 meetings and interviewing over 80 people. The meetings were held with a broad cross section of the community covering local business figures, entrepreneurs, senior university personnel (administration and commercialisation), Ministers, relevant Government Department executives, members of the Economic Development Board, advisers, service providers and representatives from industry bodies.

These meetings provided interested parties with the opportunity to discuss the innovation ecosystem, its strengths, its weaknesses, areas for improvement and the relevance and effectiveness of Government programs and support mechanisms.

We also used the meetings to discuss the concept of Part A and Part B support and seek feedback on the implementation plan.

Implementation Plan

The Implementation Plan comprises eight components which are summarised in Table 1 below. For each component it is noted which element of the scope of work is addressed. The table also highlights the areas where each component would have the greatest impact.

The implementation plan addresses the three categories of issues as follows:

- **Government Administration and Policy** – establishes the overarching framework for innovation policy development, implementation and management (including administration of innovation programs). The framework positions Government to set the right tone, to establish programs and measures that respond to market failings and to encourage and co-ordinate activity – not only from within but also with the Federal Government (Components 1, 2 and 3);

- **Entrepreneurial Activity and Capability** – creates a vibrant and scalable level of entrepreneurial activity. Higher activity levels contribute to improving capability as more people develop valuable experience and are exposed to lessons. Activity and capability is supported through grant programs that focus on
improving entrepreneur education, involving experienced mentors, supporting companies through more stages and assisting companies develop into attractive investments for the private sector. Additionally, the programs provide links into Government procurement, industry and export markets (Components 4, 5 and 6); and

- **Investment** – builds upon the development of Entrepreneurial Activity and Capability by continuing support for eligible companies that have developed into attractive investments (Components 6, 7 and 8).

Given the interlinked nature of the three categories it is recommended that all components of the plan be adopted for it to achieve the desired outcomes.

The framework established by the implementation plan encourages collaboration and continuous dialogue between entrepreneurs and Government. It creates the opportunity for the development of a vibrant environment where entrepreneurs are encouraged to develop their ideas, to take risks, to succeed and to fail. Where investors are prepared to back local entrepreneurs. Where successful entrepreneurs are prepared to assist in the development of the community and mentor up and coming entrepreneurs.

There is an emphasis in the plan on ensuring Government grants are earned by entrepreneurs, not seen as a right. Ultimately, the entrepreneurs must be responsible for the outcomes and they must own the success or otherwise of their activity.

This is a core characteristic of all successful innovation ecosystems the world over.

An environment such as this will do more to encourage entrepreneurial activity than any specific program. It will not only encourage local entrepreneurs to have a go, it will also encourage entrepreneurs from outside of South Australia to join the local ecosystem.
Table 1: Summary Implementation Plan

<table>
<thead>
<tr>
<th>Components</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>[1]</strong> Establish an Innovation Policy (2, 3)</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>[2]</strong> Establish an Innovation Agency responsible for implementing innovation policy and early stage innovation programs – AccelerateSA (2, 3)</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>[3]</strong> Establish a Single Ministry responsible for Science, Innovation &amp; the Information Economy (3)</td>
<td>✓</td>
</tr>
<tr>
<td><strong>[4]</strong> Restructure BioSA to a core focus on industry development and increase financial support (2, 3). Specific changes include:</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td>- Develop a clear focus and strategy for High Tech Industries</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td>- Increase BioSA operating budget to $5M p.a.</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Increase aggregate funding to the BioSA Industry Development Grant and IP Fund to $5M p.a.</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td>- Continue expansion of the Thebarton Precinct with a focus on delivering more working space for very early stage companies</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Requirement to work closely and collaboratively with the Health and Biomedical Precinct, Tonsley and SAHMRI</td>
<td>✓ ✓</td>
</tr>
<tr>
<td><strong>[5]</strong> Encourage consolidation of University Technology Transfer Office operations and SAHMRI commercialisation and bring under BioSA control (2, 3)</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>[6]</strong> Establish a $10M South Australian Early Commercialisation Fund (SAECF – referred to as Part A) to assist with financing proof of concept through to early commercialisation (1, 2, 3). In addition:</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Develop an accredited entrepreneur education model to link university education into the SAECF</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Develop, with the UniSA Centre for Business Growth, a growth oriented program tailored for early stage companies</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Link SAECF recipients with relevant Government Agencies via the SBIR program</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>- Link SAECF recipients with the Cluster Support program</td>
<td>✓ ✓</td>
</tr>
<tr>
<td><strong>[7]</strong> Amend the SBIR Government procurement program guidelines to an agency funded model and commit $40M over four years (2, 3)</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td><strong>[8]</strong> Establish a $50M South Australian Venture Capital Fund (SAVCF – referred to as Part B) (4, 5, 6, 7)</td>
<td>✓ ✓</td>
</tr>
</tbody>
</table>

*Source: RCG*
EXECUTIVE SUMMARY

Establishing an innovation agency (AccelerateSA) and innovation policy is critical to creating the foundational base for Government support, its capacity to evolve policy and measures and to collaborate and communicate with the innovation ecosystem. Chart 1 below details AccelerateSA’s proposed responsibilities.

Chart 1: AccelerateSA Responsibilities

Source: RCG
In previous reports we identified gaps in the support Government is providing to the ecosystem. There are gaps in entrepreneur education, funding support, investment activity and facility provision. Chart 2 below highlights the identified gaps.

Chart 2: Gap Analysis of Government programs by company stage of development

Source: RCG
The implementation plan addresses these gaps as shown in Chart 3, which is an adaptation of Chart 2.

**Chart 3: Implementation Plan Integration**

<table>
<thead>
<tr>
<th>Component 3 - Minister for Science, Innovation and Information Economy</th>
<th>Component 2 - AccelerateSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Creation  (Research and Proof of Concept)</td>
<td>Market Focused Business &amp; Product Development</td>
</tr>
<tr>
<td>Early Commercialisation</td>
<td>Mid/Late Stage (Growth/Expansion)</td>
</tr>
<tr>
<td>Education/Industry Engagement</td>
<td>Education/Industry Engagement</td>
</tr>
<tr>
<td>eChallenge</td>
<td>Component 6 - UniSA Centre for Business Growth - Early stage growth program</td>
</tr>
<tr>
<td>VentureDorm powered by MEGA</td>
<td>UnitSA Centre for Business Growth</td>
</tr>
<tr>
<td>Grants/Investment</td>
<td>Grants/Investment</td>
</tr>
<tr>
<td>Component 7 - SBIR Agency Funded Model</td>
<td>Component 6 - $10M SAECF Grant Program</td>
</tr>
<tr>
<td>Component 4 - BioSA Industry Development Grant</td>
<td>Component 8 - $50M SAVCF</td>
</tr>
<tr>
<td>MRCF Investment available earlier for Bio</td>
<td>MRCF Investment available earlier for Bio</td>
</tr>
<tr>
<td>Innovation Centres</td>
<td>Innovation Centres</td>
</tr>
<tr>
<td>CISCO</td>
<td>Scope to extend participation - Potential for Technology Hub</td>
</tr>
<tr>
<td>HP</td>
<td>Scope to extend participation - Potential for Technology Hub</td>
</tr>
<tr>
<td>Co-working/Incubator Facilities</td>
<td>Co-working/Incubator Facilities</td>
</tr>
<tr>
<td>Majoran</td>
<td>BioSA TechHub</td>
</tr>
<tr>
<td>Co-HAB</td>
<td>BioSA Business Incubator</td>
</tr>
<tr>
<td>Hub Adelaide</td>
<td></td>
</tr>
<tr>
<td>Component 4 - Expansion of Thebarton to include additional space for earlier stage companies</td>
<td></td>
</tr>
<tr>
<td>Implementation Plan</td>
<td>Education</td>
</tr>
<tr>
<td>Industry/Research Development</td>
<td>Investors</td>
</tr>
<tr>
<td>Centres</td>
<td>Facilities</td>
</tr>
<tr>
<td>To be considered</td>
<td>Source: RCG</td>
</tr>
</tbody>
</table>
Outcomes

1. Over an initial four-year period, the implementation plan could deliver over $100M of committed funding to support over 350 early stage businesses\(^1\) and create over 1,200 new jobs\(^2\) via:
   - BioSA aggregate budget of at least $40M (up to $60M with contributions from universities and SAHMRI);
   - SAECF grants of $10M;
   - SBIR aggregate funding of $40M.

2. Additionally, there will be $50M of long-term venture capital funding available for local companies. This funding will provide long-term support to 15-20 companies.

3. The grant programs are tightly linked to the investment program so that there is funding support available for a company from proof of concept through to past the Series A financing stage. A successful company could receive up to $8M of Government support in grants and investment. This funding could be leveraged by 5 to 10 times with private sector investment.

4. Government will have a mechanism to attract external venture capital investment, develop local investment capability and assist in the development of angel investment activity.

5. Government program managers will be required to consider how supported businesses are linked into the ecosystem and ensure opportunities are leveraged and businesses benefit from complementary support programs.

6. South Australia will create a world-class integrated innovation framework positioning it at the forefront of developments in Australia and creating the opportunity to play a leading role in developing local and national innovation activity and outcomes.

7. South Australia will have an independent and centralised innovation agency responsible for coordinating all early stage innovation activity and integrating it with later stage innovation support programs and mechanisms within the local economy and globally. It will also work closely with the Minister in collaborating with the Federal Government on policies and initiatives.

8. AccelerateSA, will report to one Minister creating an efficient process for policy development and implementation. With one Minister responsible for innovation, there will be a single point of contact both locally and Federally. This will make it easier for South Australia to collaborate with, and respond to, Federal Government initiatives.

9. Through BioSA, the High Tech Industries\(^3\) will be better supported by specialised skills and resources and integrated within the innovation ecosystem to ensure cross over activity is identified and capitalised on.

10. Through the SAECF the ICT sector will receive support. While the SAECF is available for all types of companies we expect ICT companies will be predominant given the level of funding support.

11. Consolidated resources applied to the commercialisation of university research is expected to drive better output than in the current disaggregated state. University commercialisation efforts will benefit from better resourcing and scale similar to some of the successful technology transfer offices in Australia. With university commercialisation coming under the control of BioSA the universities will be more closely and better linked into industry and investors.

12. Better data collection and dissemination will assist Government develop, implement and manage innovation policy and programs and investors to source and conduct due diligence on investment opportunities.

13. A greater emphasis will be placed on entrepreneur education programs being customer facing and more relevant to the challenges entrepreneurs face in building businesses. Government programs will collaborate with the education sector to assist in the development of capability.

---

\(^1\) We have included all SAECF, SBIR and BioSA recipients who could receive funding.

\(^2\) On average a startup company employs 3.5 people at the point of entry, Australian Innovation System Report, 2015.

\(^3\) Under the BioSA Regulations, BioSA supports high-technology manufacturing; knowledge-intensive products and knowledge-intensive services across sectors covering: bioscience; agricultural science; food and wine science; medical science; environmental science; and materials science. These are collectively referred to as “High Tech Industries".
This section details the core issues evident in the South Australian early stage innovation ecosystem which are addressed by the implementation plan. We have grouped the issues under four categories: Government Administration and Policy; Entrepreneurial Activity, Entrepreneurial Capability; and Investment.

**Government Administration and Policy**

Currently South Australia’s innovation policy is designed, implemented and administered in a disaggregated structure involving multiple Government departments. Within these departments a further two to three divisions/directorates can be involved. Further, multiple Government Ministers have responsibility in one form or another for innovation policy.

Consequently, many programs have been designed and implemented without a reference framework and this has led to inconsistencies and duplication across programs and a lack of integration across Government. Innovation policy is therefore the result of a collection of programs rather than a defined strategy.

The SBIR pilot program is a good example where there was an unsatisfactory level of engagement between relevant departments, leading to delays in implementing the program and ultimately a good portion of its funding being reallocated elsewhere. Another example, is the lack of integration between grant programs and the Cluster Support program.

There are currently 25 to 30 programs providing a variety of support to early stage innovative activity. There is evidence of under funding of good programs and a short-term approach to program design and implementation. The Cluster Support program is an example.

There is no mechanism for Government to engage in a co-ordinated fashion with the private sector and respond to market circumstances or private sector feedback. This often results in gaps in the support Government provides, which typically occur at points where private sector support is limited or non-existent.

This has hindered Government’s efforts to assist in the development of the local early stage innovation ecosystem. In many respects South Australia’s circumstances are no different to other Australian states or that of the Federal Government. Indicating a wider issue in Australia of governments encountering challenges in designing and implementing innovation policies and working with the private sector to realise common goals.

Having said that, there are many innovation related programs of merit. Examples include, BioSA, the Premier’s Research and Industry Fund and the Innovation Voucher Program.

Lastly, there is a need for centralised and reliable data collection and analysis. In the early stage innovation ecosystem, Government and the private sector do not have access to reliable data on the state of the system; its level of activity; successes; and failures. Most times Government and the private sector rely on anecdotal evidence or a process of pulling together a range of studies or surveys to imply levels of aggregate activity. Without good data Government will face challenges in developing, implementing, managing and promoting innovation.

**Entrepreneurial Activity**

South Australia is generating a reasonable amount of entrepreneurial activity across Government support programs and private sector endeavour. Indeed, there is an encouraging level of entrepreneurial enthusiasm and many promising ideas and opportunities.

Activity includes:

- 25 to 30 Government programs providing support to research translation, early stage company formation and development and entrepreneurial education;
- BioSA and the Thebarton precinct providing specialist support for High Tech Industries;
- The Health and Biomedical precinct, which when complete will be the largest precinct of its kind in the southern hemisphere;
- Development of the Tonsley precinct which is targeting the high-value manufacturing sector, but also developing ICT activity;
- Cluster Support program encouraging companies to collaborate to develop scale, networking and exporting opportunities;
- Three major universities, three university technology transfer offices (TTOs) and one medical research institute (the South Australian Health and Medical Research Institute);
- More than 19 co-working spaces, 13 incubators/accelerators and innovation centres;\(^4\);
- More than 20 education programs - formal and industry based;
- More than 25 networking events; and
- Around 10 advisory services.

On an annual basis, output from this activity includes:

---

\(^4\) Adelaide Entrepreneurship EcoSystem Map, Paul Daly
Over 150 applications for proof of concept grants and accelerator programs;

Over 140 invention disclosures, 40 provisional patent filings and 3-5 spin out companies across the three major universities;  

50-60 propositions assessed and grants allocated to 5-10 companies by BioSA. In addition, BioSA provides support to around 50 companies and for between 30-40 provisional patent filings by the universities; and

Over 1,000 companies/founders attending business/entrepreneur education programs or receiving business advice.

This would seem to be a significant level of activity, however it is sub-scale in comparison to more developed innovation ecosystems.

Although, it is worth noting that with the right policy settings, support and encouragement more activity will surface. That is, in all ecosystems where the environment is not as supportive as it needs to be there will be a level of entrepreneurial activity that remains hidden because people do not have the confidence to develop their ideas and risk starting up a company.

Issues we have identified in relation to entrepreneurial activity can be considered in three categories: scale; industry development; and leadership.

1. Scale

a) The entrepreneurial community is fragmented and sub-scale as evidenced by the high number of initiatives in a relatively small ecosystem;

b) Program acceptance rates are high. When activity levels are low, acceptance rates are typically high in order to bring enough companies into a program to justify running it. Across a variety of programs, acceptance rates are in the range of 10-25%. This is very high when compared to acceptance rates in developed ecosystems. For example, Y-Combinator, a US based accelerator program, typically has an acceptance rate of below 2%. A local example is the Startmate program in Sydney. It receives around 200 applications annually and has an acceptance rate of around 4%. South Australia’s high acceptance rate is not unusual in a developing ecosystem and it highlights the extent of the challenge ahead in reaching critical mass; and

c) Commercialisation activity at each of the major universities is sub-scale. Table 2 below, uses 2013 data from the National Survey of Research Commercialisation to highlight the point:

<table>
<thead>
<tr>
<th>University</th>
<th>Invention Disclosures</th>
<th>Provisional Patent Filings</th>
<th>Spin outs</th>
<th>Value of Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Adelaide</td>
<td>58</td>
<td>12</td>
<td>0</td>
<td>$6.95M</td>
</tr>
<tr>
<td>University of South Australia</td>
<td>56</td>
<td>22</td>
<td>2</td>
<td>$7.6M</td>
</tr>
<tr>
<td>Flinders University</td>
<td>27</td>
<td>2</td>
<td>2</td>
<td>$6.9M</td>
</tr>
<tr>
<td>South Australia Combined</td>
<td>141</td>
<td>36</td>
<td>4</td>
<td>$21.5M</td>
</tr>
<tr>
<td>University of Queensland</td>
<td>117</td>
<td>34</td>
<td>5</td>
<td>$22.9M</td>
</tr>
</tbody>
</table>

Source: NSRC, RCG

When aggregating activity, output matches up quite well with the output of the University of Queensland, whose commercialisation activity is currently seen as a benchmark in Australia. This is despite the combined budget and resources of the three major universities’ being less than that of UniQuest (the University of Queensland commercialisation arm) and without taking into account any gains from consolidation. Yet, the data does not shed any light on the confidence researchers and the private sector has in the TTOs. In our meetings the clear message we received was that the TTOs need to improve the way they communicate and transact with researchers and the private sector. There are examples where university faculties seek commercialisation assistance outside of the TTOs. If these issues are not addressed then TTO performance will decline. The potential for a consolidated South Australian commercialisation entity with an enhanced budget is considerable.

2. Industry Development

Industry development activity under BioSA has stalled over the past few years. Examples include:

- BioSA has been distracted from its core purpose of industry development by: too much focus on Terra Rossa and the development of a new venture capital fund; too little focus on developing the skillset and
experience of commercialisation staff; too much emphasis on extracting rental income from Thebarton and by extension more established companies to the detriment of early stage companies; and not enough focus on developing relationships with the Health and Biomedical Precinct and SAHMRI to ensure all three are integrated and fully collaborating;

- Researchers and early stage companies in the High Tech Industries (ex bioscience) have not had the benefit of a clear and focused strategy from BioSA; and
- There is no mechanism to link industry sectors together. For example, medical technology involves expertise from both the bioscience and ICT sectors yet there is currently no way of linking the two together within the local ecosystem.

The ICT sector does not benefit from a clear focus by Government on its needs and a strategy to assist in its development. The ICT sector is supported by a collection of ad hoc initiatives, which collectively are not addressing the core issues facing the sector and contributing to putting in place the core infrastructure needed to reach critical mass. Leadership is the single biggest issue and one the entrepreneurs are primarily responsible for, as discussed below. But Government can play a role in assisting in the co-ordination and integration of activity through targeted policy initiatives. Government could support the ICT sector in filling some of the infrastructure gaps that are evident. For example, quality co-working or incubation space.

3. Leadership

Perhaps the most significant issue is the lack of co-ordination and leadership in the local entrepreneurial community. We found there are many enthusiastic people within the local innovation ecosystem, but rather than coming together to provide overall leadership the system has evolved into a fragmented state with many actors almost solely focused on their own particular endeavour. Rather than the ecosystem being an open and inviting organism encouraging activity and welcoming of newcomers it is operating more like a closed shop.

The issue appears to be more acute in the ICT sector. There are a number of possible factors for this, including:

- There has been no central industry development initiative for ICT;
- The ICT sector does not have comparative advantages to leverage off. It has to create advantage; and
- Many actors are first time entrepreneurs without the time to focus more broadly on the needs of the ecosystem or the experience to develop and lead initiatives.

An essential part of a community approach is the capacity of the community to weed out the bad actors and rent seekers that undermine good activity and misallocate resources. The capacity of an ecosystem to weed out the bad actors is important for gaining the confidence of government and investors. If the community is fragmented this will not happen.

If South Australia is to achieve the objectives it has for this segment of the economy, there needs to be a concerted effort to solve this problem and it must be driven by the local entrepreneurs. That is, unless the local entrepreneurs step up and show leadership, no amount of Government money will fix the problem.

Entrepreneurial Capability

The capability of entrepreneurs and mentors in South Australia is of concern. We have received constant and consistent comments in this regard and as such this is an issue recognised by the entrepreneurial community itself. While there are differences in the assessment of the depth of the problem, there is nevertheless near universal acknowledgement of a need for material improvement.

Due to the early stage of development of the South Australian innovation ecosystem many entrepreneurs are first time entrepreneurs. It is common for them to be lacking in experience whether it is in basic business fundamentals or in taking an idea from concept to market and the challenges of growing a business. Typically, local entrepreneurs lack global experience and global networks which are critical in understanding how to build a global business and achieve high growth outcomes.

First time entrepreneurs often turn to experienced mentors to guide them as they develop their ideas and businesses. In order to successfully assist entrepreneurs, mentors need to have the very skills the entrepreneurs are lacking. A good mentor will have experience covering multiple businesses, global businesses, global networks, different types of business models and specific domain expertise. It is hard for an entrepreneur to build a global business if he/she is seeking advice/support from people with local and narrowly defined experience.

There are many local mentors and most appear to have a genuine desire to help. However, very few have the experience required to successfully mentor local entrepreneurs. Experience has typically been gained from the local market and in one company or industry. There is a real shortage of mentors with true global experience and global networks.

However, there are a good number of successful local entrepreneurs who for one reason or another are not
actively engaging with the local ecosystem. Part of the problem is related to the quantum and size of exits. In countries where there are many exits and they are large in dollar value, many more entrepreneurs/mentors churn through the system and have sufficient wealth to enable them to give more back to the community. For example, Facebook created 1,000 millionaires at its IPO, Twitter created nearly 1,600. South Australia, or Australia for that matter, hasn’t had exits and wealth creation of this magnitude. Another part of the problem is associated with the fragmented community. There can be no doubt that there are successful local entrepreneurs who do not engage simply because it is too hard to do so and thus prefer to develop their own initiatives.

Across the world, well functioning early stage innovation ecosystems rely on successful entrepreneurs being active in their communities. Engagement can be as simple as telling a story and encouraging aspiring entrepreneurs or more time consuming such as mentoring.

On the university side, the quality of university commercialisation efforts is mixed, but the general view is that the technology transfer offices (TTOs) are bureaucratic, frustrating to deal with and the commercialisation and spin-out process is not well understood. This is compounded by the attitude universities have to risk and their assessment of what constitutes risk.

The quality of commercialisation staff is mixed, but generally it is considered inadequate and lacking the skills and experience necessary to prepare investable opportunities.

**Investment**

In our first report we found evidence of a financing gap in South Australia. Partly to do with a lack of interest from external investors investing in local early stage companies and partly to do with issues associated with local capability. The two factors are inextricably linked.

There is negligible venture capital in South Australia with no active local venture capital firm or local presence of an external firm, except for Brandon Capital, the manager of the Medical Research Commercialisation Fund. In these circumstances it is difficult for local companies to attract the interest of venture capital investors.

While in the past SA Angels and BioAngels have invested in local companies, activity is now very limited in nature. As such, there is currently no truly active angel group in South Australia. Instead there are a number of informal groups or individuals who are investing in local companies. While this is helpful, the innovation ecosystem would benefit from the existence of a number of active formal groups to make it easier for investors to become involved and for entrepreneurs to source investment and mentoring. Moreover, formal groups tend to have a longer-term stake in the system and can provide resources to assist angels make and manage investments.

From the entrepreneurs’ perspective, a frequent complaint is that many local angel investors do not understand early stage companies and thus their risk appetite does not match the inherent risk of investing in early stage companies. Entrepreneurs have expressed frustration in the processes some angel investors have made them go through and this has discouraged interest in seeking local angel investment.

Lastly, there is no formal process for the collection and distribution of data that could provide insights into investment opportunities, market dynamics and other relevant data to assist angel investors assess investment opportunities or become active in the sector.

---

6 Assessment of the Viability of a South Australian Commercialisation Fund, April 2015
Set out below is the detail of the implementation plan summarised in the Executive Summary. The plan is comprehensive and designed to establish the foundational framework for building a sustainable and successful early stage innovation ecosystem in South Australia. The plan is the start of the process, not the end. There can be no doubt that some parts of the plan will work well and some not so well. There will be teething problems and, like any good early stage business, changes will be made as part of a continuous improvement process.

In successful innovation ecosystems, it is the leadership of entrepreneurs and an open, inclusive and supportive environment that drives scalable and sustainable outcomes.

Early stage innovation ecosystems thrive because entrepreneurs know they will be supported in founding and developing businesses and in succeeding and failing in this endeavour. If they succeed their success will be welcomed and celebrated. If they fail, they are not shunned but are supported in their efforts to start again. Where there is critical mass, starting again is easier because there is always new activity and people wanting to utilise gained experience.

Boulder, Colorado provides a very good example for South Australia in terms of what is possible from a small community. Boulder’s innovation ecosystem has evolved so that it is organised into five startup communities based on domains. Boulder benefits from a university in the centre of town and the presence of world class research institutes.

Boulder did have some foundational success stories in data-storage, pharmaceuticals and natural food brands. These successes attracted new people and businesses and in effect anchored the development of the system. Boulder’s success was built off its advantages. The lesson for South Australia is that it needs to do more to support and promote its successful industries, capabilities and companies to create this anchoring effect.

There are not many venture capital firms in Boulder but it ranks fourth in the US for attracting seed/early stage investment. The lesson here is that investors will come if the deal flow is good enough. It is not necessary to focus on building a venture capital industry per se.

Boulder’s success is due in large part to its inclusive community where collaboration trumps competition. The community weeds out the bad actors. “People are willing to work harder and devote greater amounts of time to help startups with no expectations for reward.” This outcome has been driven by the entrepreneurs themselves, not government. Therefore, Government must be cognisant of this dynamic and ensure any support recognises that ultimately the entrepreneurial community is responsible for the outcomes of the innovation ecosystem.

Environmentally, South Australia has many positive attributes. From quality research institutions, to world class infrastructure, to an educated workforce, to lifestyle opportunities. Adelaide is a vibrant city with attributes that make it an attractive location for entrepreneurs. There is no reason why South Australia cannot emulate Boulder’s success. But this can only happen if it recognises its strengths and weaknesses and develops its own community and support mechanisms based on its particular set of circumstances and stage of development. South Australia’s early stage innovation ecosystem is at an early stage of development and thus there is a need at this point to establish solid foundations before implementing mechanisms suitable for developed ecosystems.

**Component 1 – Develop an Innovation Policy**

Create an innovation policy for the development, implementation and management of a long-term strategy to support early stage innovation.

An innovation policy will provide a framework and context for all programs and the consideration of new programs and thus avoid programs and measures being developed in an ad hoc manner.

Overall responsibility for innovation policy should rest with the Minister, however, development of innovation policy should be the joint responsibility of the Minister and AccelerateSA.

South Australia has its own set of circumstances, issues and advantages and its innovation policy must consider and address these. Having said that, the innovation policy should consider Federal innovation initiatives and where relevant and/or appropriate complement or build upon these initiatives.

**Component 2 - Establish a specialist innovation agency operating at arm’s length to Government (AccelerateSA)**

AccelerateSA will be South Australia’s innovation agency responsible for jointly developing innovation policy with the Minister, implementing the policy and working and communicating with the innovation community.

---

7 Startup Communities, Building an Entrepreneurial Ecosystem in Your City, Brad Feld
AccelerateSA will bring together Government innovation programs under one umbrella and enable consistent, co-ordinated and integrated development and implementation of innovation policy.

Importantly, AccelerateSA will have a facilitating and support function. It would not own or run South Australian innovation. Rather its role is to engage with the researcher and entrepreneurial community and understand its requirements and respond via its own programs and areas of responsibility. It is a conduit between researchers, entrepreneurs and Government to help Government form better and more responsive and relevant policies and programs.

AccelerateSA will also be responsible for:

1. All early stage innovation support programs, including the SAECF and the SAFCF. It will ensure early stage innovation programs are co-ordinated and integrated with other support programs and infrastructure;
2. The activities of BioSA;
3. Developing a mechanism for engaging with the community on innovation policy to enable it to respond to market changes and feedback from the community;
4. Promoting South Australian innovation and attracting inward investment for early stage high growth companies;
5. Developing a mentor network to build mentoring capability for the benefit of local entrepreneurs This would include working with Federal Government to develop access to Accelerating Commercialisation’s Expert Network. We are aware that attempts have been made to do this in the past, but with a new structure in place it would be a good time to raise this matter again;
6. Promoting relevant Federal Government initiatives for the benefit of South Australia. For example, the proposed tax offset for angel investors that is expected to deliver an increase in angel investment activity;
7. Engaging, in conjunction with the Minister, with the Federal Government on innovation policy and programs. Having this capacity will enable Government to effectively work with the Federal Government in areas such as the National Science and Innovation Agenda to ensure State initiatives are collaborative and additive;
8. Co-ordinating efforts with the Investment Attraction Agency and other later stage supporting mechanisms within the South Australian economy to ensure as early stage companies mature they remain linked into economic growth and development and export markets; and
9. Establishing a data collection function to gather data on early stage innovation activity and build a comprehensive database covering the system. The data should be available for sharing across Government Departments and the private sector. A comprehensive and reliable data set will be invaluable for Government and the private sector in better understanding the activity, performance and needs of the ecosystem. This will facilitate better informed decision making, more responsive policies, better information for investors and more confidence in the ecosystem.

AccelerateSA will have an independent Board of no more than five directors and a CEO appointed from the private sector.

The AccelerateSA staff mix should be no less than 2:1 as between private sector and public sector staff to maintain a commercial focus.

Current staff within the Department of State Development responsible for early stage program administration would move across to AccelerateSA and have similar responsibilities. This will ensure the administration of programs is conducted consistently with program objectives and innovation policy. It will provide a mechanism for program managers to assess and discuss the performance of programs in the correct context and to better link businesses into other programs or support services. It is logical that programs are administered within the body that is responsible for their formation, development and implementation.

Component 3 - Responsibility for Science, Innovation and the Information Economy should be in a single Ministry

Responsibilities for Science, Innovation and the Information Economy are currently split across two Ministries. At times there are grey areas in terms of responsibilities and this can create difficulties in developing and implementing initiatives. It can also create confusion in the private sector. A single Minister responsible for Science, Innovation and the Information Economy will enable Government to develop a consistent and integrated innovation policy and more effectively communicate with, and respond to, the market.

It will also create a simpler process for Government to collaborate/co-ordinate with the Federal Government and other States on innovation policy.
Component 4 – Restructure and better support BioSA

In our second report we made a number of recommendations regarding BioSA, which are all relevant as part of this implementation plan8.

Our key recommendations were:

1. Restructure BioSA so that it is taken back to its core purpose, which is the development of the High Tech Industries. Further, a proper strategy for the High Tech Industries (ex bioscience) needs to be developed and implemented. It is important to note we do not view High Tech Industries as sectors, rather they are activities that can occur across a number of sectors such as pharmaceuticals, medical devices, mining, agriculture and defence. Therefore, BioSA’s focus on High Tech Industries has the capacity to provide support to many important South Australian sectors and companies.

2. The expansion of the Thebarton precinct should be completed and there should be a focus on ensuring there are adequate facilities for very early stage companies that are supported by BioSA. These companies have not been enjoying the support they need and deserve under the current Thebarton operational model. To that end the Thebarton operational model should be reviewed and greater emphasis placed on supporting very early stage companies, rather than more mature companies that are capable of securing their own facilities.

3. BioSA’s activities should be integrated into the development and operation of the Health and Biomedical Precinct, SAHMRI and the advanced manufacturing initiatives at Tonsley to ensure industry development is not fragmented.

A further recommendation is for an increase in BioSA’s operating budget to provide it with the financial resources to attract and retain experienced staff. BioSA has underinvested in staff so that there are experience gaps evident, which directly impacts on BioSA’s capacity to support high growth businesses.

BioSA should have a total annual budget of at least $10M per annum, comprising $5M for operational costs and $5M for the funding of the BioSA Industry Development Fund and the Intellectual Property Fund. This represents an increase of $4.5M per annum on the previously approved budget.

With the establishment of AccelerateSA, the CEO of BioSA will report to the CEO of AccelerateSA.

Lastly, BioSA should be given a new name to reflect its current mandate.

Component 5 – Encourage consolidation of the local universities’ commercialisation arms and the commercialisation of SAHMRI research

South Australia has three major universities: University of Adelaide, University of South Australia and Flinders University. All three have technology transfer offices (TTOs) responsible for, to varying degrees, the licencing of intellectual property developed through research efforts, formation of spin-out companies and contract research arrangements. Each TTO is small in comparison to TTOs in other States. Further, the South Australian Health and Medical Research Institute, currently utilises the TTO services of the three major universities, who are foundation partners.

In our view, South Australia is too small for four commercialisation bodies. Moreover, it will not be possible for any TTO to organically develop the scale required to improve outcomes. Accordingly, we believe there is scope to consolidate the commercialisation efforts of the universities and SAHMRI. To be clear we refer only to the licencing of intellectual property and the formation of spin-out companies. Contract research would remain within each university.

If the local commercialisation efforts were to be consolidated and put under the control of BioSA, there are resources available to increase BioSA’s budget (above that proposed in Component 4) by around $3M - $5M per annum from contributions from the universities and SAHMRI to commercialisation activities.

Financial resources of this magnitude will position BioSA to attract and build a team of high quality professionals to drive the commercialisation of South Australia’s highly regarded research outputs.

With a single entity responsible for commercialisation a consistent approach can be applied which will assist in the development of stronger linkages between research, industry and investors.

We believe this will also better position BioSA to integrate with the South Australian Health and Biomedical precinct and to take advantage of the Medical Research Commercialisation Fund (MRCF) – the largest dedicated investment fund for medical research institutes in Australia.

However, it is acknowledged the Government has limited capacity to create this outcome. Nevertheless, the opportunity for change has a solid foundation and the potential benefits are of such significance that it is in the best interests of the major universities and Government to

---

8 Government Funded Program Evaluation, November 2015
work together to achieve an outcome that is beneficial to all.

An alternative suggestion, but not our preferred option, is to form a formal collaboration between the local universities along the lines of the successful KiwiNet model deployed in New Zealand. In the next section we provide summary information on the workings of KiwiNet. We do have our reservations as to whether this type of model could work in South Australia given the rather half-hearted effort so far of the major universities to collaborate in research commercialisation. Be that as it may, it could provide a stepping stone for consolidation, if that proves too difficult in the first instance.

Component 6 - Establish a $10M South Australian Early Commercialisation Fund (SAECF)

The Venture Catalyst and SA Micro Finance Fund programs provide grants for proof of concept funding for eligible companies. However, support ceases at that point and this is one of the gaps in Government support we identified. This is still a very early stage for a company and as such there is limited private sector appetite to fund activities. The problem is especially acute in South Australia with the state of angel investment activity. A grant program that is capable of providing longer-term support and that complements a company’s search for investment would be a worthwhile measure.

The SAECF will be a non-repayable grant program managed by AccelerateSA that is capable of supporting eligible companies from proof of concept through to early commercialisation. It will provide direct funding support to early stage companies and help them build capability and expose them to quality mentors.

The SAECF will offer eligible companies with up to three tranches of funding totaling $500,000:
1. Tranche 1 is for Proof of Concept support with up to $50,000 available;
2. Tranche 2 is for product development with up to $150,000 available; and
3. Tranche 3 is for early commercialisation with up to $300,000 available.

AccelerateSA will form an industry based assessment panel for the purposes of assessing applications, agreeing milestones with recipients and confirming milestones have been met.

In our report, Government-Funded Program Evaluation, November 2015, we noted the Venture Catalyst and SA Micro Finance Fund are very similar and recommended the two programs be merged. Accordingly, Tranche 1 is to be modelled off the criteria and process in place for these two programs. We see little need to create a different criteria.

Tranches 2 and 3 provide support for companies to develop their products and enter relevant markets and commence developing revenue streams.

Tranches 2 and 3 will only be available if agreed milestones have been met. Milestoning tranches puts a positive obligation on entrepreneurs to reach a certain level of performance and signals to the market the hurdle Government requires them to meet in order to be eligible for funding support. Milestones will be established for each recipient.

Tranche 1 funding will require $1 for $1 matching funding for applicants who are not current students. For current students there is no matching funding requirement for Tranche 1. For Tranches 2 and 3 $1 for $1 matching funding is required for all recipients. Bringing in a matching funding requirement at Tranche 2 acknowledges it may be difficult for students to raise matching funding at Tranche 1 stage, but also by the Tranche 2 stage they should be able to raise matching funding. At this stage it is reasonable for a student to meet this test and in fact it sends the correct signals to the student entrepreneur.

To build fundamental capability and link the universities into the system, SAECF applicants will be required to complete an accredited entrepreneur education course and grant recipients will be required to commit to ongoing entrepreneur education as a condition of eligibility for subsequent tranches. This involves:

1. Developing an accredited education program model comprising educational bodies/industry bodies providing industry facing entrepreneurial programs. Applicants for the SAECF must have attended an accredited course as part of the selection criteria. Existing programs that are expected to meet the criteria include New Venture Institute’s VentureDorm powered by MEGA and University of Adelaide’s eChallenge; and

2. Developing, with the UniSA Centre for Business Growth, a program focused on building the growth capabilities of early stage companies. The program will be an adaptation of the current UniSA growth program. SAECF recipients must attend this course as a condition of receiving grant monies.

To link mentors into the system and build capability in that regard, it will be a requirement for all applicants to demonstrate they have engaged a relevant mentor. The program manager will be required to assist applicants engage suitable mentors.

The SAECF is designed to complement efforts to raise funding from investors and will be a source of deal flow for the SAVCF (see next section). The SAVCF Manager will be a panel member and available to provide guidance
to recipients and to assist them become investment ready. This may lead to the SAVCF Manager investing in recipient companies once they reach the early commercialisation stage. The overriding goal of the program is for recipient companies to be able to attract sufficient investment support post Tranche 3 to be sustainable businesses.

An initial four-year commitment should be made to the SAECF with defined milestones to measure its success or otherwise at the end of that four-year period. Where the milestones have been met or succeeded the SAECF should be automatically renewed. This will be important to providing certainty and consistency to the market and to avoid the stop/start dynamic that has plagued innovation policy at both State and Federal levels in Australia. The milestones should cover a range of outputs including an improvement in activity levels, an improvement in entrepreneur knowledge and capability, demonstration of integration with the ecosystem and demonstration of engagement with the investment community. The milestones therefore measure improvements in activity, capability, collaboration and integration in the early stage innovation ecosystem.

The table below sets out the application criteria for receiving SAECF funding.

Table 3: SAECF Criteria

<table>
<thead>
<tr>
<th>Eligibility Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications must be proposing the idea for a startup, defined as a product, service, or process that is both innovative and scalable.</td>
</tr>
<tr>
<td>The business proposed must benefit South Australian economic development.</td>
</tr>
<tr>
<td>Applicants must own the IP or have the option to acquire it.</td>
</tr>
<tr>
<td>Turnover of no more than $500,000 per annum (GST exclusive).</td>
</tr>
<tr>
<td>Evidence of matching funding if applicant is not a current university student.</td>
</tr>
<tr>
<td>A letter from a business leader agreeing to mentor the business, including the intended timeframe of the mentorship.</td>
</tr>
</tbody>
</table>

**Merit Criteria**

- A lead customer: evidence that the product, service or process is demand driven, which includes an evidenced willingness from a lead customer to contribute to further development or to purchase the product, service or process.
- Business scalability: evidence of scalability i.e. it has a larger (potentially global) market and distribution channel(s), which provide opportunities for sales growth of the product, process or service.
- Business sustainability and differentiation: a demonstration of how the concept is different from others in the market and how that competitive advantage would be sustained.
- A business model: a clearly articulated description of the business model with a brief business plan, which is logical, has realistic cash flow models, is achievable and identifies the current stage of development and how the seed funding will be spent.
- Team: evidence of an understanding of, and access to, the appropriate skills, experience and determination to advance the commercialisation of their product, service or process.

**Milestones**

The assessment panel will agree relevant milestones with successful applicants. These milestones must be met in order for the recipient to qualify for Tranche 2 funding. The assessment panel will be responsible for confirming the milestones have been met.

<table>
<thead>
<tr>
<th>Product Development Stage (Tranche 2)</th>
<th>Successful completion of Proof of Concept Milestones automatically qualifies a recipient to apply for Tranche 2 funding. All recipients must show evidence of matching funding.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Early Commercialisation Stage (Tranche 3)</strong></td>
<td>Successful completion of Product Development Milestones automatically qualifies a recipient to apply for Tranche 3 funding. All recipients must show evidence of matching funding.</td>
</tr>
</tbody>
</table>

*Source: RCG*

The SAECF program manager will be responsible for ensuring, where appropriate and relevant, grant recipients are linked into other Government programs such as the SBIR, the Cluster Support program and relevant Federal Government programs such as the R&D Tax Incentive and Accelerating Commercialisation.
The SAECF will be capable of funding similar costs to the Federal Government’s Accelerating Commercialisation (AC) grant program. We believe this approach will enable South Australia to maximize funding sources for its early stage companies. To differentiate eligible costs as between SAECF and AC implicitly assumes that an SAECF recipient will receive AC funding. Making this cost distinction would require the SAECF to exclude important costs, which would expose a company if it does not receive AC funding. This would remove the possibility of one South Australian company receiving SAECF funding and another receiving AC funding.

To capitalize on AC funding of South Australian companies, the SAVCF Manager will be responsible for monitoring AC recipients as potential sources of deal flow for the SAVCF.

**Component 7 – Modify the Small Business Innovation Research program to an agency funded model**

The Small Business Innovation Research (SBIR) pilot program was established to help local companies (early stage and more mature SMEs) develop relationships with Government Agencies and access procurement contracts through solving an identified problem (referred to as “challenges”). It was modelled of the successful US SBIR program.

In our second report\(^9\) we found the SBIR program could be valuable but its impact was limited by it having a short period to prove up, a small financial commitment and difficulties in developing relationships with participating agencies. We felt an agency funded model, similar to the US SBIR program, would provide the necessary incentives for relevant agencies to participate in the program. Furthermore, the focus should initially be on the major procuring agencies (SA Health, DPTI and DECD).

Under an agency funded model, each relevant agency commits a very small proportion of its annual budget to the SBIR program. It is recommended that the total commitment across all agencies in the first year should be $10M, with a goal of ramping up the commitment over time. The progress of the program will be monitored and commitment levels will be adjusted according to progress and the capacity of the ecosystem.

An initial $10M commitment is expected to be sufficient to cater for demand and significant enough to encourage participation. To ensure the agency incentive mechanism achieves the desired result there should be a penalty regime in place if allocated funding is not utilised. That is, an agency’s financial commitment should be a hard commitment rather than a soft commitment without penalty.

It is further recommended that the SBIR program manager be required to liaise with the SAECF program manager and consider opportunities for SAECF recipients to be introduced to agencies, where relevant.

The SBIR program should be viewed as a long-term commitment and an integral part of supporting early stage companies.

**Component 8 – Establish a $50M South Australian Venture Capital Fund (SAVCF)**

There is no active venture capital industry, or the presence of external venture capital managers, in South Australia. Local companies must therefore be capable of attracting investment from venture managers outside of South Australia. While it is true that the good companies generally are able to source investment, it is also true that it is harder for South Australian companies to attract the interest of external venture managers. Good companies are at risk of not being able to source investment by virtue of geographic location. Hence, the propensity of many local companies to relocate to other States or overseas.

There is a need to develop local access to venture capital investment and investment management capability within South Australia.

The South Australian Venture Capital Fund (SAVCF) will have a mandate to invest in local early stage companies with high growth potential from the late seed/series A stage (early commercialisation). Companies relocating to South Australia that meet this requirement will also be eligible. SAECF recipients will be eligible for SAVCF investment. The initial commitment from Government will be $50M, with all distributions reinvested to support further investment.

The SAVCF will be structured to enable local companies to access venture capital and build relationships with external managers. The operation of the SAVCF and its employment of local people will also enable investment management capability to develop within South Australia. Over time this could lead to the establishment of local venture capital managers.

The management of the SAVCF will be outsourced to an appropriately experienced private sector investment manager who will report to AccelerateSA. The relationship between the SAVCF Manager and AccelerateSA will be established and managed by an Investment Management Agreement comprising terms and conditions common for an arrangement such as this.

The SAVCF Manager will be responsible for all day to day investment activity including sourcing deal flow.

---

\(^9\) Government Funded Program Evaluation, November 2015
IMPLEMENTATION PLAN

The SAVCF Manager may only invest alongside of a reputable co-investor. That is, the SAVCF may not make investments on its own. The SAVCF Manager will be mandated to establish a panel of venture capital managers who it will be authorised to co-invest with (Accredited Venture Capital Manager Panel). Approval of each panel manager will rest with the Investment Committee. The SAVCF will not make any formal commitments to a member of the panel. The panel is formed for internal purposes and members may be changed as deemed appropriate.

Given the dearth of quality institutional grade local venture capital managers it will take time to develop the panel. At present there would be two to three managers that could meet the requirements. Yet, it is also intended that overseas managers will be on the panel. In that regard there are many more qualified venture capital managers.

The Investment Committee will be responsible for all investment decisions and ensuring the SAVCF Manager complies with its obligations in this regard. The Investment Committee will report to AccelerateSA. The Investment Committee will also provide advice to AccelerateSA on matters such as the performance or otherwise of the SAVCF Manager and the investment mandate.

The SAVCF will be expected to earn a commercial return from investing in local high growth companies. It will not offer any incentives or subsidies to co-investors. Co-investors will only make investments if their criteria is met and not because they have been induced to do so.

The SAVCF will promote local early stage businesses and assist them in attracting venture capital to South Australia. The co-investment model is critical to achieving this goal as it directly builds the reputation of local companies by bringing external capital to South Australia and exposing South Australian businesses to external investors.

An application/tender process will invite experienced professionals to apply for the SAVCF Manager role. A successful applicant must be able to demonstrate it has, among other things, the following attributes:

1. A track record of managing an institutional early stage portfolio of investments;
2. Experience in co-investing and/or managing a co-investment portfolio;
3. Experience in commercialising/developing early stage high growth companies; and
4. Experience and capability in venture capital manager research and selection.

The selected SAVCF Manager must provide a plan detailing the resources it will require to fulfill its obligations and the cost thereof. This will include demonstrating an understanding of the South Australian early stage innovation ecosystem, the profile of deal flow and the intended investment profile. The applicant will also be asked to consider its capacity to employ local staff.

The SAVCF Manager will not be eligible to be a member of the Accredited Venture Capital Manager Panel.

A summary of the structure of the SAVCF is set out in the table below.
### Table 4: SAVCF Key Terms

<table>
<thead>
<tr>
<th>Committed Capital</th>
<th>A$50M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>Open ended fund</td>
</tr>
</tbody>
</table>

The SAVCF Manager will be responsible for:
- Investing the committed capital and managing the portfolio of investments, including exiting such investments, in accordance with the Investment Criteria;
- Establishing, monitoring and managing an Accredited Venture Capital Manager Panel;
- Developing and maintaining relationships with qualified venture capital managers;
- Actively sourcing deal flow from within, and outside of, South Australia;
- Developing relationships with all relevant stakeholders in the South Australian early stage innovation ecosystem;
- Actively promoting South Australian early stage companies;
- Developing an internship program for local graduates to learn investment management skills; and
- Assisting AccelerateSA in any investment related matters.

<table>
<thead>
<tr>
<th>Accredited Venture Capital Manager Panel</th>
</tr>
</thead>
<tbody>
<tr>
<td>• An Accredited Venture Capital Manager Panel is to be formed, from which the SAVCF Manager will be authorised to select co-investors for each proposed investment.</td>
</tr>
<tr>
<td>• The SAVCF Manager will be responsible for conducting research on eligible venture capital managers and making recommendations to the Investment Committee.</td>
</tr>
<tr>
<td>• The SAVCF Manager will be responsible for monitoring each accredited manager and making recommendations to the Investment Committee as to whether a manager should remain on the panel or be removed.</td>
</tr>
<tr>
<td>• Each panel manager and any changes to the composition of the panel must be approved by the Investment Committee.</td>
</tr>
<tr>
<td>• The panel managers must demonstrate investment expertise and a successful track record of investing in early stage businesses.</td>
</tr>
<tr>
<td>• The panel managers may be Australian or overseas based.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Investment Committee will be responsible for all investment decisions including the selection of the Accredited Venture Capital Manager Panel and ensuring the SAVCF Manager is complying with its obligations in relation to investment decisions.</td>
</tr>
<tr>
<td>The Investment Committee will report to AccelerateSA and advise it on investment matters as well as the SAVCF Manager. The Investment Committee is to comprise of no more than three people. Combined the committee members must have relevant early stage investment and operational experience.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• An Investment Management Agreement (IMA) between AccelerateSA and the SAVCF Manager will govern the relationship between the two parties and establish to obligations and responsibilities of the SAVCF Manager.</td>
</tr>
<tr>
<td>• The IMA will contain common and market based terms and conditions.</td>
</tr>
<tr>
<td>• AccelerateSA will be responsible for ensuring the SAVCF Manager complies with its obligations as set out in the IMA.</td>
</tr>
<tr>
<td>• An Investment Committee will be responsible for all investment decisions;</td>
</tr>
<tr>
<td>• The Investment Committee will report to AccelerateSA.</td>
</tr>
<tr>
<td>• AccelerateSA will take the advice of the Investment Committee on matters including any changes to the SAVCF Manager or the investment mandate.</td>
</tr>
<tr>
<td>• The Board of AccelerateSA will have overall responsibility for the SAVCF.</td>
</tr>
</tbody>
</table>
## IMPLEMENTATION PLAN

### Investment Process
- The SAVCF Manager will be responsible for sourcing deal flow and developing it into investable propositions;
- The SAVCF Manager must source co-investment for every investment from the Accredited Venture Capital Manager Panel. If the SAVCF Manager is unable to source co-investment from the panel, then it is not authorised to make an investment.
- The SAVCF Manager will invest on the same terms, and have the same rights as the co-investors.
- All investments must be approved by the Investment Committee.
- The SAVCF Manager will be expected to actively manage all investments to protect the SAVCF’s interests and generate appropriate returns.

### Eligible Companies
- Companies demonstrating the potential to be high growth export oriented businesses capable of creating high value jobs will be eligible to apply for investment.
- Must be domiciled in South Australia, or relocating to South Australia.
- At the time of the initial investment companies must have the majority of their assets and employees located in South Australia. Over the long-term the overriding consideration will be the potential for a company to contribute to the development of South Australian economic growth, high skilled employment and reputation.
- Companies whose predominant activity is property development, land ownership, finance (excluding fintech companies), or construction are ineligible.

### Investment Criteria / Portfolio Structure
- Initial investment should be no earlier than late seed/Series A stage.
- Investment in a financing round can be no more than 50% of the total amount of the round.
- At the time of making a Series A investment the SAVCF Manager may commit to a follow-on investment in a company subject to successful completion of agreed development and commercial milestones.
- Follow-on investments may be made into companies that have successfully progressed from the initial investment.
- No more than [40%] of capital can be committed to late seed/Series A investments.
- At least [60%] of capital is to be available for follow-on investments.

### Company Exposure
- Maximum investment per company is $7.5M. No single company exposure is to be greater than 15% of committed capital.

### Sector Exposure
- The SAVCF Manager may invest in eligible companies in any sector provided no more than 50% of the portfolio is invested in a sector.

### Drawdowns
The SAVCF Manager will call upon committed capital when making an initial investment or a follow-on investment.

### Distributions
Distributions will be reinvested.

### Returns
Target commercial rate of return common for this type of portfolio.

*Source: RCG*
The annual cost to run a venture capital fund is typically equivalent to 2% of the committed capital. On a $50M fund, this implies an annual cost of $1M. The annual cost covers staff remuneration, due diligence costs and general operating costs.

By design the SAVCF is not a conventional venture capital fund and accordingly its cost base will be different.

Required resources will cover typical venture capital functions, investment manager research functions and industry promotion activities. All things being equal, this unique resourcing requirement will result in a cost base higher than that of a conventional venture capital fund.

There is scope to utilise the resources of the South Australian Government Financing Authority to reduce some of the common administrative costs such as financial reporting and portfolio custodial services. There may be scope to utilise resources for due diligence purposes, whether internal or by leveraging external relationships. This should be explored at the appropriate time.

Government should ensure it employs a quality SAVCF Manager and not seek the lowest cost option for such an important component of the plan.

It should also be recognised that, certainly in the early years of the fund, the SAVCF Manager will be required to spend relatively more time on sourcing and working up investable propositions given the early development stage of the ecosystem.

We anticipate the SAVCF will require the following investment staff in the first year:

1. Investment Partner/Senior Investment Manager x 1.5 full time equivalent (FTE): Annual cost of $450,000 per annum based on an annual FTE salary of $300,000+; and

2. Analyst/Investment Manager x 1 FTE: Annual salary of $120,000+.

Operational and due diligence costs will be additional to the staffing costs outlined above.

As part of the SAVCF Manager’s mandate, it will be a requirement for the Manager to submit an annual budget for review and sign-off by AccelerateSA under the advice of the Investment Committee. A budgeted cost model ensures that Government only pays for the resources required to manage the SAVCF.

In addition, the Investment Committee is expected to cost in the range of $35,000 - 50,000 per member, for a total cost of $105,000 - $150,000 per annum for a three-member committee.

Consideration should be given to including a performance payment into the remuneration structure of the SAVCF Manager. Typically, a venture manager is eligible for a 20% performance fee when portfolio performance delivers a return above an agreed rate (8% per annum is common). The calculation methodology for the fee varies and is based on market practice and often negotiated. There are both positives and negatives of performance fee arrangements. Whether this is appropriate for the SAVCF is open for discussion given its unique structure and role. The responses from applicants during the application process will also need to be considered.

At this stage, Government should keep an open mind with respect to performance fees.
This section provides supporting commentary for most of the components of the implementation plan set out in the previous section. We show that Australian and overseas governments have similar programs in place to those detailed in the plan. However, they are not the same for the reason the implementation plan takes account of South Australia’s unique circumstances and the key areas that need to be addressed to provide a solid foundation for building a sustainably successful early stage innovation ecosystem. There is also an explicit emphasis on program design putting Government in a supporting role, rather than a leading role.

**Components 1, 2 and 3 – Government
Administration and Policy**

An overarching innovation policy and centralisation of its implementation and administration have been features of innovation ecosystems overseas.

Countries such as the United Kingdom, Finland and Sweden all have central agencies operating at arm’s length to government (to varying degrees) responsible for co-ordinating and delivering innovation outcomes (see Box 1).

A strategic approach to innovation delivered through a specialist agency is the key to a successful innovation strategy and outcomes. A specialist and independent agency brings relevant expertise and is more capable than a distributed approach in co-ordinating and integrating activity amongst the innovation ecosystem reducing the risk of policy and/or programs being formed on an ad hoc basis.

Moreover, in a Federalist system such as Australia’s there is a need to co-ordinate innovation policy and activity between the Federal Government and the State and Territory Governments. Co-ordination of activity is important to avoid duplication in programs and in efforts to build clusters and global networks.

Across Australia there has been a renewed push to develop innovation programs at the State level. NSW, Victoria and Queensland have all been announcing innovation programs over the past year.

However, none of these States appear to have done this in a co-ordinated and joined up way. Victoria has recently announced LaunchVic, an independent body which is tasked with ensuring Victoria has the correct infrastructure to encourage and develop entrepreneurial activity. A $60M commitment has been made to fund LaunchVic’s activities. Yet, LaunchVic has just commenced developing its strategic approach to innovation.

---

**Box 1**

**Innovate UK**

Established in 2007, Innovate UK is the UK’s innovation agency. Funded by the UK Department for Business, Innovation & Skills, Innovate UK is a business-led executive organisation. It has a twelve-member Governing Board.

Innovate UK has a broad brief with the capacity to fund, support and connect innovative British businesses from pre-seed through to larger corporates and multinationals. Funding is provided from proof of concept stage through to research and development projects of larger corporations. Innovate UK also encourages collaboration between researchers and business and assist UK businesses to access European support for innovation and technology.

In 2011 Innovate UK launched a four-year Strategy (Concept to Commercialisation) with a budget of more than £1B (approximately $A2.2B) over the period.

**Finland’s Funding Agency for Technology and Innovation (Tekes)**

Established in 1983, Tekes is an independent statutory body responsible for supporting national research, development and innovation funding in Finland. Tekes has a government appointed Board.

In 2015, Tekes had 16 programs in operation and a budget of €550M (approximately $A883M). Programs support activities ranging from research, to product development and to growth. Businesses supported range from startups through to SMEs.

**Sweden’s Agency for Innovation Systems (VINNOVA)**

Established in 2001, VINNOVA is a government agency responsible for monitoring the implementation of Sweden’s innovation policy through funding of needs driven R&D. In 2012, VINNOVA was appointed central coordinator of the innovation activities of eleven other governmental agencies.

VINNOVA has a range of programs supporting strategically important sectors, innovative companies and cross-border collaboration. VINNOVA’s current budget is SEK2.7B (approximately $A458M). Its total influence is greater than indicated by the budget as it co-funds many of its programs with other agencies.

---

10 Translating Research for Economic and Social Benefit: Country Comparisons, ACOLA, November 2015
11 Senate Economics References Committee, Australia’s Innovation System, Appendix 1, December 2015

REDFIRE CONSULTING GROUP
plan. It is still some way off determining how it will deliver on its mandate. Moreover, LaunchVic has responsibility for only some elements of Victorian innovation policy and activity.

Advance Queensland is the name given to a combination of government measures aimed to support entrepreneurial activity in Queensland but it isn’t a single entity responsible for the formation and delivery of innovation policy. A total of $180M has been committed to these measures.

At the Ministerial level a number of States have appointed Ministers with responsibility for innovation policy.

Only South Australia and Queensland have recognised science and the digital/information economy with respect to Ministerial responsibility.

### Table 5: State Ministerial Responsibilities

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Ministers</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia</td>
<td>2</td>
<td>Minister for Science and Information Economy, Minister for Manufacturing and Innovation</td>
</tr>
<tr>
<td>Queensland</td>
<td>1</td>
<td>Minister for Innovation, Science and the Digital Economy and Small Business</td>
</tr>
<tr>
<td>Victoria</td>
<td>1</td>
<td>Minister for Small Business, Innovation and Trade</td>
</tr>
<tr>
<td>New South Wales</td>
<td>2</td>
<td>Minister for Innovation and Better Regulation, Minister for Medical Research</td>
</tr>
<tr>
<td>Western Australia</td>
<td>0</td>
<td>Premier has science responsibilities</td>
</tr>
</tbody>
</table>

*Source: RCG*

---

**Component 5 – Consolidate University Commercialisation**

The commercialisation of university research is an area universities have grappled with the world over. The common issues university TTO’s face are:

1. Employing staff with the required skills to licence IP or to spin-out companies;
2. Under-resourcing, typically because TTOs do not breakeven and many universities are uncomfortable with this. Poor resourcing limits a TTOs capacity to develop IP, prepare business plans and engage with the private sector;
3. University management interfering in commercial matters;
4. A poor grasp by university management of what constitutes success for internal and external stakeholders; and
5. Lack of commitment by university management.

Governments have responded to these issues in a variety of ways. Some countries provide specific funding to researchers and/or TTOs to encourage better and closer interaction with the private sector. Some countries establish mechanisms to encourage collaborative activity amongst their university TTOs. Others have created entities that consolidate TTO activity.

Canada and France provide examples of the consolidation approach, whereas New Zealand provides an example of the collaboration approach (see Box 2).

Typically, the consolidation or collaboration approach has been implemented where it has been recognised that individual TTOs would not be able to reach critical mass and would greatly benefit from a pooling of resources. However TTO operations are executed, it is the attitude of sponsor universities that will drive the outcomes. Progressive and commercially aware universities tend to achieve better results than those that see TTOs as an extension of the university administration function.

---

12 Translating Research for Economic and Social Benefit: Country Comparisons, Australian Council of Learned Academies, November 2015


SUPPORTING COMMENTARY

Box 2

MaRS Innovation, Toronto
Established in 2008, MaRS Innovation (MI) is a non-profit organisation representing 15 universities, teaching hospitals, and research institutes that have consolidated their collective intellectual property into a single commercialisation platform in partnership with the MaRS Discovery District. Combined, MI members are granted around C$1.5B per annum to fund basic research and discovery activities.

MI provides a comprehensive suite of services for inventors including strategy, business development, IP management, operational resources, human resources, financial management and investor relations. At the end of 2015, MI had invested C$10M into its portfolio companies and leveraged an additional C$1.25B of investment, of which C$94M was from foreign investors.

The MaRS Discovery District is a not-for-profit corporation founded in Toronto in 2000. Its stated goal is to commercialize publicly funded medical research and other technologies with the help of local private enterprises and as such is a public-private partnership.

France SATT - detail
The Sociétés d’Accélération du Transfert de Technologie (SATTs) are technology transfer offices, which were created in the context of France’s “Investments for the Future” Program with a total budget of €885m. SATTs are established on a regional basis for the purpose of coordinating the commercialisation of publicly funded research. SATTs are allowed to carry out commercial activities. SATTs have pooled certain functions (e.g. IP management, proof-of-concept, market studies).

There are currently 14 SATTs across France. At the end of 2014, the SATTs employed 400 professionals, had identified 3,500 projects, filed 700 patents, executed 180 licenses and created 60 startups.

KiwiNet
Established in 2011, the Kiwi Innovation Network (KiwiNet) is New Zealand’s network of public research organisations, working together to transform scientific discoveries into marketable products and services. KiwiNet doesn’t carry out research commercialisation itself; instead it acts as a channel for collaboration amongst those who do. KiwiNet’s role is to help commercialisation staff to access the tools, connections, investment and support they need to commercialise research.

Currently, there are 15 organisations partnering with KiwiNet. Together these research organisations represent a total combined research expenditure of over $500 million and represent 70% of the publicly funded researchers in New Zealand.

Component 6 - SAECF
For the last three years South Australia has run the Venture Catalyst and SA Micro Finance Fund which both target the proof of concept stage. The SAECF seeks to extend the funding support of these two programs through to early commercialisation.

Government support programs for proof of concept through to early commercialisation are common across the world, although there are variances in program designs and not all programs are integrated (see Box 3).

Some programs provide grant funding, some loan funding and some equity funding.

In Australia, the Federal Government’s Accelerating Commercialisation program provides non-repayable grants

Box 3

Tekes Fund
The Tekes Fund provides eligible companies with up to €1.25M (approximately SA2M) of funding support, of which up to €500,000 (approximately SA800,000) may be funded as a grant and up to €700,000 (approximately SA1.2M) as a loan. There are three phases of funding with eligibility for funding across the phases based on the company achieving milestones agreed with Tekes. The total budget for the program was just over €19M in 2011.

In the first phase up to €250,000 (approx. SA400,000) by way of a grant is available, typically for a period of 6–12 months. Successful progress during the first phase enables the companies to seek funding for the second phase. In the second phase up to €250,000 by way of a grant is also available. In addition, a company may also apply for up to €750,000 in loan funds.

Enterprise Ireland
Enterprise Ireland offers a number of funding support programs, from grant funding to equity investment. Proof of concept grants of up to €15,000 are available for companies with high growth potential (defined as the capacity to generate €1M in sales within three years). To assist companies in the startup phase, an equity investment of up to €50,000, for a 10% equity stake) is available.

For larger equity investments, the Innovative High Potential Startup Fund operates more like a venture capital fund, where Enterprise Ireland invests in the company rather than a discrete part, such as a component of R&D. Enterprise Ireland will only invest if there is a co-investor.
for proof of concept through to early commercialisation.

Component 7 – SBIR Agency Funded Model

The SBIR program is modelled off the US SBIR program, with the critical difference being the nature of funding for the program. The South Australian SBIR program was funded by Government with an expectation the relevant Government Agencies would work with the program manager to develop challenges and ideas to invest in. The US SBIR program is an agency funded model whereby 2.9% of a relevant agency’s budget is allocated to funding the SBIR program.15

The agency funded model creates a financial incentive for the agencies to participate in the program. This model has been more effective in delivering a collaborative outcome than the South Australian model.

Today the US SBIR program is the largest investor in seed companies in the US. Since inception in 1982, the SBIR has awarded over US$42B in funding. In the 2014 year US$2.5B was awarded.

Component 8 - SAVCF

Government support for venture capital investment is not unique. Many governments around the world have provided matching funding to venture capital managers to assist in developing the local venture capital industry.

In Australia, the Federal Government’s Innovation Investment Fund (IIF) matched private sector commitments to Australian venture capital funds up to a maximum of $20M.

Overseas, the successful Yozma scheme in Israel, provided matching funding to local venture capitalists, but only if they had established a partnership with an experienced foreign venture capitalist.

In Singapore, the government provides matching funding for early stage venture capital funds, with attractive buy out options for the private investors.

All of these programs are national in scale and have the explicit goal of developing and growing the local venture capital industry. They have a clear goal of growing the number of venture capital firms.

However, as we noted earlier with the example of Boulder, Colorado, it is not necessary to build a local venture capital industry in order to attract venture capital. The focus on building the industry can detract from providing support where it is really needed. Indeed, in Australia, after 16 years of the IIF very few of the supported managers remain in business.

Rather, we believe it is better for South Australia to attract inward investment while at the same time building entrepreneur and investment capability. Over time local venture capital firms may form, but this will occur only when it is economical to do so, rather than a derived short-term outcome driven by Government incentives. This is the goal of the SAVCF.

Examples of government support targeting companies, rather than the venture capital industry include:

1. In New Zealand, NZVIF runs a NZ$40M seed fund that co-invests with selected local angel investors in early stage companies. NZVIF also has a NZ$260M fund that invests in local venture capital managers (similar to Australia’s IIF). Combined the two funds are capable of assisting local companies source seed and venture capital funding; and

2. In Ireland, the Enterprise Ireland Innovative High Potential Startup Fund (Innovative HPSU) invests directly into companies and operates in a similar manner to a venture capital fund. Enterprise Ireland makes its own assessment of the investment proposition, however, it will only invest if there is a co-investor. Conceptually, the Innovative HPSU is similar to the SAVCF.

---

15 Currently 2.9% of an agency’s extramural budget where the budget is in excess of $100M per annum.
Consider Establishing a Centrally Based Technology Hub

Government may wish to consider supporting an industry led centrally based Technology Hub that would act as a central meeting/working point for ICT activity in South Australia.

While there are a variety of ICT activities in Adelaide there is no single piece of infrastructure capable of bringing actors together to meet, work and collaborate. Given the fragmented nature of the ICT community a central hub that creates an opportunity for actors to come together and collaborate could be valuable.

We have not included this as a firm recommendation at this stage because further validation work is required. However, initial discussions with stakeholders indicate the Hub could be structured as follows:

- Located in unutilised Government CBD office space in Adelaide and be developed and managed by way of a public private partnership;
- The Hub would be inclusive. It would not replace or compete with existing activity, but would complement and work in with existing activity. To that end existing co-working spaces, incubators, accelerators, entrepreneurs and mentors could come together under one roof. This could be done in addition to their existing activities. That is, some may wish to locate part of their activities to the Hub and retain part in their existing location;
- The local universities would be able to participate in the Hub, thereby bringing research, students and industry closer together;
- The Hub would play a pivotal role in co-ordinating ICT activity and providing Government with a continuous feedback loop informing it of the needs of the ICT community;
- AccelerateSA would have a role working with the Hub to help develop the early stage ICT sector; and
- The Hub would be able to assist Government efforts to encourage major technology companies to establish operations in South Australia.

There are many examples across the world of a central hub playing an important role in developing innovative capability and capacity.

South Australia itself has a long history of the benefits of a central point of activity through BioSA’s around 15 years of assisting in the development of the biotechnology industry.

In Sydney, Stone & Chalk, a collaborative effort between Fintech entrepreneurs, VCs, corporates and government, has been established to drive Fintech activity. In Canberra, the CBR Innovation Network (CBRIN), a collaboration between ANU, University of Canberra, Data61, CSIRO and UNSW Canberra, provides a network linking businesses and entrepreneurs to services, facilities and stakeholders to assist in accelerating innovation and growth in the ACT.

District Hall in Boston and Tech City in London are examples of overseas central hubs (see Box 4).

---

**Box 4**

**District Hall, Boston**

Established in 2013 and located within Boston’s Innovation District, District Hall is a collaborative public-private partnership in Boston that serves as a meeting and event place for the innovation community comprising open workspace, classrooms, assembly space, flexible use ‘pods’, and coffee and food facilities. Individuals are able to work for free and rent meeting space. The success of the Boston Innovation District is often attributed to District Hall.

**Tech City, London**

Established in 2010, Tech City is a publicly, funded non-profit organisation tasked with promoting the UK’s technology sector and assisting digital technology businesses and entrepreneurs in the UK. Tech City is funded by the UK Government’s Department for Culture, Media & Sport, via Innovate UK. For 2015-2016 it has £2.2M of funding to cover its programs, policy work and industry engagement and promotion. Tech City also raises a small amount from sponsorship.

Tech City’s programs focus on assisting business startup and make connections rather than funding them. At the policy level it plays an important role in bringing together the private sector and government to discuss policy issues and developments.

To date the high growth companies that have completed Tech UK’s programs have collectively raised £1.1B on London’s capital markets and employ over 17,000 people (including alumni).
Federal Government’s National Science and Innovation Agenda

The Federal Government’s National Science and Innovation Agenda is a package of initiatives designed to position Australia to capitalize on its world-class science and innovation base.

The Agenda targets four areas:

1. Taking the Leap – initiatives to make the environment for entrepreneurs more conducive to their needs, including: better access to finance, a more encouraging culture and legal and regulatory framework for risk taking; and capitalizing better on public research investment;

2. Working Together – initiatives to encourage improvements in research to industry collaboration;

3. Best and Brightest – initiatives to develop and attract world-class talent for the jobs of the future; and

4. Leading by Example – government better embracing innovation and agility in the way it does business.

Implementation of the Agenda is to be through 28 initiatives. Some are new, some build upon existing programs and some reinstate previous support measures that had been axed, or scaled back, under previous administrations.

It is not within the scope of this report to provide a detailed analysis of the Agenda. However, in our view, the Agenda is supportive and complementary of measures contemplated in this implementation plan and has the potential to improve the local environment for entrepreneurs and investors.

For example, there are a range of tax measures, including more favourable asset depreciation arrangements, better access to tax losses, changes to the taxation regime for employee share schemes and tax incentives for investors. These are matters that the Federal Government has control over and that do not duplicate measures recommended in this implementation plan. Yet, implementation of these measures has the potential to lower the cost of doing business for startups and make it easier to attract very early stage investment.

AccelerateSA will have an important role in ensuring South Australia derives maximum benefit from the Agenda and in developing a close relationship with the Federal Government on innovation policy.

---

APPENDIX A – RECOMMENDATIONS FROM PREVIOUS REPORTS

Table 6: Recommendations from report, Assessment of the Viability of a South Australian Commercialisation Fund, April 2015

Recommendations

**Recommendation 1** - Government thoroughly review the components of the innovation ecosystem it is providing support to and where appropriate close down schemes/programs that are not demonstrating tangible benefits and better support those that are delivering benefits. A clear focus on developing skills is a must and consideration should be given to importing skilled people.

**Recommendation 2** - Government establish an investment scheme to support locally originated early stage companies – the SA Commercialisation Fund. The SA Commercialisation Fund would comprise two parts.

1. Part A would involve an allocation of capital to companies at the pre-seed/seed stage of development.
2. Part B would be available to invest in the best companies coming out of Part A and also other companies originating in South Australia.

*Source: RCG*

Table 7: Recommendations from report, Government-Funded Program Evaluation Recommendations, November 2015

<table>
<thead>
<tr>
<th>Program</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Transformation Voucher Program</strong></td>
<td>Maintain program and consider making a number of modifications</td>
</tr>
<tr>
<td><strong>Innovation Voucher Program</strong></td>
<td>Maintain program. Link IVP and BTV for IVP recipients. Place greater emphasis on research to industry collaboration</td>
</tr>
<tr>
<td><strong>Premier’s Research and Industry Fund</strong></td>
<td>Support direction of proposed changes. Strengthen links to system</td>
</tr>
<tr>
<td><strong>South Australian Micro Finance Fund</strong></td>
<td>Merge with Venture Catalyst and integrate with Part A</td>
</tr>
<tr>
<td><strong>Venture Catalyst</strong></td>
<td>Merge with SAMFF and integrate with Part A</td>
</tr>
<tr>
<td><strong>Small Business Innovation Research Pilot</strong></td>
<td>Expand support. Potential to integrate with Part A. Recommend Agency funded model</td>
</tr>
<tr>
<td><strong>Cluster Support Program</strong></td>
<td>Expand support</td>
</tr>
<tr>
<td><strong>BioSA</strong></td>
<td>Restructure and make central commercialisation arm for SA universities. Various other recommendations</td>
</tr>
<tr>
<td><strong>Co-HAB Tonsley</strong></td>
<td>Consider whether current management is appropriately qualified to derive expected benefits</td>
</tr>
<tr>
<td><strong>Hub Adelaide</strong></td>
<td>Support not justified</td>
</tr>
<tr>
<td><strong>Innovyz</strong></td>
<td>Cease support</td>
</tr>
<tr>
<td><strong>Hills Innovation Centre</strong></td>
<td>Allocate unused Government commitment to Part A</td>
</tr>
</tbody>
</table>

REDFIRE CONSULTING GROUP
## APPENDIX A – RECOMMENDATIONS FROM PREVIOUS REPORTS

<table>
<thead>
<tr>
<th>Program</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>HP Innovation and Collaboration Centre</td>
<td>n/a</td>
</tr>
<tr>
<td>Cisco Internet of Things Innovation Hub</td>
<td>n/a</td>
</tr>
<tr>
<td>Polaris Centre</td>
<td>Continue supporting</td>
</tr>
<tr>
<td>Business SA Coaching &amp; Mentoring</td>
<td>Continue supporting</td>
</tr>
<tr>
<td>Business SA SAYES</td>
<td>Continue supporting. Increase support</td>
</tr>
<tr>
<td>MEGA</td>
<td>Continue supporting</td>
</tr>
<tr>
<td>UofA eChallenge</td>
<td>Continue supporting. Increase support</td>
</tr>
<tr>
<td>New Venture Institute</td>
<td>Continue support via MEGA</td>
</tr>
<tr>
<td>UniSA Centre for Business Growth</td>
<td>Work with Centre to develop program for earlier stage companies and allocate funding to it</td>
</tr>
</tbody>
</table>

*Source: RCG*