

## **Understanding venture debt: Its role in the private credit landscape**

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Venture debt is becoming a significant part of global private markets, offering high-growth companies an alternative to raising pure equity. According to Stride Ventures and Kearney's *Global Venture Debt Report (2025)*, the global market reached USD 83.4 billion in 2024, growing at a CAGR of c.14% since 2018.

Although still emerging in South Africa, venture debt is gaining momentum as investors and entrepreneurs seek flexible, non-dilutive funding that supports business growth and expansion.

### **What is venture debt?**

Venture debt is a specialised form of lending for early-stage, high-growth businesses, typically those backed by venture capital (VC). Unlike traditional bank loans, it does not rely heavily on cash-flow history or collateral. Instead, it is underpinned by the company's growth prospects and the credibility of its VC backers.

It commonly takes the form of term loans, working-capital facilities, equipment finance, or revenue-based financing. To compensate for higher risk, lenders usually receive an "equity kicker" such as warrants or rights to purchase shares.

Used effectively, venture debt extends runway, smooths working-capital cycles, funds expansion, and reduces founder dilution between equity rounds, often at a lower cost than issuing new shares.

### **Where venture debt fits in the private credit landscape**

Private credit covers a broad range of non-bank lending strategies, including senior secured loans, mezzanine financing, distressed debt, and asset-backed lending. Venture debt occupies a distinctive niche.

Unlike senior or asset-backed loans, venture debt is not primarily assessed on historic financials or collateral. It also differs from distressed or special-situations capital, which targets companies in difficulty. Instead, venture debt is growth-oriented and supports businesses that may not yet be profitable but have strong potential and rapid scale trajectories.

In many respects, venture debt plays a similar role for VC-backed companies as mezzanine debt does for private-equity-backed companies: it adds leverage to accelerate growth while complementing equity capital.

### **The rise of venture debt in South Africa**

South Africa's venture debt market remains small but is expanding alongside the startup ecosystem. For the first time, the 2025 SAVCA VC Survey reported debt deployed by VC fund managers, totalling ZAR 670 million in 2024, signalling a developing trend.

As founders and investors become more sophisticated about capital structure, the demand for non-dilutive growth capital is increasing. Venture debt typically relies on the next equity round as its exit, making it a collaborative instrument that works best in a robust VC environment.

The Vumela Fund, managed by Edge Growth Ventures, was one of the early adopters of venture debt locally and has demonstrated its positive impact on investee growth trajectories.

## How venture debt adds value to the South African funding landscape

- **Reducing dilution and strengthening founder ownership** - In a market where equity capital is limited and valuations are conservative, venture debt allows founders to extend runway and hit key milestones without excessive dilution. This strengthens long-term founder alignment and improves business sustainability.
- **Bridging funding gaps** - South African startups often face long fundraising cycles and limited later-stage capital. Venture debt provides the working capital and scale funding needed between equity rounds, improving survival rates and enhancing negotiating power for future raises.
- **Improving capital efficiency** - Equity is the most expensive form of capital, yet founders often use it for short-term or asset-related needs better suited to debt. Introducing venture debt enables more efficient use of equity for high-risk innovation, better-structured balance sheets, and more disciplined capital allocation.
- **Expanding the private credit opportunity set** - For investors, venture debt offers a differentiated, high-yield strategy within South Africa's private credit market. It provides shorter durations, strong risk-adjusted returns, and low correlation to traditional assets. It can also encourage greater institutional participation by offering a bridge between private credit and venture capital.
- **Supporting transformation and inclusive growth** - Venture debt can broaden access to growth capital for black-owned, youth-led, and digitally enabled businesses that may not meet traditional lending criteria. Because it focuses on growth potential rather than collateral, it aligns strongly with South Africa's transformation and inclusive-growth objectives.

## Challenges and constraints

Key barriers remain, including the limited number of specialist venture-debt funds, a relatively small pipeline of VC-backed companies, and few large-scale exits for high-growth tech firms. Institutional investors, particularly pension funds, also remain cautious due to perceived high risk and liquidity concerns.

Greater awareness, blended-finance support, and stronger DFI participation will be critical to unlocking a mature venture-debt market.

Venture debt has the potential to materially strengthen South Africa's innovation ecosystem. It can fill structural funding gaps, reduce dilution, improve VC returns, and support inclusive economic growth. As more fund managers combine debt and equity instruments, venture debt is poised to play an increasingly meaningful role in deepening the private capital market.

Venture debt does not replace equity; it amplifies it, enabling more companies to grow with less dilution and improving their chances of long-term success.