

: Startups can drive growth in a disrupted world

The economic and social upheaval caused by the Covid-19 pandemic underlines the need for a collective, and robust national strategy to unlock entrepreneurship in South Africa.



Already before the pandemic, many aspects of the country's entrepreneurial ecosystem needed a major overhaul. This is highlighted in the Global Entrepreneurship Monitor South Africa (GEM SA) 2019/2020 report, launched by The University of Stellenbosch Business School (USB), the Global Entrepreneurship Monitor (GEM) and the Small Enterprise Development Agency (Seda).

GEM's research output is considered the world's most authoritative annual report on the global state of entrepreneurship. USB is the new custodian of this research in South Africa. The study included a survey sample of 3,300 people, and the national expert survey involved the input of 36 experts from diverse fields.

Angus Bowmaker-Falconer and Mike Herrington co-authored the report. Bowmaker-Falconer is a research fellow at USB. Herrington, previously the executive director of the Global Entrepreneurship Research Association, established GEM SA in 2001.

The GEM SA report, titled *Igniting startups for economic growth and social change*, contains the hard facts, data and figures that highlight trends in entrepreneurship in South Africa. The results of the study reveal the fundamentals to consider when developing an informed response aimed at securing economic recovery.

Bowmaker-Falconer says: "The pandemic has intensified the country's economic challenges. We know that earnings have been affected, that further job losses are likely, and that many small, medium and micro enterprises may not survive under

these extraordinary high stakes.” Most local companies are small or medium-sized enterprises and many will battle to stay afloat after one to three months with no or limited trade and income. “Early-stage entrepreneurial startups (new ventures less than 3,5 years old) are likely to be ravaged,” he says.

The economic and social recovery could take several years. GEM's research during the 2008/2009 global financial crash showed a significant dip in early-stage entrepreneurial activity across the globe. Entrepreneurial ecosystems took two to three years to reach pre-2008 levels after this event. The recovery curve was driven directly by country-specific economic policy and financial support responses.

Unpacking the results

- South Africa's entrepreneurial ecosystem was rated one of the most challenging in the sample of participating economies in 2019 and has exhibited little sign of improvement over the past few years.
- In 2019, South Africa ranked 49th out of 54 economies on GEM's National Entrepreneurship Context Index, ahead of only Croatia, Guatemala, Paraguay, Puerto Rico and Iran.
- Societal values regarding entrepreneurship show an upward trend from 2003 to 2019. Specifically, there has been an increase from 2017 to 2019 in the number of people who see entrepreneurship as a good career choice (from 69.4% to 78.8%) and one with high status (from 74.9% to 82.2%).
- There has been a substantial increase (from 43.2% in 2017 to 60.4% in 2019) in the number of individuals who perceive that there are good entrepreneurial opportunities in South Africa and believe that they have the skills and capabilities to start a business. This number is relatively high compared to many other economies.
- Yet fear of failure is high at 49.8% among South Africans. This factor – likely a deterrent for individuals to start a business venture – has increased significantly from 2017 to 2019.
- Only 11.9% of respondents have entrepreneurial intentions. This means one in every eight South Africans are latent entrepreneurs who intend to start a business within the next three years.
- There was a small increase in the total amount of early-stage entrepreneurial activity (TEA) in the country between 2016 and 2017. This momentum was not, however, carried through to 2019, which showed no real increase from 2017 at only 10.8%. This TEA rate was below the average of 12.1% for the other participating African countries in 2019.
- South Africa's business exit rate decreased from 6.0% in 2017 to 4.9% in 2019, but is still higher than the established business rate of 3.5%. This confirms that more businesses are being closed down, sold or otherwise discontinued than being started.
- There is clear evidence of purpose-driven entrepreneurship taking hold at a grassroots level – an encouraging sign of a collective will for future business sustainability.

Changing gears, moving forward

Moving from startup to scale requires the right support from the government and the private sector alike. The report calls for interventions in terms of government policies and initiatives, market openness, entrepreneurship education and training, and the availability of and access to finance to foster entrepreneurship.

Bowmaker-Falconer says: “Government is an enabler and fully supports and understands the importance of entrepreneurial development for inclusive economic growth and social cohesion.”

“The Department of Small Business Development (DBSD) announced significant new measures before this crisis related to access to funding. These measures include harmonising funding applications across all developmental finance institutions and introducing a blended financing model to reduce financing costs for entrepreneurs. Overall, the focus for the government should now be on achieving policy and support initiative alignment priorities.”

The government’s economic stimulus package to help bridge Covid-19 is significant, and the impact thereof for SMME’s needs to be evaluated and made public. “Big business needs to partner with the government and play their part in opening markets and value chain participation for smaller enterprises,” Bowmaker-Falconer says.

“Financiers, together with incubators and accelerators, need to help better prepare and educate entrepreneurs on how to pitch their business ideas, how to approach funders and to navigate what kind of funding is most appropriate to their specific enterprise. What is very clear is that a cohesive and collective response is needed to ignite economic development and social cohesion potential beyond this crisis we are now in.”

An underlying key requirement for managing South Africa’s economic recovery is data. Integrated and public information is critical in understanding and planning how best to stimulate and support the entrepreneurial ecosystem going forward.

Furthermore, there is also a need for more intense entrepreneurial education to engage with the opportunities offered by the Fourth Industrial Revolution (4IR).

As the sponsor of the study, Seda will now facilitate the implementation of the recommendations across the broader small enterprise development support system with its partners. One of the areas currently being pursued by Seda is identifying partners who can enhance its service offerings in research.

Bowmaker-Falconer concludes: “Entrepreneurship matters. Now, more than ever, startups, and specifically those driven by young entrepreneurs and women need to deliver the innovation required to move us forward in a highly disruptive (and disrupted) world.”

Download the full report: [*Igniting startups for economic growth and social change*](#) (PDF file: 7.26MB)

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