



Igniting startups for economic growth and social change

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Executive summary

Global Entrepreneurship Monitor
South Africa (GEM SA)
2019/2020 report



Executive summary

About this report

The University of Stellenbosch Business School (USB) is pleased to release the 2019/2020 Global Entrepreneurship Monitor South Africa (GEM SA) research report.

In the twenty-one years since its inception in 1999, the Global Entrepreneurship Monitor (GEM) has measured entrepreneurship across 114 countries, and has gained widespread recognition as the most informative and authoritative longitudinal study of entrepreneurship in the world. In 2019, 50 economies participated in the GEM Adult Population Survey (APS) and 54 countries participated in the National Expert Survey (NES).

The GEM SA 2019/2020 report is significant as South Africa faces real, urgent economic development challenges. In business today, we know that the future will not be a mere prolongation of the past. We are living in a disruptive context; success and prosperity will come to those with agile adaptive strategies. This report focuses on how startups can contribute as engines of growth and social change in this era of exponential change. It gives the USB great satisfaction to be facilitating this type of business development.¹

A reader's guide

This report comprises five main sections. **Section 1** introduces the GEM conceptual framework and methodology. This framework depicts the multifaceted features of entrepreneurship and recognises the proactive, innovative and risk-responsive behaviour of individuals, always in interaction with the environment. The GEM research methodology is standardised and harmonised across all participating economies.

Section 2 presents the results of GEM SA's main study, the APS, based on a South African representative sample of 3 300 respondents.

Section 3 evaluates the South African entrepreneurial ecosystem. Entrepreneurial activity and success are highly dependent on the contexts within which they occur. GEM's

NES, highlighted in this section, focuses specifically on the context features that are expected to have a significant impact on entrepreneurial attitudes and activities. Thirty-six experts were surveyed for their views on the most important conditions that either constrain or foster entrepreneurial activity and development in the country. This year's report sees the introduction of a refined National Entrepreneurship Context Index (NECI), outlined in this section. The NECI provides a single composite number that can express the average state and quality of the entrepreneurial ecosystem in a country, and be compared to those of other economies.

Section 4 provides perspectives on women and the youth in entrepreneurship in South Africa, and in Africa more broadly. The discussion reflects on key trends and issues related to the digital economy that impact women and youth entrepreneurship and employment.

Section 5 presents the conclusions and recommendations of this report along five key themes: (i) strengthen national framework conditions; (ii) align the entrepreneurial ecosystem networks of learning, mentorship and support; (iii) ignite entrepreneurship for women and the youth; (iv) provide entrepreneurial education for the digital economy; and (v) accelerate financing innovation and improve access to markets.

The profiles of the four African countries that participated in the GEM 2019/2020 global study – South Africa, Morocco, Madagascar and Egypt – are included in the appendices.

It is highly recommended that the GEM SA Report 2019/2020 be read in conjunction with the GEM Global Report 2019/2020.²

The context

The findings of this study should not be interpreted in a void, but with careful consideration of the South African context. Relevant contextual factors include (i) the economy; (ii) high unemployment rates; (iii) the current state of entrepreneurship; (iv) the failing education system; and (v) the Fourth Industrial Revolution (4IR) and the digital economy.

The economy

The South African economy is underdeveloped, but has great potential as well as access to abundant natural and other resources. South Africa has the most industrialised economy on the African continent and is a leader in most sectors. Over the past decade, however, the economy has consistently underperformed, with the real gross domestic product (GDP) per capita declining since 2011.

The full-year 2019 GDP growth forecasts were around 0.4% or lower, and consensus economic growth forecasts for 2020 are now below 1% (according to the South African Reserve Bank, International Monetary Fund, World Bank and Moody's Investors Service). This sluggish growth will translate into limited job creation and could deepen the existing rifts caused by unemployment and financial inequality.

The South African economy, like many others, was deeply affected by the 2008 financial crisis. Various domestic challenges have resulted in a slow recovery and economic flatlining. Business confidence remains fragile domestically, and the country is well out of favour on the global investment-grade indices. The domestic challenges that plague the economy most include, amongst others, governmental overspending, rising government debt, poor state delivery capabilities, governance and corruption challenges in both the public and private sectors, the unreliability and unpredictability of electricity supply, the education system's lack of delivery, and extreme unemployment. Also, failing state-owned enterprises and policy-related uncertainties around land appropriation without compensation are spooking international investors.

This range of challenges affects South Africa's efforts to make progress on several United Nations (UN) Sustainable Development Goals (SDGs). The SDGs, also known as the "Global Goals", were adopted by UN member states in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

The following two SDGs are the most relevant to entrepreneurship in South Africa:

- SDG 1: End poverty in all its forms everywhere
- SDG 10: Reduce inequality within and among countries

These two SDGs pose major challenges, given the country's low economic growth. On the one hand, unemployment trends



are likely to exacerbate poverty and create further reliance on government grants. On the other, the lack of robust economic growth will cement inequality, keeping a more inclusive society out of reach.

As part of efforts to address the current economic situation, the Economic Policy division of the National Treasury in 2019 published a position paper on long-term economic transformation, inclusive growth and competitiveness.³ The analysis and recommendations in this report are not fully supported by all stakeholders, but clearly identify the policy reforms needed to ignite the economy.

Unemployment crisis

Unemployment is a crisis that can only be addressed through structural reforms in the economy, supported by investment in and systemic changes to the education system. With an unemployment rate of 29.1%, South Africa faces significantly greater employment challenges than the other countries in the BRICS group of emerging national economies (compare Brazil at 11%, Russia at 4.6%, India at 7.2% and China at 3.6%).⁴

Entrepreneurship matters

Across the Organisation for Economic Co-operation and Development (OECD), comprising 36 countries from North and South America to Europe and Asia-Pacific, small and medium-sized enterprises (SMEs) account for 99% of all businesses and between 50% and 60% of value added. Nearly one third of people in OECD member countries are employed in a micro-enterprise with less than 10 employees, and two thirds are employed in SMEs. In many regions and cities, SMEs have been the main drivers of job creation, and they often contribute to the identity and social cohesion of local communities. As the predominant form of business and employment, they are also key actors in the promotion of more inclusive and sustainable growth, economic resilience and social cohesion.⁵

1 Prof. Piet Naudé, Director: USB.

2 Bosma, N. et al. (2020). *GEM Global Report 2019/2020*. Retrieved from <http://www.gemconsortium.org/report>

3 *Economic Policy, National Treasury. (2019). Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa*. Retrieved from http://www.treasury.gov.za/comm_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf

4 Retrieved from <https://tradingeconomics.com/country-list/unemployment-rate>

The 2019 OECD review acknowledges that, even in the more developed economies, SMEs face ongoing challenges. Firstly, SMEs constitute a very heterogeneous population with differences being influenced by economy size, market structures, institutions and regulation, the prevailing business environment and other factors.⁶ Secondly, although SMEs are driving job growth, there is a need for greater investment in skills, innovation and technology to boost wages and productivity.⁷

South Africa still has some way to go towards developing entrepreneurship as a significant driver of economic development and job creation. The comparatively high data costs in the country is one of the major challenges faced by South African entrepreneurs. This is an important market issue to address, given that the digital economy is where many entrepreneurial opportunities lie. Additionally, there is significant over-regulation of small businesses with unnecessary bureaucratic burdens, and there remain various labour market rigidities.

Nevertheless, the government increasingly acknowledges the importance of entrepreneurs and small businesses in achieving sustainable and inclusive economic growth, and realises the need to urgently put in place a series of policy reforms to support this goal.

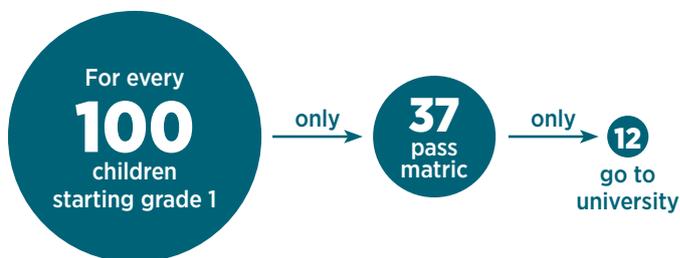
In July 2019, the Minister of the Department of Small Business Development announced new measures in pursuit of economic transformation and job creation through the development of small businesses and cooperatives.⁸ These measures include, amongst others, (i) making funding available through all of the department's centres, with commitments to significantly improving funding turnaround times; (ii) introducing common templates for funding applications across all South African development finance institutions; (iii) introducing the Small Business Innovation Fund, which will use a blended finance model to lower financial costs for entrepreneurs through means of loans and grants; and (iv) making provision to fund partner organisations (incubators) under certain conditions.⁹

Education remains vital

South Africa's economic stagnation is inextricably linked to the failure of its education system as the development of human capital is vital not only to individual progression but also national development.¹⁰ Although the country has experienced a rapid expansion in access to education and increased enrolment in recent decades, the quality of education has remained poor and characterised by ongoing inequality.¹¹

The dynamics of the educational system outcomes are complex and not a reflection of the degree of financial investment in education by the government. The fundamental challenge is that there remains a dual education system: one for a minority wealthy segment, delivering the requisite educational outcomes, and the other for the majority poor population, ill-equipping young people for post-school opportunities and further development. The result is the reinforcement of social and income inequality.¹²

There is a lack of understanding at government level of the extent of the country's education crisis, according to Prof. Jonathan Jansen of SU's Faculty of Education.¹³ Jansen agrees that the first big problem in South Africa is inequality and the second, its two unequal school systems. He points out that the country's education system is inefficient, getting very little at the output level: for every 100 children who start grade 1, only 37 pass matric and only 12 progress to a university.¹⁴ Also, research indicates that 78% of grade 4 children in South Africa cannot read for meaning in any language. According to Jansen, the critical interventions required constitute going back to basics by (i) securing a massive governmental investment in ensuring every child gets a solid pre-school education; (ii) retraining all teachers on how to teach; and (iii) stopping the dumbing down of the school curriculums (maths and science being particularly important here).¹⁵



5 Organisation for Economic Co-operation and Development (OECD). (2019). *OECD SME and Entrepreneurship Outlook 2019*. Paris: OECD Publishing.

6 Ibid.

7 Ibid.

8 Ntshavheni, K. (Minister of Small Business Development). (2019). Address on the occasion of delivering Budget Vote 31 on Small Business Development. 12 July, Cape Town.

9 Staff reporter. (2019). *Here are SME minister's new measures to boost small business finance*. Retrieved from <https://ventureburn.com/2019/11/small-business-minister-funding-measures/>

10 Mtantato, S. (2018). *Basic education is failing the economy*. Retrieved from <https://mg.co.za/article/2018-11-23-00-basic-education-is-failing-the-economy>

11 Ibid.

12 Smith, C. (2019). "SA school system based on dumbing down with 'stupid' subjects." June 20 2019, <https://mg.co.za/article/2018-11-23-00-basic-education-is-failing-the-economy>. Accessed on 21 February 2020.

13 Ibid.

14 Ibid.

15 Ibid.

Over and above the education system considerations, there is also the importance of delivering entrepreneurial education and developing entrepreneurial knowledge and skills. The key considerations here include determining what education is relevant in the context of the 4IR and the digital economy; when in the education life cycle entrepreneurial learning should commence (research indicates the earlier, the better) and how it should develop in depth and complexity; and how educators may be equipped to prepare the youth for the possibility of entrepreneurship as a career and life choice.

The Fourth Industrial Revolution (4IR) and the digital economy

The 4IR that is currently underway is likely to be more profound than any previous stages of extreme innovation. Industrial revolutions occur when new technologies and world views propel significant shifts in economic systems and social structures.¹⁶ The reality we currently live and work in is pivoting towards a fusion of the physical and the virtual worlds. Interoperability, advanced artificial intelligence and autonomy are becoming integral parts of a new industrial era.¹⁷

Building on the digital revolution, multiple technologies are leading to unparalleled paradigm shifts in the economy, business, society and individuals. Waves of technological breakthroughs are occurring at the same time; the fusion of these technologies and their interaction across the physical, digital and biological domains is what sets the 4IR apart from its predecessors.¹⁸

Technological progress is spreading via the internet at relatively low costs, influencing every aspect of human life. Digital technologies have had a profound impact on the world, transforming entire industries while enabling new entrants with great ideas and business models to achieve exponential growth

never before witnessed.¹⁹ This digital transformation of markets provides significant growth opportunities for the economy as greater connectivity between participants in different ecosystems potentially drives a more inclusive and prosperous society.²⁰

In the future, digital technologies will increasingly propel entrepreneurial activity as they hold the potential to disrupt existing market dominances and create new market and customer opportunities.

The digital economy is growing rapidly, especially in developing countries, yet it still undershoots its potential in the majority of the latter locations. In this way, growth in the digital economy is also exacerbating digital exclusion, inequality and adverse incorporation.²¹ Even with access to digital opportunities, many South African's ability to make full use of them is limited by the affordability of this access.

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- 16 Schwab, K.M. (2016). Welcome to The Fourth Industrial Revolution. *Rotman Management Magazine: The Disruptive Issue*, Fall 2016, 18–24. Retrieved from <http://www.rotman.utoronto.ca/Connect/Rotman-MAG/Back-Issues/2016/Back-Issues---2016/Fall2016-TheDisruptiveIssue>
- 17 Schwab, K. (2016). *The Fourth Industrial Revolution*. Geneva: World Economic Forum.
- 18 Ibid.
- 19 Gupta, S. (2018). *Driving Digital Strategy: A Guide to Reimagining Your Business*. United States: Harvard Business Review Press.
- 20 Department of Economic Development and Tourism, Western Cape Government. (2017). *Sector Digital Disruption Impact Assessment*. Retrieved from <https://www.westerncape.gov.za/general-publication/western-cape-sector-digital-disruption-impact-assessment>
- 21 Bukht, R. & Weeks, R. (2018). *Development Implications of Digital Economies. Paper No. 6: Digital Economy Policy in Developing Countries*. Manchester: Centre for Development Informatics, University of Manchester Global Development Institute, SEED. Retrieved from <https://diodeweb.files.wordpress.com/2018/03/digital-economy-policy-diode-paper.pdf>

Overall findings

South Africa's international rankings

The NECI provides a single composite number representing the average quality of the entrepreneurial ecosystem in a given country, for comparison with other countries. In 2019, South Africa ranked 49th out of 54 economies, ahead of only Croatia, Guatemala, Paraguay, Puerto Rico and Iran.

On the rankings of the Global Competitiveness Report 2019, South Africa's overall position improved from 67 out of 140 economies in 2018, to 60 out of 141 economies in 2019. There was, however, a decline on some rankings, such as the burden of government regulations (to 101 out of 141) and the time required to start a business (to 129 out of 141).

Still of great concern is the low rating given to the quality of the education system (119 out of 141), which has shown no significant improvement over the years. This could have a dramatic impact on levels of entrepreneurial activity in the future.

South Africa also continues to rank low on the labour market indicators, i.e. flexibility of wage determinations (124 out of 141) and hiring and firing practices (129 out of 141).

The World Bank Doing Business 2020 study measured regulations in 12 areas of business activity across 190 economies. South Africa ranked at position 84, with an overall "ease of doing business" score of 67 out of 100. Only two African economies ranked in the top 50 on this ease of doing business measurement.

Mapping entrepreneurship in South Africa

The entrepreneurial pipeline

Social values around entrepreneurship

Societal attitudes and perceptions play a central role in shaping the national entrepreneurial culture. There has been an encouraging increase from 2017 to 2019 in the number of individuals who consider entrepreneurship a good career choice (from 69.4% to 78.8%) and one with high status (from 74.9% to 82.2%).



Self-perceptions and entrepreneurial intentions

The GEM conceptual framework shows 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, importantly, believe that they have the necessary skills and capabilities to start a business venture. However, fear of failure is high at 49.8%, a significant increase from 2017. According to the 2019 findings, only 11.9% of respondents have entrepreneurial intentions, i.e. may be considered latent entrepreneurs intending to start a business within the next three years. Given the very high rates of underemployment and unemployment in the country, this is a discouraging finding.

Total early-stage entrepreneurial activity

A key GEM indicator is the total early-stage entrepreneurial activity (TEA) in a country. This indicator measures the number of individuals who are participating in either of the two initial processes of the entrepreneurial cycle (nascent entrepreneurship and new business ownership).

There was a small increase in TEA between 2016 and 2017, but this momentum was not carried through to 2019, which showed no real increase at 10.8%.



Established business ownership rate

This is the percentage of the adult population (i.e. the population aged between 18 and 64 years) who own or manage businesses that have been in operation for more than 42 months. South Africa's established business ownership rate increased from 2.2% in 2017 to 3.5% in 2019, but it is still far below the average for the overall African region and for developing countries in Latin America.

Business discontinuance

South Africa's business exit rate has decreased from 6.0% in 2017 to 4.9% in 2019, but is still higher than the established business rate of 3.5%, confirming that more businesses are closing down, being sold or otherwise discontinued than being started.



Meet South Africa's entrepreneurs

Their age

There has been a shift in early-stage entrepreneurial activity between the different age categories. Specifically, entrepreneurial activity has almost doubled from 7.5% in 2017 to 14.3% in 2019 in the age group 45–54 years, but has decreased in the age bracket 35–44.



Their gender and race

The ratio of male to female entrepreneurial activity has changed from 1.52 (12.5 male : 8.2 female entrepreneurs) in 2017 to 1.14 (10.9 male : 9.6 female entrepreneurs) in 2019, indicating that female entrepreneurship is on the rise. Women make up more than 50% of the adult population in South Africa; the entrepreneurial activity ratio should ideally reflect this.

In terms of race, the white population has seen the biggest increase in entrepreneurial activity between 2017 and 2019. (an increase of 2.6%).

Their education levels

In all countries, an educated population with the requisite knowledge, skills and capacity for innovation has proven vital to driving competitiveness, productivity and sustainable growth. From 2017 to 2019, there was a significant drop in early-stage intrapreneur average level of education completion beyond the primary level. This finding is extremely concerning as education is a core necessity for any developing nation.



What we learnt from the National Expert Survey (NES)

The success of entrepreneurial activity is highly dependent on the context within which it occurs. Ecosystem factors such as government policy frameworks and legislation, economic development and performance, education and a host of social dynamics directly influence and uniquely shape entrepreneurial activity and development at a country level.

The NES is the vehicle for collecting data and expert opinions on the nine primary framework conditions used in the GEM

conceptual model. These framework conditions focus on the contextual factors that are expected to have a significant impact on entrepreneurial attitudes and activities, rather than on general economic factors. In 2019, the South African ratings on the framework conditions were, across the board, lower than in 2017. The country's ratings were also consistently lower than the GEM global averages.

Access to physical infrastructure or services continued to rate highest (5.1),

with availability of entrepreneurship education at the primary and secondary levels, lowest (2.2). Other low ratings were for government entrepreneurship policies (2.7), government entrepreneurship programmes (3.1), research and development transfer (3.2), internal market burdens (3.4), and entrepreneurship education at tertiary level (3.5). Read more about this in [Section 3](#).

Unpacking the national framework conditions (NFCs)

The top-line findings for four of the NFCs (selected on the combined basis of current ratings and their importance for improving the entrepreneurial ecosystem in South Africa) are summarised below.

Government policies and initiatives



The 2019 expert ratings of seven aspects of government policies around entrepreneurship are lower than those of 2017, four of the seven having a rating of lower than three out of ten.

The South African government has, over the past two decades, introduced many programmes to promote entrepreneurial development. Unfortunately, the average expert ratings of how well these programmes have been implemented are poor, suggesting a very low return on effort and investment.

This, together with the clear drop in all scores from 2017 to 2019, is reason for concern.

Market openness



Open, efficient market systems and healthy competition are good for economic inclusion, innovation in products and services, and realistic, fair pricing. A rating of five or less out of a possible ten depicts an unhealthy market

dynamic. The findings show that, in the case of both new and established markets, experts perceived deterioration in market openness in 2019, all scores being below 5.

Entrepreneurship education and training



Education, specifically entrepreneurial education, is a foundation requirement for starting a business and succeeding as an entrepreneur. The NES expert commentators

agree that the education system in South Africa still does not sufficiently align with or support entrepreneurial activity.

Of all types of feeder education for entrepreneurship, business and management education was rated most efficient, but at a lowly 4 out of 10 only. Vocational, professional and continuing education systems scored second highest at 3.5. In terms of promoting creativity, laying out market economic principles and paying sufficient attention to entrepreneurship, primary and secondary education systems scored very low at 2.3, 2.3 and 2.2 respectively.

These scores need to be considered in the context of the 4IR and the rapidly evolving digital economy. It is unlikely that, in the future, large corporations will employ people in increasingly large numbers; education systems will need to provide learners with new capabilities for earning a living in a fast-changing world. Entrepreneurship is likely to become a career reality for more and more people.

Availability of and access to finance



Access to funding is a problem for the majority of intentional entrepreneurs. GEM studies have shown that the lack-of-funding dilemma hinges on the tension between what the entrepreneur can offer and what funders require.

The NES results show that experts are currently fairly positive about the availability of entrepreneurial finance. (South Africa's overall average for this framework condition is 4, compared to the GEM global average of 4.5.) However, the scores on the individual aspects of this framework condition were all lower in 2019 than in 2017, with government subsidies for new and growing firms dropping the most from 5.2 to 3.9. Private lender funding (including crowdfunding) scored the lowest of all funding sources at 3.3.