GEM

GLOBAL ENTREPRENEURSHIP MONITOR

Is there a **change in attitude** towards the small and medium business sector in

South Africa

2017/18

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Economic Development and Tourism

seda
SMALL ENTERPRISE DEVELOPMENT AGENCY
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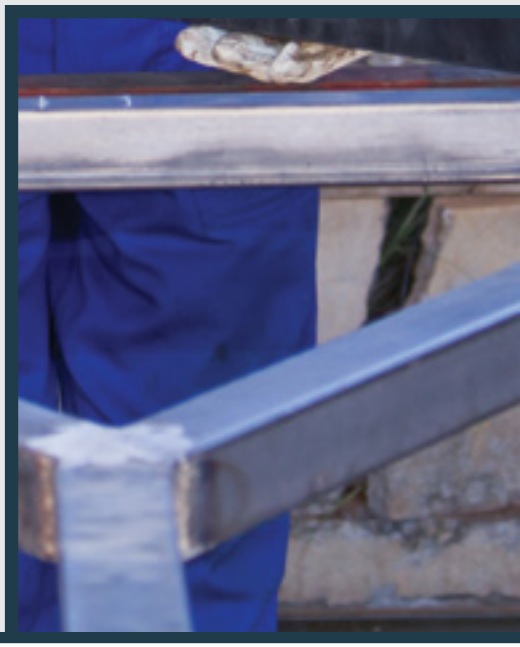
EXECUTIVE SUMMARY



2017 was a difficult year for South Africa. The economy was predicted to grow at a low 0.7%, and unemployment rose to its highest levels since the advent of democracy at 27.6% with an expanded rate of slightly in excess of 40%. Youth unemployment and underemployment exceeded 65%, rising as high as 80% in some areas. Rating agencies Standard and Poor and Fitch downgraded South Africa to junk status and political tension and division amongst the ruling African National Congress party was at its height with the resignation of President Jacob Zuma and the election of a new ANC President, Cyril Ramaphosa. Numerous Cabinet reshuffles including a number of changes within the Ministry of Finance, such as Malusi Gigabi replacing Pravin Gordhan, all led to a disillusionment of foreign investors and a reluctance to invest in the country.

Business confidence reached an all-time low and local investment in capital structures seemed to come to a halt. A number of private companies were implicated in corrupt dealings including Steinhof, Oakbay and KPMG. Huge scandals revolved around the Gupta Family and President Zuma with several cabinet ministers and leading politicians being implicated.

However, in spite of all this bad news the economy actually grew by 1.3% in 2017. The fourth quarter experienced the highest growth rate in the year with the economy expanding by 3.1% quarter on quarter (Stats SA).

GEM's entrepreneurial pipeline

The GEM model recognizes entrepreneurial attitudes, activity and aspiration as dynamic interactive components of national entrepreneurial environments.

Entrepreneurial activity does not take place in a vacuum, and entrepreneurial attitudes and perceptions (both societal and individual) play an important part in creating an entrepreneurial culture.

GEM sees entrepreneurial activity as a continuous process rather than as individual events. As such, the Adult Population Survey (APS) is designed to allow for the measurement and assessment of individual participation across the range of phases comprising entrepreneurial activity: potential entrepreneurship, entrepreneurial intentions, nascent and new business activity, progression into established business ownership, and the reasons for business discontinuance.

This process can be viewed as a pipeline, where people participating in each phase are the source of those potentially advancing to the next phase.

Societal values about entrepreneurship

GEM considers those who perceive good opportunities for starting a business and also believe they have the required skills. Opportunities (or the perception of good opportunities) play an important role in determining whether an individual would even consider starting a business. 2017 has shown a substantial increase in the perception of good opportunities from 35% in 2016 to 43.2% in 2017. However, this is not enough as the perception that entrepreneurs have of possessing the required capabilities, has not changed from 37.9% in 2016 to 39.3% in 2017 and fear of failure remains at a constant level of around 31%.

Early-stage entrepreneurial activity

What is encouraging is substantial rise in the level of early-stage entrepreneurial activity (TEA) which has increased by 59.4% from 2016 (6.9%) to 2017 (11%). At first glance this is difficult to explain as it appears that TEA has returned to the high levels experienced in 2010 and 2011 during the Soccer World Cup era when people were actively pursuing new business opportunities. However, from a variety of reports this seems possible as there is much buzz around entrepreneurship and start-ups – youth programmes, funding and development, corporate involvement, global conferences in South Africa and so on.

More than 75% of all early-stage entrepreneurs in South Africa in 2017 were opportunity-driven which is higher than in other countries in Africa. This is encouraging as it indicates that more South Africans are starting businesses because they see an opportunity rather than doing so out of sheer necessity. Although this is good news it must be seen in the light of the low, albeit increased levels, of early-stage entrepreneurial activity in the country especially in the light of the high levels of unemployment and underemployment. What is surprising is that the levels of necessity-driven entrepreneurship have not increased substantially given the levels of unemployment.

Established businesses

Moving down the entrepreneurial pipeline, the established business rate remains at only 2.2% and has not changed over the past few years. In 2017 this represents a five-fold loss of businesses from those that are starting which indicates a severe problem with maintaining sustainability. The poor sustainability of start-ups in South Africa relative to other GEM countries highlights the need for policy intervention directed towards supporting and practically mentoring new start-ups.

The main reasons for exit in South Africa are that the business is not profitable, the entrepreneur had problems in getting finance or for other personal reasons. The lack of profitability could arise because of the low levels of business skills, poor ideas that are not marketable and a lack of access to suitable markets which may be related to the fact that many new businesses are started in areas that are grossly overtraded and highly price, competitive resulting in extremely low margins that cannot sustain the business. Too many entrepreneurs adopt the “me too” attitude and are unable to offer products or services that can show distinct benefits and differences to the consumer.

Although lack of access to finance is a significant restraint for early-stage entrepreneurs, previous GEM research has shown that this lack of access to funding is no different to what is experienced in other countries. It seems that the main problem is that entrepreneurs do not know how to prepare business plans that are acceptable to potential funders and the funders are offering support based only upon asset-based lending.

Age distribution and education

Entrepreneurial activity in South Africa in the age group 25 – 34 years has been reversed and the downward trend has increased back from the low 2016 levels of 6.3% to 14.5% in 2017. The same is true for the 35 – 44 year category which has increased from 8.4% in 2016 to 13.5% in 2017.

Encouragingly, well over half of the early-stage entrepreneurs in South Africa have at least a secondary degree (52.0%) or post, secondary degree (21.3%) and that this has been rising steadily since 2001.

Sector distribution

With respect to sector distribution, the wholesale/retail sector has over half of the early-stage entrepreneurs at 52.5% which is similar to countries in the rest of Africa as well as to other efficiency-driven economies. This has been the same for many years and is not surprising as the barriers to entry with regards to both skills and capital

are low. However, this is a highly overtraded area and very price, competitive which results in many such start-ups not surviving and going out of business.

Moreover, this sector tends to be dominated by a few large retailers who have the buying power to purchase at highly competitive rates thus making it difficult for smaller traders to survive. This would account for the large difference between the rate of early-stage entrepreneurship, the low rate of established businesses and the high rate of discontinuance.

Government initiatives

When considering government initiatives there is a marked decrease in awareness of Seda in the age category 18 – 24 years from 17.1% in 2016 to 5.6% in 2017 and to a lesser extend in the age group 25 – 34 years from 26.6% to 20.1%. However, there was an increase in awareness in the 35 – 44 years group from 26.3% in 2016 to 40.9% in 2017 and in the 45 – 54 years age category from 14.9% to 22.9%.

These results tend to indicate that the marketing done by Seda is not successfully reaching the younger population in South Africa and yet it is this section of the population who are most active in early-stage entrepreneurial activity. In all probability Seda needs to change its marketing focus and start to concentrate on the younger population.

16.6% of the people who were aware of Seda used them which is higher than either the National Youth Development Agency (NYDA) at 15% and the National Empowerment Fund (NEF) at 13.2%. This is a very low figure and Seda needs to find out why so few people who are aware of their offering are actually using them.

However, what is encouraging is that, of the people who used Seda, 22.9% found them somewhat effective and 23.8% found them to be very effective. Nonetheless Seda needs to improve as other organisations are perceived to be more effective. Examples of this are the IDC, TIA, NEF and Dti.

South Africa's entrepreneurial ecosystem

The National Expert Survey (NES) highlighted a number of strengths and weaknesses but there ahs been little improvement from 2016 to 2017 with respect to the perceptions of the key expert informants. However although the South African entrepreneurial ecosystem is generally regarded as mediocre it is not significantly worse than in other efficiency-driven economies.

Government policies and programmes show persistently low scores which is disappointing especially since government keeps stating that small business development is one of their main priorities. The onerous "red tape" remains a problem in spite of many institutions emphasising the need to cut out the bureaucracy and make it easier for a person to start a business. Onerous labour laws continue to be a major problem and nothing seems to be being done about this..

The main stumbling block to improving entrepreneurial activity in South Africa is the poor quality of the educational system and this perception is backed up by the latest 2017/18 Global Competitive Index report.

The government needs to look at all aspects of the ecosystem and decide on a strong course of action to change the situation in South Africa and to help improve the standards of all its people.

CHAPTER 1:
INTRODUCTION AND BACKGROUND

In the 18 years since its inception, GEM has measured entrepreneurship in over 100 countries, covering all geographic regions and all economic levels, and has gained widespread recognition as the most informative and authoritative longitudinal study of entrepreneurship in the world. In 2017, 54 economies participated in the GEM study, comprising approximately 68% of the world's population and 86% of the world's total GDP. 54 economies completed the Adult Population Survey (APS)1 and the National Expert Survey (NES). The economies that participated in the 2017 GEM cycle are shown in **Table 1.1**, grouped according to geographic region and economic development level[2].

1 Classification of economies by geographic region is adapted from the United Nation's composition of the world's macro geographical regions. http://unstats.un.org/unsd/methods/m49/m49regin.htm

2 Classification of economies by economic development level is adapted from the World Economic Forum (WEF). According to WEF's classification, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on (unskilled) labour and natural resources. In the efficiency-driven phase, an economy has become more competitive with more-efficient production processes and increased product quality. As development advances into the innovation-driven phase, businesses are more knowledge-intensive, and the service sector expands (http://weforum.org). Economies in transition from factor- to efficiency-driven have been grouped with the factor-driven economies, while those in transition from efficiency- to innovation-driven have been included in the efficiency-driven category.

Table 1.1: GEM economies by geographic region and economic development level, 2017

Country	Factor-driven economies	Efficiency-driven economies	Innovation-driven economies
Africa	Madagascar	Egypt, Morocco, South Africa	
Asia and Oceania	India, Kazakhstan, Vietnam	China (PRC), Indonesia, Iran,Lebanon, Malaysia, Saudi Arabia, Thailand,	Australia, Israel, Qatar, Republic of South Korea, Taiwan, United Arab Emirates, Japan
Latin America & Caribbean		Argentina, Brazil, Chile, Colombia,Ecuador, Guatemala,Mexico, Panama, Peru, Uruguay	Puerto Rico
Europe		Bulgaria, Bosnia & Herzogovenia, Croatia, Latvia, Poland, Slovakia,	Cyprus, Estonia, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Slovenia, Spain, Sweden, Switzerland, United Kingdom
North America			Canada, United States

The GEM conceptual framework

Academics and policy makers agree that entrepreneurs and the new businesses they establish play a critical role in the development and well-being of their societies. As such, there is increased appreciation for, and acknowledgement of, the role played by new and small businesses in an economy. GEM has contributed to this recognition by conducting longitudinal studies and comprehensive analyses of entrepreneurial attitudes and activity across the globe since 1997.

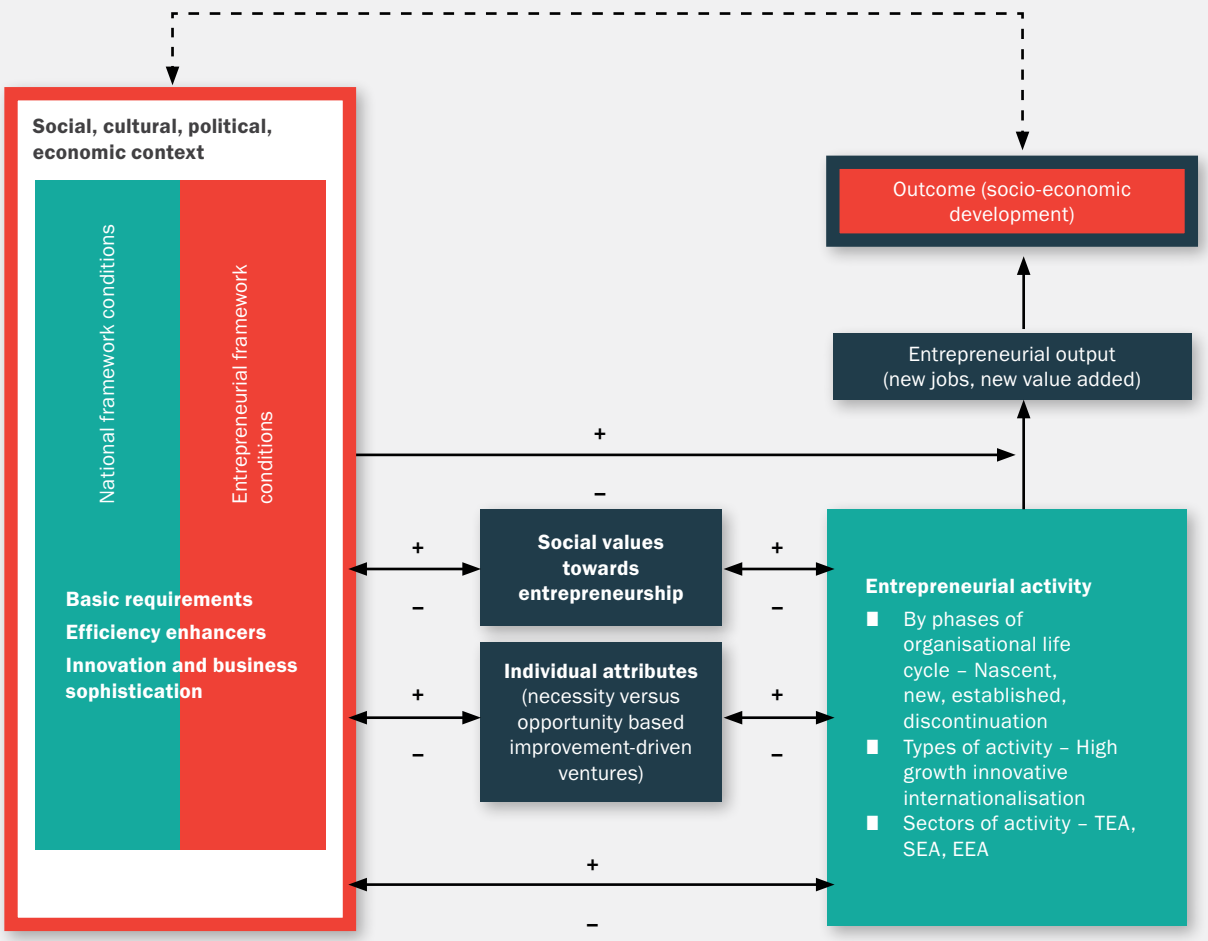
GEM's conceptual framework depicts the multifaceted features of entrepreneurship, recognizing the proactive, innovative, and risk-responsive behaviour of individuals, always in interaction with the environment. The GEM survey was conceptualized with regard for the interdependency between entrepreneurship and economic development in order to facilitate the following:

- Uncover factors that encourage or hinder entrepreneurial activity, especially related to societal values, personal attributes, and the entrepreneurship ecosystem.
- Provide a platform for assessing the extent to which entrepreneurial activity influences economic growth within individual economies.
- Uncover policy implications in order to enhance entrepreneurial capacity in an economy.

The GEM conceptual framework derives from the basic assumption that national economic growth is the result of the personal capabilities of individuals to identify and seize opportunities, and that this process is affected by environmental factors that influence individuals' decisions to pursue entrepreneurial initiatives. **Figure 1.1** shows the main components and relationships into which GEM divides the entrepreneurial process and how it classifies entrepreneurs according to the level of their organizational development.

The social, cultural, political and economic context is represented through National Framework Conditions (NFCs), which take into account the advancement of each society through the three phases of economic development (factor-driven, efficiency-driven and innovation-driven), and Entrepreneurial Framework Conditions (EFCs) which

Figure 1.1: The GEM Conceptual Framework



relate more specifically to the quality of the entrepreneurial ecosystem and include the following: Entrepreneurial financing, government policy, government entrepreneurship programmes, entrepreneurship education, research and development (R&D) transfer, commercial and legal infrastructure, internal market dynamics and entry regulations, physical infrastructure, and cultural and social norms.

As indicated in **Figure 1.1**, the GEM conceptual framework recognizes that entrepreneurship is part of a complex feedback system and makes explicit the relationships among social values, personal attributes and various forms of entrepreneurial activity. It also recognises that entrepreneurship can mediate the effect of the NFCs on new job creation and the creation of new economic or social value. Entrepreneurial activity is thus the result of the interaction between an individual's perception of an opportunity, the entrepreneur's capacity (motivation and skills) to act upon this and the distinct conditions of the respective environment in which the individual is located. In addition, while entrepreneurial activity is influenced by the framework conditions of the environment in question—that is, the ecosystem in which it takes place—this activity ultimately benefits this environment as well, through social value and economic development.

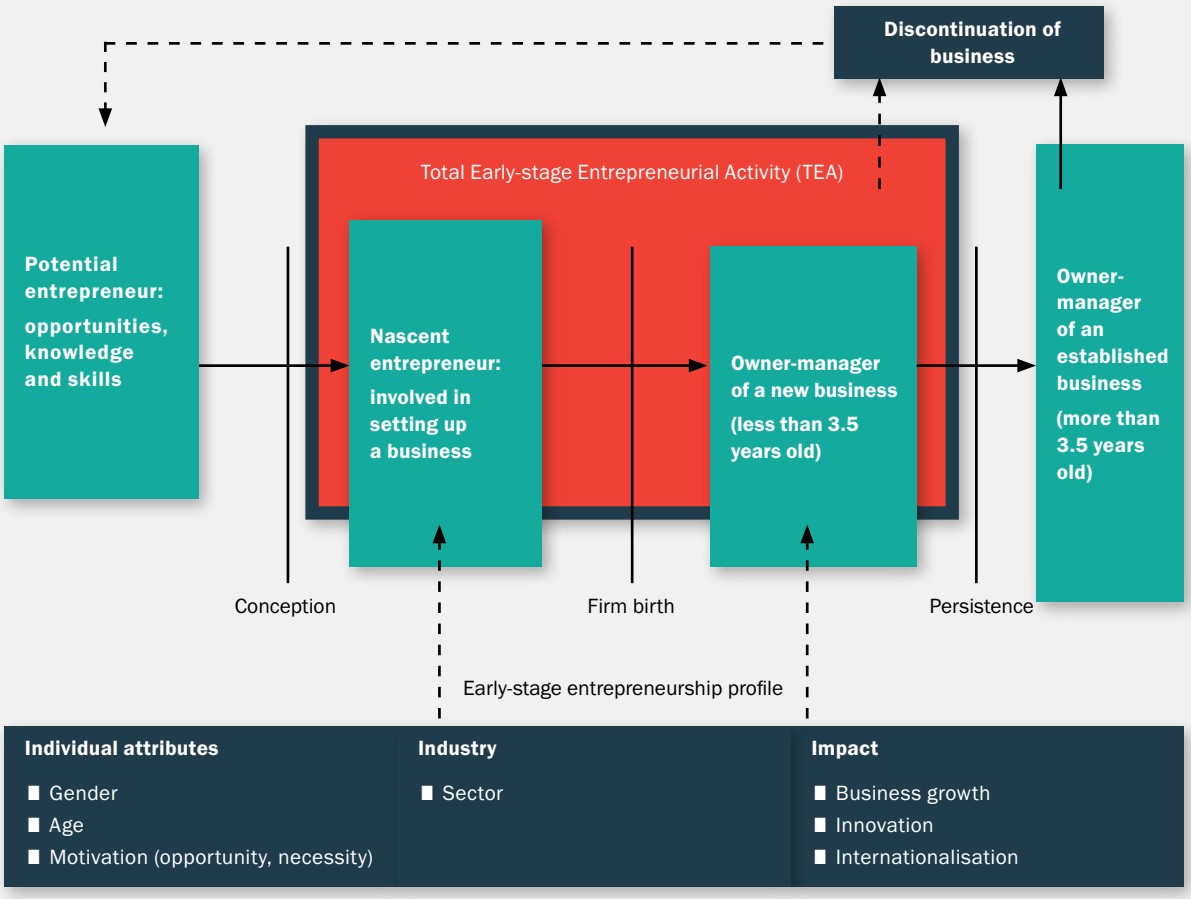
Social values pertaining to entrepreneurship: This includes aspects such as the extent to which society values entrepreneurship as a good career choice; whether entrepreneurs have a high societal status; and the extent to which media attention to entrepreneurship is contributing to the development of a positive entrepreneurial culture.

Individual attributes: This includes different demographic factors (such as gender, age, geographic location), psychological factors (including perceived capabilities, perceived opportunities, fear of failure), and motivational aspects (necessity versus opportunity based ventures, improvement-driven ventures).

Entrepreneurship activity: This is defined according to the phases of the life cycle of entrepreneurial ventures (nascent, new business, established business, discontinuation); according to impact (high growth, innovation, internationalization); and by type (Total Early-stage Entrepreneurship Activity – TEA, Social Entrepreneurship Activity – SEA, Employee Entrepreneurship Activity – EEA).

Operational definitions of the business phases and entrepreneurship characteristics are presented in **Figure 1.2.**

Figure 1.2: GEM model of business phases and entrepreneurship characteristics



Source: *GEM Global Report 2016/17*

Given that GEM's goal is to provide a comprehensive view of entrepreneurship across the globe, it aims to measure the attitudes of the population, and the activities and characteristics of individuals involved in various phases and types of entrepreneurial activity. Research teams in each participating economy collect primary data through an Adult Population Survey (APS) of at least 2,000 randomly selected adults (18 – 64 years of age) annually.

Complementing the APS is a National Expert Survey (NES), which gathers in-depth opinions from selected national experts about the factors that have an impact on the entrepreneurship ecosystem in each economy. At least four experts from each of the entrepreneurial framework condition categories must be interviewed, making a minimum total of 36 experts per country. In order to select a balanced and representative sample, the experts are drawn from the communities of entrepreneurs, government, academics, and practitioners in each economy.

1.2 How GEM measures entrepreneurship

This report features a detailed review of key entrepreneurship indicators, with each economy receiving a ranking for every indicator. Overall, this group of indicators may be viewed as a dashboard representing a comprehensive set of measures that collectively contribute toward the impact entrepreneurship has on a society and the extent society supports this activity. Highlighted in the report are the following measures:

Societal values and perceptions:

- Good career choice
  The percentage of the adult population between the ages of 18 and 64 years who believe that entrepreneurship is a good career choice.

- High status of successful entrepreneurs
  The percentage of the adult population between the ages of 18 and 64 years who believe that high status is afforded to successful entrepreneurs.

- Media attention for entrepreneurship
  The percentage of the adult population between the ages of 18 and 64 years who believe that there is a lot of positive media attention for entrepreneurship in their country.

Individual attributes of a potential entrepreneur:

- Perceived opportunities
  Percentage of the population aged 18–64 years who see good opportunities to start a business in the area where they live.

- Perceived capabilities
  Percentage of the population aged 18–64 years who believe they have the required skills and knowledge to start a business.

- Entrepreneurial intention
  Percentage of the population aged 18-64 years (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years.

- Rate of fear of failure
  Percentage of the population aged 18-64 years perceiving good opportunities who indicate that fear of failure would prevent them from starting up a business.

Entrepreneurial activity indicators:

Three indicators describe the life cycle of a venture:

- Total Early-stage Entrepreneurial Activity – TEA
  The percentage of the adult population aged 18–64 years who are in the process of starting a business (a nascent entrepreneur) or owner-manager of a new business that is less than 42 months old. This indicator can additionally be enriched by providing information related to motivation (opportunity vs. necessity), inclusiveness (gender, age), impact (business growth in terms of expected job creation, innovation, internationalization) and industry (sectors).

- Established business ownership rate
  The percentage of the adult population aged 18–64 years who are currently an owner-manager of an established business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

- Business discontinuation rate
  The percentage of the adult population aged 18–64 years (who are either a nascent entrepreneur or an owner-manager of a new business) who have in the past 12 months discontinued a business, either by selling, shutting down, or otherwise discontinuing an owner/management relationship with the business.

Two other indicators describe additional types of entrepreneurial activity:

- Entrepreneurial Employee Activity – EEA
  The percentage of the adult population aged18–64 years who, as employees, have been involved in entrepreneurial activities such as developing or launching new goods or services, or setting up a new business unit, a new establishment, or a subsidiary.

- Social Entrepreneurial Activity – SEA
  The percentage of the adult population aged 18–64 years who are engaged in early-stage entrepreneurial activities with a social goal.

Perceived quality of entrepreneurial ecosystem:

Average value of experts' perceptions, using a Likert scale of 1 (highly insufficient) to 9 (highly sufficient), for the nine entrepreneurial framework components:

- Entrepreneurial financing
- Government policy
- Government entrepreneurship programs
- Entrepreneurship education
- R&D transfer
- Commercial and legal infrastructure
- Entry regulation
- Physical infrastructure
- Cultural and social norms

This report included results based on 54 economies in which the Adult Population Survey (APS) and the National Expert Survey (NES) were completed.

1.3 GEM methodology

In order to provide for reliable comparisons across countries, GEM data is obtained using a research design that is harmonised over all participating countries. The data is gathered on an annual basis from two main sources:

1.3.1 Adult Population Survey (APS)

The key entrepreneurship indicators are measured in the Adult Population Survey (APS). Academic teams in each participating economy administer and oversee this survey, which is conducted using a random representative sample of at least 2,000 adults between the ages of 18 and 64 years. The surveys are conducted at the same time every year (between May and July) using a standardised questionnaire provided by the GEM Global Data Team. The questionnaire is translated into local languages, and back-translated for a validity check.

In 2017, Nielsen was retained as the accredited vendor to conduct the APS in South Africa. The research included conducting 3130 face-to-face interviews with a random selection of the adult population in South Africa between the ages of 18 and 64 years in both rural and urban areas, covering all races and gender. Interviews were conducted in the homes of respondents using a structured questionnaire, in the preferred language of the respondent. Households were selected using Nielsen's computerised household register (close to 6 million actual addresses in urban areas) and from maps for rural sampling. The sample was stratified by race, and within race, by community size within region.

The individual countries only gain access to the data once the raw data has been analysed by GEM Data Team experts for quality assurance, checking and uniform statistical calculations. As the GEM research design harmonises the data, it is possible to conduct reliable cross-national and intra-country comparisons over time.

1.3.2 National Experts Survey (NES)

The National Expert Survey (NES) provides information on the local environment faced by start-up entrepreneurs. Information is gathered about the nine Entrepreneurial Framework Conditions: financing for entrepreneurs, government policies, governmental programmes, entrepreneurial education and training, research and development transfer, commercial and professional infrastructure, internal market openness, physical and services infrastructure and social and cultural norms.

GEM provides a number of criteria which must be met when selecting experts, in order to construct a balanced and representative sample.

- At least four experts from each of the entrepreneurial framework condition categories must be interviewed, making a minimum total of 36 experts per country.
- A minimum of 25% must be entrepreneurs or business people, and 50% must be professionals.
- Additional aspects such as geographical distribution, gender, involvement in the public versus private sector, and level of experience should also be taken into account when balancing the sample.

NES data is collected by interviewing experts identified by the local team. Interviews were offered in a face-to-face, telephonic or electronic format. Experts were chosen for their depth of experience, seniority within organisations, areas of specialisation and affiliation. In some instances, the head of an institution referred us to individuals they considered best positioned to provide the insights we sought. A number of the respondents are engaged in full-time entrepreneurial ventures, whilst a number of others indicated that they were involved in small business ventures in addition to their primary job.

CHAPTER 2: A SOUTH AFRICAN PERSPECTIVE ON ENTREPRENEURSHIP

2.1 The entrepreneurial pipeline

The GEM model recognises entrepreneurial attitudes, activity and aspirations as dynamic interactive components of national entrepreneurial environments. Entrepreneurial activity does not take place in a vacuum, and entrepreneurial attitudes and perceptions (both societal and individual) play an important part in creating an entrepreneurial culture.

GEM sees entrepreneurial activity as a continuous process rather than as individual events. As such, the Adult Population Survey (APS) is designed to allow for the measurement and assessment of individual participation across the range of phases comprising entrepreneurial activity: potential entrepreneurship, entrepreneurial intentions, nascent and new business activity, progression into established business ownership, and the reasons for business discontinuance. This process can be viewed as a pipeline, where people participating in each phase are the source of those potentially advancing to the next phase.

In this report, the authors have decided to look at South Africa's entrepreneurial behaviour over several years of GEM surveys, with a particular focus on the changes that have occurred in the last 12 months so that the current entrepreneurial landscape can be defined and understood. This will allow for trends in South African entrepreneurial activity to be highlighted, as well as assist policy makers to make more informed decisions about how to increase entrepreneurship and enhance SMME development within the country.

2.1.1 Societal values about entrepreneurship

Societal attitudes and perceptions play an important role in creating an entrepreneurial culture, as part of the entrepreneurship eco-system. Entrepreneurial activities are carried out by people living in specific cultural and social conditions, and the positive or negative perceptions that a given society has about entrepreneurship can have a strong influence on the entrepreneurial ambitions of potential and existing entrepreneurs, as well as the extent to which this activity is supported. GEM assesses whether people think that entrepreneurship is a good career choice, whether entrepreneurs are believed to have a high status, and whether entrepreneurs garner significant levels of positive media attention.

As can be seen from **Table 2.1** there has been a slight decrease in the attitudes of individuals who see entrepreneurship as a good career choice (69.4% down from 72.6% in 2016), who perceive that entrepreneurship has high status in society although media attention to entrepreneurship is higher than in the rest of Africa as well as other efficiency-driven economies. This is a good thing as media can play such a vital role in encouraging entrepreneurship in a country .

Table 2.1: Societal entrepreneurship attitudes in South Africa, 2003 – 2017. Percentage of Population Aged 18 – 64

	2003	2005	2008	2010	2012	2013	2014	2015	2016	2017	Africa region 2017 (average)	Efficiency-driven economies 2017 (average)
Good career choice	48.0*	55.2	64.6	77.5	74.1	74.0	69.6	73.8	72.6	69.4	76.2	65.7
High status to successful entrepreneurs	48.0	56.0	62.2	77.6	74.0	74.7	72.9	76.1	78.1	74.9	74.5	66.3
Media attention for entrepreneurship	47.5	54.4	69.2	78.6	72.9	78.4	72.6	73.8	74.2	72.7	60.1	60.1

* Read as 48% of South African adults in 2003 regarded entrepreneurship as a good career choice

2.1.2 Self-perceptions and entrepreneurial intentions

As indicated in the GEM conceptual framework (**Figure 1.1**), GEM considers those who perceive good opportunities for starting a business and also believe they have the required skills. Opportunities (or the perception of good opportunities) play an important role in determining whether an individual would even consider starting a business. The number and quality of the opportunities that people perceive exist and their belief about own capabilities may well be influenced by various factors in their environment, such as economic growth, culture, and education.

Another factor to be considered regarding self-perception of entrepreneurs is the fear of failure. Fear of failure can be influenced by intrinsic personality traits, as well as by societal norms and regulations. In some countries, the legal and social ramifications of business failure may act as a strong deterrent, reducing the pool of potential entrepreneurs.

Table 2.2 shows a substantial increase in the perception of good opportunities from 35% in 2016 to 43.2% in 2017. The South African economy advanced an annualized 3.1% on quarter in the last three months of 2017 (https;//trading economics.com/south-africa/gdp-growth) beating market expectations of 1.8%. It is the strongest growth rate in six quarters mainly due to a robust gain in agriculture, a rebound in internal trade and a faster than expected increase in manufacturing. This may reflect an increase in perceived opportunities that have traditionally been below that of other efficiency-driven economies.

Potential entrepreneurs see good opportunities for starting a business and believe that they have the necessary skills, knowledge, and experience to start a business. However, perceiving a good opportunity and having the skills to pursue it do not necessarily lead people to intend to or actually start a business. Individuals assess the opportunity, costs, risks and rewards of starting a business versus other employment preferences and options, if any of these are available. In addition, the environment in which potential and active entrepreneurs exist needs to be sufficiently enabling and supportive. GEM defines entrepreneurial intention as the percentage of the population aged 18–64 (individuals already engaged in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within the next three years.

Table 2.2: Entrepreneurial perceptions and competencies in the adult population of South Africa, 2001 – 2017. Percentage of population aged 18 – 64 years

	2001	2005	2009	2013	2014	2015	2016	2017	Africa region 2017 (average)	Efficiency-driven economies 2017 (average)
Perceived good opportunities	19.7*	27.3	35.4	37.8	37.0	40.9	35.0	43.2	37.2	43.8
Perceived capabilities	30.4	35.2	35.5	42.7	37.7	45.4	37.9	39.9	47.9	53.5
Fear of failure**	26.0	25.5	29.5	27.2	25.5	30.3	31.2	31.3	39.1	33.9

* Read as 19.7% of South African adults in 2001 perceived good entrepreneurial opportunities in their area
**Fear of failure – Percentage of population aged 18-64 perceiving good opportunities to start a business.

The next stage in the entrepreneurial pipeline is those entrepreneurs who express their interest and intention of actually starting a business. Given the apparent trend in upward movement of the economy the results of **Table 2.3** are discouraging especially taking into account the chronically high levels of unemployment and underemployment. One would have thought that more people would be starting a business or at least starting to think about self-employment. South Africa still remains well below the figures for the rest of Africa and other efficiency-driven economies. Policy makers need to concentrate their efforts on finding out why intentions remain low and what is influencing this. In past GEM reports, we have mentioned a number of factors which could adversely influence intentions, these being the high levels of "red tape", onerous labour regulations, disruptions due to civil unrest, strikes, levels high levels of corruption and the uneven market competitive environment. The educational system is very poor and hence there is a lack of skilled labour in spite of the high levels of unemployment.

2.1.3 Total early-stage entrepreneurial activity

The central indicator of GEM is the total early-stage entrepreneurial activity (TEA) which measures the percentage of the adult population, aged 18 to 64 years, who are in the process of starting or who have just started a business. This indicator measures individuals who are participating in either the two initial processes of the entrepreneurial cycle, i.e. nascent entrepreneurs who have committed resources to starting a business but have not yet paid salaries or wages for more than three months, and new business owners who have moved beyond the nascent stage and have paid salaries and wages for more than three months but less than 42 months.

Table 2.4 shows that the level of early-stage entrepreneurial activity (TEA) has increased by 59.4% from 2016 (6.9%) to 2017 (11.0%). At first glance this is difficult to explain as TEA has returned to the high levels experience in 2010 and 2011 during the Soccer World Cup era when people were actively pursuing new business opportunities.

Table 2.3: Entrepreneurial intentions in South Africa. Percentage of population aged 18 – 64 years, 2003 – 2017

	2003	2005	2008	2010	2012	2013	2014	2015	2016	2017	Africa region 2017 (average)	Efficiency-driven economies 2017 (average)
Entrepreneurial intentions**	12.2*	10.7	16.9	19.6	14	15.4	11.8	10.9	10.1	11.7	33.4	26.3

* Read as 12.2% of South African adults in 2003 had entrepreneurial intentions

**Entrepreneurial intentions – Percentage of population aged 18-64 that is not involved in entrepreneurial activity.

Table 2.4: Prevalence rates (%) of entrepreneurial activity among the adult population in South Africa, 2001 – 2017. Percentage of population aged 18 – 64 years

	2001	2005	2009	2013	2015	2016	2017	Africa region 2017 (average)
Nascent entrepreneurial rate	5.3*	3.6	3.6	6.6	5.5	3.9	7.5	7.3
New business ownership rate	1.4	1.7	2.5	4.1	3.8	3.3	3.8	6.6
TEA	6.5	6.2	5.9	10.6	9.2	6.9	11.0	13.7
Established business ownership rate	-	1.3	1.4	2.9	3.4	2.5	2.2	11.9
Business discontinuance rate	-	2.9	3.5	3.9	4.8	4.5	6.0	6.9

* Read as 5.3% of entrepreneurs in 2001 were engaged in nascent entrepreneurial activity

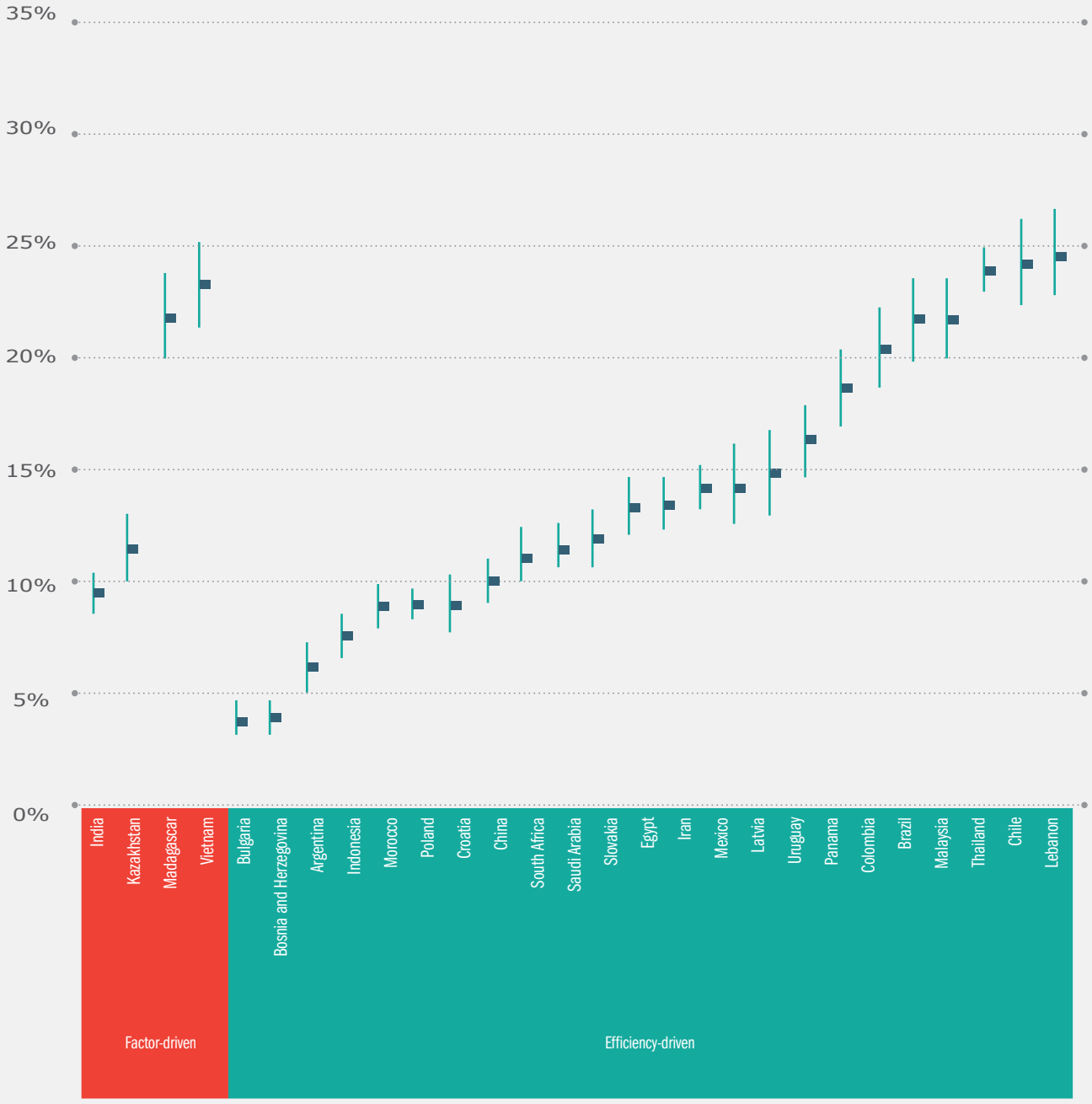
However, from a variety of reports it looks like there is much buzz around entrepreneurship and start-ups – youth programmes, funding and development, corporate involvement, global conferences in South Africa and so on. There are many articles suggesting that entrepreneurship grew in 2017, such as in the quotes given below:

https://www.iafrikan.com/2018/01/18/10-defining-moments-that-shaped-the-2017-south-african-startup-ecosystem/

"2017 in South Africa is a very hard year to define. Most people are limping into 2018 battle-scar ridden and trying to figure out what the hell just happened? Bitcoin highs and Steinhoff lows, neighbouring coups and non-coups, Rugby World Cup hosting woes and Western Cape dam levels scraping the bottom of the barrel along with GuptaBots, while Cyril is rising to the top.

But adversity is the mother of invention. South African entrepreneurs had a bumper year—leading the charge with innovation, job creation, and growth. It was a real challenge cutting it down to ten, but these are some of the defining moments that shaped the South African entrepreneurship ecosystem in 2017 that stood out for me."

Figure 2.1: Total early-stage entrepreneurial activity (TEA) in 54 economies, grouped by phase of economic development, GEM 2017



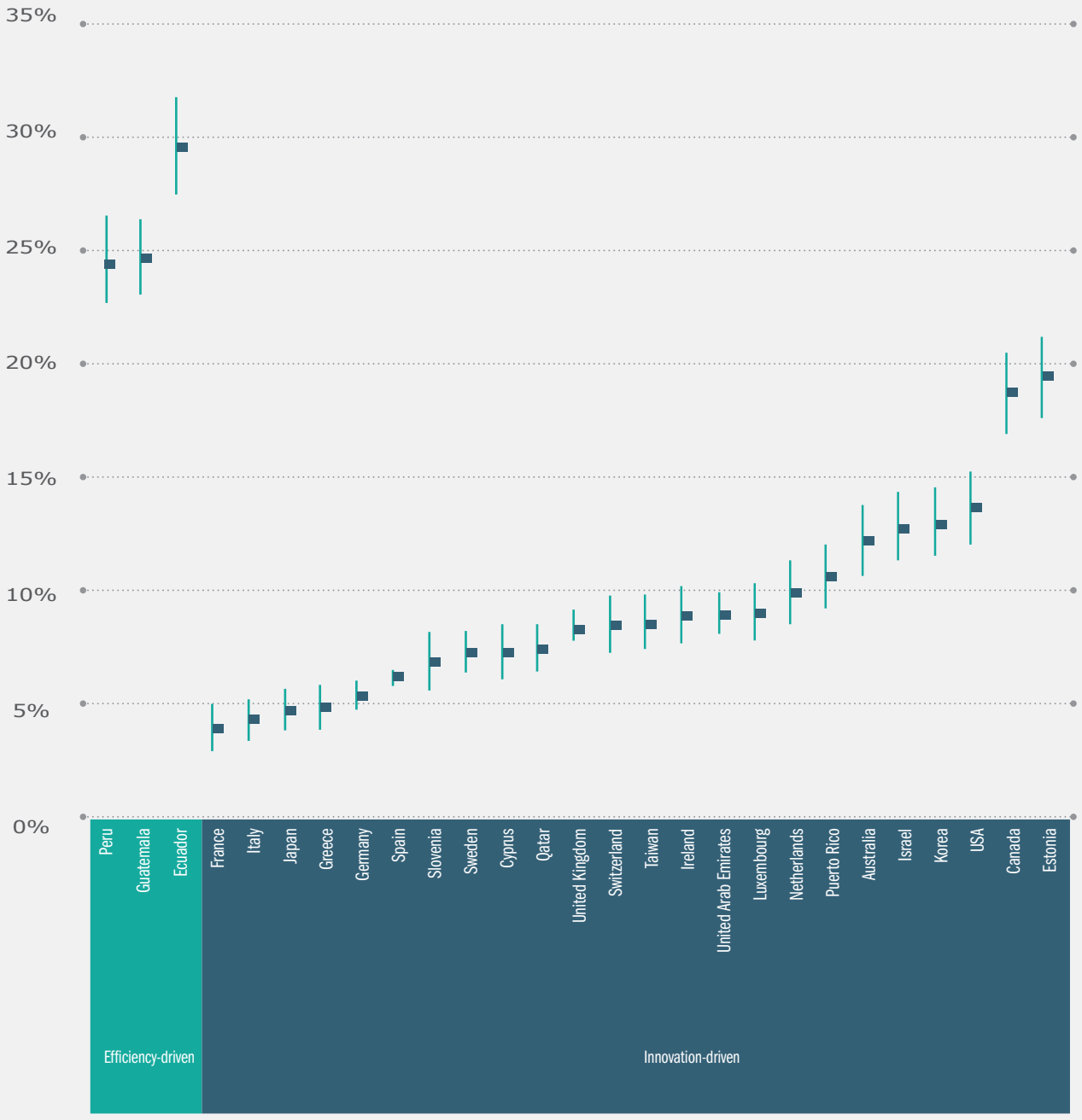
https://www.businesslive.co.za/bd/opinion/2017-06-22-why-sas-start-ups-are-not-winning-any-races/
"The start-up scene in SA is burgeoning. There are more than 300 incubators and entrepreneur development organisations and a few industry bodies.

The available capital pool has increased substantially in recent years and throw a stone in Johannesburg or Cape Town and it will hit a start-up co-working space. According to a report, Unicorns, Gazelles & Leapfrogs: Fast-tracking the South African start-up ecosystem, there have been successes."

All this could have contributed to the dramatic rise in early-stage entrepreneurial development. Only time will tell and it will be interesting to see if this increase in TEA is maintained.

Among economies at the same development level there is substantial variation, particularly among the factor-driven and efficiency-driven economies. (see **Figure 2.1**) TEA rates in factor-driven economies range from 9% in India to 25% in Vietnam while in the efficiency-driven group TEA ranges from as low as 4% in Bulgaria to 30% in Guatemala.

Figure 2.1: Total early-stage entrepreneurial (TEA) in 54 economies, grouped by phase of economic development, GEM 2017



In order to provide a global perspective on South Africa's performance, **Table 2.5** summarises the involvement in entrepreneurial activity over several phases of the entrepreneurial process for all 54 economies that participated in the 2017 Adult Population Survey.

Table 2.5: Ranking of Types of Entrepreneurial Activity by Region, GEM 2017. Percentage of population aged 18 – 64 years

REGION	ECONOMY	Nascent entrepreneurship rate		New business ownership rate		Early-stage entrepreneurial activity (TEA)		EEA		Established business ownership rate		Discontinuation of businesses*	
		Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54
Africa	Egypt	6.5	25	7	11	13.3	19T	2.2	29	5.7	38	10.2	1
	Madagascar	10.9	8	11.2	6	21.8	7	0.6	45T	29.4	2	6.7	10
	Morocco	4.2	38	4.6	26T	8.8	37	0.5	48T	10.4	14T	4.5	23
	South Africa	7.5	21	3.8	33T	11	27	0.5	48T	2.2	50	6	15T
	Total	7.3		6.6		13.7		0.9		11.9		6.9	
Asia & Oceania	Australia	6.4	26	5.9	20	12.2	23	7.8	7	9	19	3.8	32
	China	3.7	42	6.4	17T	9.9	29T	1.4	35T	6.8	27T	2.8	40T
	India	4.9	31	4.6	26T	9.3	31	0.2	53T	6.2	34T	3.2	36T
	Indonesia	3.6	43T	3.9	31T	7.5	41	1.8	31T	10.4	14T	4.8	21T
	Iran	6.8	22	6.9	12T	13.3	19T	1.2	40	10.6	12	6.6	11T
	Israel	8.4	18	5.1	22T	12.8	22	8.6	2	3.3	46T	4.8	21T
	Japan	3.2	47	1.6	51	4.7	50	2.8	23	6.3	33	1.5	51
	Kazakhstan	8.0	20	3.8	33T	11.3	26	4.1	19	2.4	49	7.5	7
	Korea	6.2	27	6.9	12T	13.0	21	1.9	30	11.4	10T	2.7	42T
	Lebanon	8.6	17	16.0	3	24.1	4	1.4	35T	33.2	1	6.6	11T
	Malaysia	15.4	3	6.6	15	21.6	8T	1.4	35T	3.8	44	8.3	6
	Qatar	4.7	33T	2.8	42	7.4	42	2.5	26	1.3	54	5.8	17
	Saudi Arabia	4.8	32	6.9	12T	11.5	25	2.4	27T	3.2	48	8.8	4T
	Taiwan	3.6	43T	5.0	25	8.6	38	8.1	4	12.1	9	4.0	29T
	Thailand	10.6	11T	12.1	4	21.6	8T	4.5	16T	15.2	6	9.2	2T

REGION	ECONOMY	Nascent entrepreneurship rate		New business ownership rate		Early-stage entrepreneurial activity (TEA)		EEA		Established business ownership rate		Discontinuation of businesses*	
		Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54
	United Arab Emirates	4	39T	5.1	22T	9	33	1.7	34	5.6	39	9.2	2T
	Vietnam	2.5	51T	20.8	1	23.3	6	0.6	45T	24.7	3	4.2	26T
	Total	6.2		7.1		13		3.1		9.7		5.5	
Latin America & Caribbean	Argentina	3.9	41	2.1	46T	6	47	0.6	45T	6.7	29T	3	39
	Brazil	4.4	36T	16.3	2	20.3	10	0.7	44	16.5	4	5.3	18
	Chile	14.7	4	9.7	8	23.8	5	4.5	16T	9.9	17	7.1	8
	Colombia	10.8	9	8.1	9T	18.7	13	1.8	31T	8.7	21	6.5	13
	Ecuador	21.2	1	9.8	7	29.6	1	0.5	48T	15.4	5	8.8	4T
	Guatemala	13.8	5	11.7	5	24.8	2	1.3	39	12.3	8	6	15T
	Mexico	10.6	11T	3.6	37	14.1	17	1.0	41	1.4	52T	3.5	33
	Panama	10.1	13	6.4	17T	16.2	14	0.2	53T	4.7	40	2.7	42T
	Peru	18.7	2	6.5	16	24.6	3	0.9	42T	7.4	25	6.2	14
	Puerto Rico	9.5	14	1.4	52T	10.6	28	2.6	24T	1.6	51	2.7	42T
	Uruguay	10.7	10	4.3	29	14.7	15	3.5	21	6.4	32	5.0	20
	Total	11.7		7.3		18.5		1.6		8.3		5.2	
Europe	Bosnia and Herzegovina	2.5	51T	1.4	52T	4.0	52	0.5	48T	1.4	52T	1.3	52T
	Bulgaria	1.8	54	2.0	48T	3.7	54	0.5	48T	6.5	31	1.3	52T
	Croatia	6.1	28	2.9	41	8.9	34T	4.8	14T	4.4	41T	4.0	29T
	Cyprus	3.6	43T	3.8	33T	7.3	43T	1.8	31T	8.9	20	4.3	25
	Estonia	13.4	6	6.2	19	19.4	11	9.1	1	11.4	10T	4.4	24
	France	2.9	48	1.1	54	3.9	53	3.9	20	3.6	45	3.3	34T
	Germany	3.4	46	2.0	48T	5.3	48	5.7	12	6.1	36	1.6	50

REGION	ECONOMY	Nascent entrepreneurship rate		New business ownership rate		Early-stage entrepreneurial activity (TEA)		EEA		Established business ownership rate		Discontinuation of businesses*	
		Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54	Score	Rank /54
	Greece	2.3	53	2.6	43T	4.8	49	0.9	42T	12.4	7	5.1	19
	Ireland	5.8	29	3.3	39	8.9	34T	5.5	13	4.4	41T	3.3	34T
	Italy	2.7	50	1.7	50	4.3	51	2.4	27T	6	37	2.1	48
	Latvia	9.4	15T	5.1	22T	14.2	16	4.4	18	7.7	24	4.2	26T
	Luxembourg	6.7	23T	2.6	43T	9.1	32	8	5T	3.3	46T	3.2	36T
	Netherlands	4.7	33T	5.4	21	9.9	29T	7.6	8T	8.6	22	3.1	38
	Poland	6.7	23T	2.2	45	8.9	34T	3.2	22	9.8	18	2.8	40T
	Slovakia	8.2	19	3.8	33T	11.8	24	2.6	24T	10.0	16	4.2	26T
	Slovenia	4	39T	3	40	6.9	45	6	11	6.8	27T	2.3	47
	Spain	2.8	49	3.5	38	6.2	46	1.4	35T	7.1	26	1.9	49
	Sweden	5.3	30	2.1	46T	7.3	43T	6.2	10	4.2	43	2.5	46
	Switzerland	4.7	33T	3.9	31T	8.5	39	4.8	14T	10.5	13	1.1	54
	United Kingdom	4.4	36T	4.2	30	8.4	40	8.0	5T	6.7	29T	2.6	45
	Total	5.1		3.1		8.1		4.4		7		2.9	
North America	Canada	11.3	7	8.1	9T	18.8	12	8.2	3	6.2	34T	6.9	9
	USA	9.4	15T	4.6	26T	13.6	18	7.6	8T	7.8	23	4	29T
	Total	10.3		6.3		16.2		7.9		7		5.5	

*Discontinuation of Businesses – Percentage of Population Aged 18-64

Table 2.6: Opportunity- and necessity-driven TEA rates amongst the adult population of South Africa. Percentage of population aged 18 –64 years

	2001	2005	2010	2013	2015	2016	2017	Africa region 2017 (average)
Necessity-driven (% of TEA)	18.2*	39.5	36.0	30.3	33.2	23.6	24.9	27.9
Opportunitiy-driven (%of TEA)	64.7	57	60.7	68.6	65.7	74.4	75.1	70.9
Ration (necessity vs, opportunity)	0.3	0.7	0.6	0.4	0.5	0.3	0.3	0.4

* Read as 18.2% of TEA activity in 2001 was necessity-driven

Table 2.6 shows that more than 75% of all entrepreneurs in South Africa in 2017 were opportunity-driven which is higher than in other countries in Africa. This is encouraging as it indicates that more South Africans are starting businesses because they see an opportunity rather than doing so out of sheer necessity. Although this is good news it must be seen in the light of the low, albeit increased levels, of early-stage entrepreneurial activity in the country especially in the light of the high levels of unemployment and underemployment. The growth in the population far exceeds the rate of new firm start-ups which will likely lead to increasing levels of unemployment and consequent discontent.

What is surprising is that the levels of necessity-driven entrepreneurship have not increased substantially given the levels of unemployment. This would have been expected which indicates that many people do not see the necessity of starting a business as they rely on social security to provide their income.

2.1.4 Established businesses

The established business rate is the percentage of the adult population who are owners or managers of businesses that have been in operation for more than 42 months. Information on the level of established businesses is important as it provides some indication of the sustainability of entrepreneurship in an economy. These businesses have moved beyond the nascent and new business phases, and are able to contribute to a country's economy through the ongoing introduction of new products, services and processes, and a more stable base of employment.

However, **Table 2.4** shows that the established business rate is only 2.2% and has not changed over the past few years. In 2017 this represents a five, fold loss of businesses from those that are starting which indicates a severe problem with maintaining sustainability. The poor sustainability of start-ups in South Africa relative to other GEM countries highlights the need for policy intervention directed towards supporting and practically mentoring new start-ups. Too often businesses are started with the entrepreneur not doing the correct market research and ascertaining whether their product or service is really needed and that the consumer is willing to pay for it. In many cases the entrepreneurs lack the necessary skills and experience to start and run a business. Correct training and support is required but not by consultants who have no practical business experience. Unfortunately South Africa has a lack of good available business consultants.

2.1.5 Business discontinuance

The business discontinuance rate captures the percentage of the population aged 18–64 years (who are either a nascent entrepreneur or owner-manager of a new business) who have in the past 12 months discontinued a business, either by selling (aka *exit*), shutting down, or otherwise discontinuing an owner/management relationship with the business. This forms another indicator of the sustainability of entrepreneurship in the economy. As can be seen from **Table 2.4** the business discontinuance rate has increased from 4.5% in 2016 to 6.0% in 2017 and is almost three times that of the established business rate of 2.2% indicating that far more businesses are discontinuing than are being established. This implies that the country is effectively going backwards in terms of entrepreneurial activity.

People exit from businesses for a variety of reasons, some of which are positive such as the opportunity to sell, pursuing another opportunity or planned retirement. However, exits may come about because of a lack of profitability of the business, problems with accessing funding and lack of working capital. **Table 2.7** shows that the main reasons for exit in South Africa are that the business is not profitable, the entrepreneur had problems in getting finance and for other personal reasons. The lack of profitability could arise because of the low levels of business skills, poor ideas that are not marketable and a lack of access to suitable markets which may be related to the fact that many new businesses are started in areas that are grossly overtraded and highly price, competitive resulting in extremely low margins that cannot sustain the business. Too many entrepreneurs adopt the "me too" attitude and are unable to offer products or services that can show distinct benefits and differences to the consumer. It is also clear that access to finance is a significant restraint for early-stage entrepreneurs.

However, previous GEM research has shown that this lack of access to funding is no different to what is experienced in other countries. It seems that the main problem is that entrepreneurs do not know how to prepare business plans that are acceptable to potential funders and the funders are offering support based only upon asset-based lending. This is almost a "chicken and egg" scenario as funders need to protect their investors but also to take some risk. Government could play a vital role in this by guaranteeing loans to suitable small business but in a form that is different to what was adopted by Khula Enterprise Finance.

2.2 Profile of entrepreneurs

GEM not only focuses on individuals but also upon the extent to which various groups engage in entrepreneurial activity by looking at the influence of age, gender and educational levels together with industry sector analysis, job creation and innovation. By doing this it gives a better understanding of the entrepreneurial ecosystem and enables policy makers to focus on planning effective interventions aimed at increasing participation thereby increasing productivity and small business developent in the economy.

Table 2.7: Reasons for business exit in South Africa, 2006 –2017. Percentage of those Exiting a Business in the Previous Year

	2006	2009	2011	2013	2015	2016	2017	Africa region (average)
Opportunity to sell	11.8*	3.5	2	2.8	2.6	5.9	3.6	2.1
Business not profitable	11.4	26	32.6	36.4	34.9	41.2	36	40.6
Problems getting finance	32.1	27.2	24	28.9	27.6	25.9	27	15.6
Another job or business opportunity	4.3	6	6	2.9	2.1	6.8	4.9	6.7
Exit was planned in advance	2.7	0	0	1.8	1	0	0	4.1
Retirement	2.1	0	1.9	0.1	1.4	0	1.7	1.6
Personal reasons	14.7	21.0	15.6	23.2	17.8	12	18.5	19.5
Incident	-	6.4	0.4	3.9	9.8	8.2	5.7	7.1
Bureaucracy	-	-	-	-	-	0	1.8	2.7

* Read as 11.8% of early-stage entrepreneurs in 2001 exited their business because of an opportunity to sell

2.2.1 Age distribution

The influence of age on entrepreneurial activity tends to be very similar throughout GEM, with the highest prevalence of entrepreneurial activity among those aged 25–34 and 35 –44 years across all three development phases (GEM Global report 2017/18). The only exception is in factor-driven economies, in which the TEA rate of those people aged 55–64 years is higher than the age groups of 25–34 and 35–44 in most regions.

Higher participation rates among those in their early-to-mid careers could be attributed to the fact that these individuals have had time to develop their skills and knowledge through education as well as through work experience and building their confidence in their own abilities. A critical factor is that they may have accumulated other resources such as social and professional networks, personal savings and access to other financial resources. In the cohort aged 25–34, they may be a little less established in a career that may offer high salaries and perks (less opportunity costs) or they may have fewer financial obligations such as families to support and loans to repay.

Table 2.8 shows that the entrepreneurial activity in South Africa in the age group 25 – 34 years has been reversed and the downward trend has increased back from the low 2016 levels of 6.3% to 14.5% in 2017. The same is true for the 35 – 44 year category which has increased from 8.4% in 2016 to 13.5% in 2017.

However, this increase is not sufficient. The economic and social costs of unemployment and widespread low-quallty jobs is of considerable concern especially amongst the youth of South Africa. Unemployment within the youth population is estimated to be over 40% and in some areas as high as 80%. This means that some young South Africans may never experience employment during their lifetime which represents a huge potential waste of human resources and talent. The

poor education system is the primary reason for this as the South African school system does not prepare young people adequately for the realities of the labour market. Many school leavers do not have the numeracy and literacy skills necessary to be able to participate in the economy. Many Matriculants have gained a certificate having only passed certain subjects at a 30% level which makes the purpose of having such a certificate meaningless. Employers are aware of this and know that many of South Africa's youth do have the skills required.

Table 2.8: TEA by age group in South Africa, 2001 –2017. Percentage of population aged 18 – 64 years

	2001	2005	2009	2013	2015	2016	2017	Africa region 2017 (average)
18 –24 years	3.4*	3.1	4.7	7.8	6.3	6.7	8.8	11
25 – 34 years	5.3	6.1	7.4	14.1	10.9	6.3	14.5	16.1
35 – 44 years	9.1	7.2	7.7	11.5	12.3	8.4	13.5	15.8
45 – 54 years	4.3	4.5	5.9	10.9	8	9.6	7.5	11.6
55 – 64 years	1.9	5.4	2.2	6	4.4	3.1	7	14.6

* Read as 3.4% of 18 –24 year olds in 2001 were engaged in early-stage entrepreneurial activity

There is no simple solution to this situation as it is a long-term one which can only be fixed over time . The school curriculum needs to be drastically overhauled to meet the needs of a modern and rapidly changing society. The old apprentice system needs to be re-introduced and young people need to be taught skills so as not to rely on employment but rather to create their own employment for themselves and for others.

This high unemployment level amongst the youth of South Africa should be a priority in government as if allowed to continue, it is a potential "time bomb" waiting to explode.

2.2.2 Gender and population group distribution of early-stage entrepreneurial activity

Previous GEM reports have shown that although the ratio of male to female participation in early-stage entrepreneurial activity varies considerably across the total sample of GEM countries, reflecting differences in culture and customs regarding female participation in the economy, a consistent finding is that men are more likely to be involved in entrepreneurial activity, regardless of the level of economic development. There are a few exceptions to this but studies have shown that women face far greater difficulties in becoming entrepreneurs than men. Factors that may influence this are lower educational levels in many countries, fewer business oriented networks, lack of capital and assets, the responsibility of looking after a family, cultural influences and probably their lack of confidence in their ability to start and run a business successfully. All these factors contribute to influencing the ability of women to see and perceive entrepreneurial opportunities.

Table 2.9 shows that the level of female opportunity-driven entrepreneurship has decreased from 2016 (71.6%) to 2017 (65.7%) whereas necessity-driven entrepreneurship has increased from 27.1% in 2016 to 34.3% in 2017. This increase may be a result of increasing unemployment and hence the necessity of women to go out and start a small business in order to supplement household income.

Table 2.9: Entrepreneurial motivation by gender in South Africa, 2001- 2017. Percentage of population aged 18 –64 years

	2001	2005	2009	2013	2015	2016	2017	Africa region 2017 (average)
Male opportunity	53.4*	57.6	63.9	71.5	68	76.5	82	72.4
Male necessity	30	32.2	31.9	26.8	30.2	20.8	18	26.3
Female opportunity	46.5	46.7	63.8	64.4	62.2	71.6	65.7	67.2
Female necessity	44.8	40	34	34.4	37.8	27.1	34.3	31.6

* Read as 54.4% of male early-stage entrepreneurs in 2001 were opportunity motivated

Table 2.10: TEA in South Africa 2005 – 2017, desegregated according to population group and motivation. Percentage of population aged 18 – 64 years

	2005	2009	2013	2015	2016	2017
Black African – opportunity-driven	23.7*	50.9	58.7	55.4	65.6	65.7
Black African – necessity-driven	30.4	31.4	27.7	29.5	21.5	22.4
Coloured – opportunity-driven	9.6	3.1	1.5	2.8	3.6	3.5
Coloured – necessity-driven	2.2	0.6	1.2	1.6	1.5	0.6
Indian – opportunity-driven	6.7	1.9	1.8	2	2.1	1.9
Indian – necessity-driven	3.7	0.6	0.9	0.8	0.5	1
White – opportunity-driven	20	10.1	7.3	6.4	4.6	3.8
White – necessity-driven	3.7	1.3	0.9	1.6	0.5	1

*Read as 23.7% of TEA activity in 2015 was by Black Africans and was opportunity-motivated

Table 2.10 shows that Black Africans still make up the majority of South Africa's early-stage entrepreneurial activity having increase substantially since 2005 with opportunity-driven remaining at a high at 65.7% of TEA activity. This is encouraging as the figures are now more representative of the demographics of the population.

2.2.3 Education

GEM has consistently shown that there is a direct correlation between the level of education and the ability of a person to start a business and maintain its sustainability beyond the nascent stage of development. The higher the level of education the more likely the entrepreneur is to perceive that they have the skills necessary to run a successful business.

In all countries an educated workforce with the correct skills and with the capacity for innovation, is vital to the economy's robustness, competitiveness, productivity and sustainable growth. Hence, a good education is essential if the economy is to grow at a rate that is sufficient to create employment for its people.

Table 2.11: Educational levels of early-stage entrepreneurs in South Africa, 2001 –2017.
Percentage of population aged 18 – 64 years

	2001	2005	2009	2013	2014	2015	2016	2017
None/primary	0	0	13.3	5.2	5.8	4.9	4.7	4.3
Some secondary	48.7*	34.2	30	33.4	34.1	31.1	21.8	22.4
Secondary degree	35.9	44.8	42.5	48.1	43.4	47.3	49.6	52
Post secondary	15.4	21	14.3	13.3	16.6	16.8	23.9	21.3

*Read as 48.7% of early-stage entrepreneurs in 2001 had some secondary education

Table 2.11 shows that well over half of the early-stage entrepreneurs in South Africa have at least a secondary degree (52%) or post secondary degree (21.3%) and that this has been rising steadily since 2001.

However, the Global Competitiveness Index report of 2017/18 shows a less favourable position with respect to the quality of education in South Africa. It is rated 114 out of 137 countries and the quality of maths and sciences is rated at 128 out of 137.

2.3 Entrepreneurship impact

2.3.1 Industry sector

Entrepreneurs the world over are involved in a variety of industries, with different levels of intensity. GEM strives to assess the intensity of entrepreneurial activity in the top ten industries. The most prevalent industry sectors are wholesale/retail, followed by health, education, government and social services, professional services, manufacturing, administrative services, information and telecommunication (ICT), agriculture and personal/consumer services.

However, the GEM global report of 2017/18 shows there is a marked difference between the factor- and efficiency-driven countries, in which over 50% of entrepreneurs are in wholesale/retail and the innovation-driven economies, in which 50% of entrepreneurs are in information and communications, financial, professional, and other services. In the factor-driven economies, agriculture is the third most prevalent entrepreneurial activity, followed by wholesale/retail, and a variety of services, such health, education, government, and social services. In the efficiency-driven economies, the third most prevalent entrepreneurial activity is manufacturing. In the innovation-driven economies, the most prevalent entrepreneurial activity is professional services, reflecting the changes in the relative contributions of each industry sector in each stage of the country's economic development.

In South Africa, **Table 2.12** shows that the wholesale/ retail sector has over half of the early-stage entrepreneurs at 52.5% which is similar to countries in the rest of Africa as well as to other efficiency-driven economies. This has been the same for many years which is not surprising as the barriers to entry with regards to both skills and capital are low. However, this is a highly overtraded area and very price competitive which results in many such start-ups not surviving and going out of business. Moreover, this sector tends to be dominated by a few large retailers who have the buying power to purchase at highly competitive rates thus making it difficult for smaller traders to survive. This would account for the large difference between the rate of early-stage entrepreneurship, the low rate of established businesses and the high rate of discontinuance.

The second most prevalent industry sector is health, education, government and social services at 10.9% followed by mining at 6.9%. What is especially encouraging is that the manufacturing sector has been steadily increasing over the years growing from 3.6% in 2015 to 5.8% in 2016 and 7.3% in 2017. This is particularly important as it is this sector which has the greatest ability to create much needed jobs.

Other sectors which need stimulation are information and communication technology , biotechnology and professional services all of which need a high level of skills. However, given the low level of education and skills in South Africa these sectors remain inaccessible to most potential entrepreneurs except those with higher levels of education.

Table 2.12: Distribution of TEA by sector in South Africa, 2015 –2017. Percentage of population aged 18 – 64 years

	2015	2016	2017	Africa region 2017 (average)
Agriculture	7.2	2.9	4.1	12.6
Mining	6.3	6.6	6.9	3.6
Manufacturing	3.6	5.8	7.3	11.8
Transportation	5.1	9.7	3.3	3
Wholesale/retail	50.4	50.6	52.5	53.5
Information/ communication technology	1	1.6	2.6	1
Finance	2.5	4.2	3.9	1.6
Professional services	3.1	2.7	1	0.7
Administrative services	2.5	6.1	2.9	1.3
Health, education, govt. & social services	16.8	8.5	10.9	8.1
Personal/consumer services	1.6	1.4	4.6	2.8

2.3.2 Job creation

A key focus in many economies' development strategies is to facilitate growth that is sustainable and inclusive in order to generate widespread employment and to reduce poverty. Whether entrepreneurs anticipate becoming employers, and the extent to which they have the potential to create job opportunities is, thus, a crucial factor that is of paramount interest to policy makers. GEM asks early-stage entrepreneurs how many employees (other than the owners) they currently have and expect to have in the next five years. The difference between current and expected employees indicates growth expectations.

The GEM global report of 2017/18 shows that the majority of entrepreneurs in the factor-driven economies do not expect to create any jobs in the next five years. Approximately two thirds (63.8%) of the entrepreneurs—with very low variation in this proportion between countries within this category—expect no jobs to be created as a result of their business activity. This proportion is much lower in efficiency- and innovation-driven economies. Namely, 43.2% of entrepreneurs in efficiency-driven economies and slightly more in innovation-driven economies (45.3%) expect to create no jobs during the next five years. In the factor-driven countries, 24.9%, of the entrepreneurs expect to create one to five jobs in the next five years, and only 11.3% of the entrepreneurs expect medium-to-high growth, namely, the creation of six or more jobs in the next five years. Generally, the expectation for medium to-high growth in the number of jobs is higher in efficiency-driven countries—at 18.6%—and highest in the innovation-driven countries at 22.2%. The efficiency-driven countries and the innovation-driven countries exhibit higher expectations for medium growth, at 38.3% and 32.5% respectively (GEM Global Report 2017/18).

The high levels, about two thirds, of entrepreneurs across all development phases with no future hiring expectations indicates that there are a number of factors aside from level of economic development that have an impact on entrepreneurs' growth ambitions. For example, digital technology may enable entrepreneurs to operate on their own, perhaps as part of a broader network, or by using commercial digital platforms, such as e-Bay, Airbnb, or Uber. Other constraints, such as types of businesses started, rigid labour regulations, poor availability of skilled/ educated labour, and limited access to entrepreneurial finance may deter entrepreneurs from attempting to grow their ventures.

A key focus of South Africa's development strategies is to promote and facilitate the growth of jobs in order to reduce widespread unemployment and reduce poverty. This strategy has been re-emphasised by the new President, Cyril Ramaphosa, who has a strong desire to stimulate the economy by promoting the SMME sector and hopefully reducing the number of people who are reliant on social security for their well-being. At present this figure stands at 17.2 million people, a figure which is unsustainable in the long term.

GEM asks early-stage entrepreneurs how many employees (other than the owners) they currently have and expect to have in the next five years. **Table 2.13** shows that the number of entrepreneurs who believe they will create no jobs has risen from 13.8% in 2016 to 20.7% in 2017 and those who will employ between one to five people has decreased from 58.7% in 2016 to 47.3% in 2017. This trend is somewhat worrying and could well be attributed to the nature of the businesses being started, i.e. simple retail/wholesale types of firms or because entrepreneurs are wary of employing people due to the onerous labour laws which make getting rid of redundant and poor workers very difficult.

Table 2.13 : Job growth expectations for ealy-stage entrepreneurs in South Africa, 2005 – 2017. Percentage of population aged 18 – 64 years

	2005	2009	2013	2015	2016	2017	Africa region 2017 (average)
No jobs	0.0	0.0	8.2	29.8	13.8	20.7	47.6
1 - 5 jobs	82.9*	66.9	57.1	44.5	58.7	47.3	35.5
6+ jobs	17.1	33.1	34.7	25.7	27.6	32.0	16.9

* Read as 82.9% of early-stage entrepreneurs in 2005 expected to create between 1 and 5 jobs within the next 5 years

It is therefore important to identify those businesses that have the potential for high growth and to introduce policies that are conducive to stimulating these businesses. Alleviating the regulatory burdens may go a long way to stimulating growth. Policy makers could well learn from the interventions introduced in other countries to stimulate SMME growth. A series of Policy Briefs (written by M. Herrington and published by GEM in 2016 and 2017) illustrates a number of positive interventions which have been introduced by a many countries, all of which have had a significant impact on SMME development and economic growth.

2.4 GEM's Entrepreneurship Spirit Index (GESI)

Many organisations have been asking whether GEM has a Composite Index in addition to the current dashboard of indicators that come from the Adult Population Survey. The reason for this is that they would like one indicator that they are then able to use as a comparison when benchmarking their own performance as well as comparing themselves against other countries.

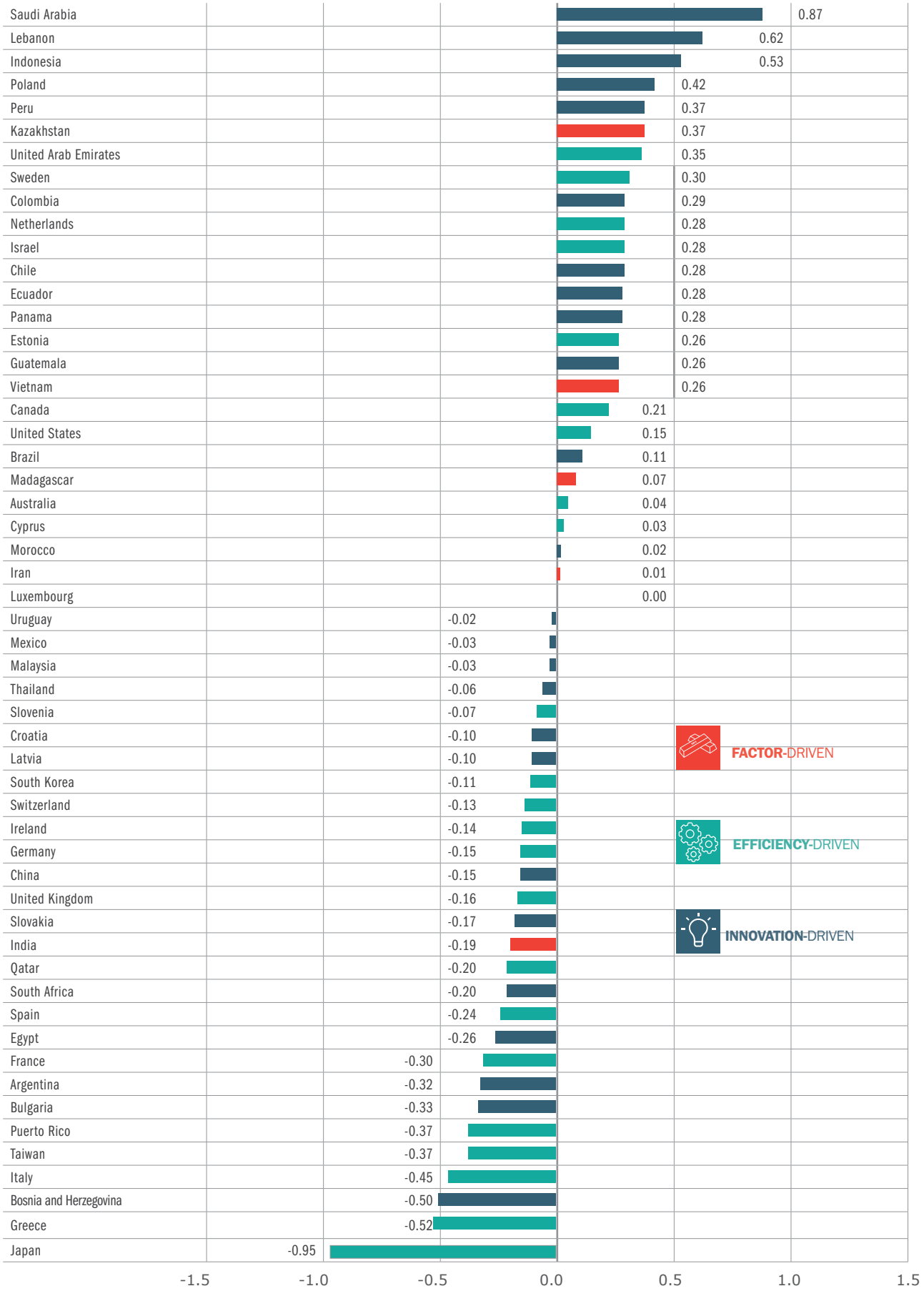
GEM Global has been working on a number of such Composite Indices most of which will be introduced at the end of 2018.

This report launches the GEM's Entrepreneurship Spirit Index (GESI), which follows the GEM conceptual framework and uses the present structure of data collected by the GEM Adult Population Survey (APS). The intention is that this innovative initiative will lead to an overall entrepreneurship composite index. At this time, the index is based on a combination of three yes/no questions related to entrepreneurial awareness, opportunity perception, and entrepreneurial self-efficacy and is comparable across countries. The three questions that serve as a basis for GESI are: whether the respondent knows someone who has started a business in the past year (entrepreneurial awareness), whether the respondent thinks there are good opportunities for starting a business in their local area (entrepreneurial opportunity perception) and whether the respondent thinks they have the knowledge, skills, and experience to start a business (entrepreneurial self-efficacy). Aiming to extract one measure that captures as much of the variance in responses to these questions as possible, a principal component analysis is applied on collected GEM APS data across the total 2017 unweighted sample of 18–64 year-old adults for the 54 countries. Using this approach, it was determined that 50% of the variance in individual responses for all GEM countries across these three questions can be captured in one Bartlett method measure using principal component analysis and this measure is used as the index. When ranked from highest to lowest, the five top-ranked countries in the index are all efficiency-driven countries, and four of the five lowest-ranked countries are innovation-driven countries. However, three of the top ten countries are innovation-driven and four of the bottom ten countries are efficiency-driven. Three of the four factor-driven countries have positive values in the index. Thus, countries with a high and low entrepreneurial spirit may belong to any of the stages of economic development. Clustering countries according to economic development stages demonstrates the dominance of entrepreneurial spirit among efficiency-driven economies. The following presents the countries in a descending order of GESI: United Arab Emirates, Sweden, Netherland, Israel, Estonia, Canada, USA, Australia, Cyprus, and Luxemburg. Further testing of GESI and derivatives are planned in the future.

This measure is used as the index. The mean of the index is zero. The index can be used to compare the relative entrepreneurial spirit of countries in an annual GEM sample. It cannot be used to compare between years because of changes in the countries included in the sample from year to year. At the same time, though, a comparison of 50 countries in the GEM samples for both 2016 and 2017 found a rank correlation of 0.87, suggesting the rank order of countries is relatively stable from year to year.

Figure 2.2 presents the GEM Entrepreneurial Spirit Index scores ranked from highest to lowest, and colour coded. Red bars represent factor-driven countries, blue bars represent efficiency-driven countries and green bars represent innovation-driven countries. The five top-ranked countries in the index are all efficiency-driven countries, and four of the five lowest-ranked countries are innovation-driven countries. However, three of the top ten countries are innovation-driven and four of the bottom ten countries are efficiency-driven. Three of the four factor-driven countries have positive values of the index. Thus, countries with high and low entrepreneurial spirit may belong to any of the stages of economic development.

Figure 2.2: GEM's Entrepreneurial Spirit Index (GESI) 2017



2.5 Survey of government initiatives

Over the past 20 years government has launched a number of initiatives designed to support small and medium businesses. In particular, the Department of Trade and Industry has a number of schemes to support the funding and advancement of SMMEs, namely:-

- Automative Investment Scheme
- Black Business Supplier Development Programme (BBSDP)
- Clothing and Textile Competitive Improvement Programme (CTCIP)
- Critical Infrastructure Programme
- Film Initiative Programme
- Business Process Services (BPS)
- Capital Project Feasibility Programme (CPFP)
- Support Programme for Industrial Innovation (SPII)
- National Youth Development Agency (NYDA)
- National Empowerment Fund (NEF)

The Small Enterprise Development Agency (Seda) was established in December 2004 as an agency under the Department of Trade and Industry (the Dti). It was established by merging three organisations, namely the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre (NAMAC), and Community Public Private Partnership Programme (CPPP). The GODISA Trust and National Technology Transfer Centre were integrated into Seda in April 2006, becoming the Seda Technology Programme (**stp**).

Seda provides business development and support services for small enterprises through its national network, in partnership with other role players in small enterprise support. Seda also implements programmes targeted at business development in areas prioritised by the government.

However, the quality of these services varies considerably and this is the main challenge faced by the organisation. In many areas the business advisors are not trained properly nor do they have the practical skills and experience required to give advice to small business entrepreneurs especially if they have never run a business themselves.

In 2016 Seda requested GEM to look at the effectiveness of their programme resulting in three key questions being added to the Adult Population Survey, these being:-

- Are you aware or familiar with the Small Enterprise Development Agency and its offerings and services?
- What is the most important non-financial development support or services you would recommend to government agencies such as Seda to effectively and efficiently provide?

- What is the most important non-financial improvement measure government agencies such as Seda should implement in order to stay relevant and useful to its existing or future clients (options given)?

The questions were changed slightly in 2017, these being:-

- Do you know the names of any government initiatives that have been set up to assist small business?

- What government programmes have you used? For example,
  - National youth Development Agency (NYDA)
  - Small Enterprise Finance Agency (Sefa)
  - Small Enterprise Development Agency (Seda)
  - Industrial Development Corporation (IDC)
  - Technology and Innovation Agency (TIA)
  - National Empowerment Fund (NEF)
  - Department of Trade and Industry (Dti)
  - Department of Economic Development and Tourism (DEDAT)
  - Other

- For each government agency you have used how EFFECTIVE you believe their assistance was?

Some of the results of the 2017 survey were compared to those carried out in 2016 to ascertain whether there were any differences and any improvement in the awareness of the services offered by Seda.

Table 2.14 shows that there is a marked decrease in awareness of Seda in the age category 18 – 24 years from 17.1% in 2016 to 5.6% in 2017 and to a lesser extend in the age group 25 – 34 years from 26.6% to 20.1%. However, there was an increase in awareness in the 35 – 44 years group from 26.3% in 2016 to 40.9% in 2017 and in the 45 – 54 years age category from 14.9% to 22.9%.

These results tend to indicate that the marketing done by Seda is not successfully reaching the younger population in South Africa and yet it is this section of the population who are most active in early-stage entrepreneurial activity. In all probability Seda needs to change its marketing focus and start to concentrate on the younger population.

Table 2.15 shows that the highest awareness of Seda is in the urban area at 72.2% slightly down from 80.5% in 2016. There is almost no difference in awareness in the provinces between 2016 and 2017 with the greatest awareness being in Gauteng at 33.5%, Kwazulu Natal at

Table 2.14: Percentage of the adult population who are familiar with Seda, by age group, 2016 and 2017

Age group	2016	2017
18 -24 years	17.1*	5.6
25 -34 years	26.6	20.1
35 – 44 years	26.3	40.9
45 – 54 years	14.9	22.9
55 – 64 years	9.7	10.1
65+ years	5.4	0.3

* Read as 17.1% of the adult population in 2016 between the ages of 18 to 24 years are familiar with SEDA

Table 2.15: Percentage of the adult population who are familiar with Seda, by region, 2016 and 2017

Region	2016	2017
Urban	80.5*	72.2
Rural	19.4	27.8
Gauteng	34.4	33.5
Kwa-Zulu Natal	15.3	18.5
Western Cape	8.5	8.9
North West Prov/ Northern Cape	10.6	9.6
Eastern Cape	12.2	15.0
Limpopo/ Mpumalanga	10.4	5.8
Free State	8.8	8.6

* Read as 80.5% of the adult population in 2016 in urban areas are familiar with SEDA

18.5% and the Eastern Cape at 15.0%. Seda needs to concentrate its efforts on the other provinces which have shown little increase in awareness over the last two years.

Table 2.16 shows that only 16.6% of the people who were aware of Seda used them which is higher than either the National Youth Development Agency (NYDA) at 15.0% and the National Empowerment Fund (NEF) at 13.2%. This is a very low figure and Seda needs to find out why so few people who are aware of their offering are actually using them. However, what is encouraging is that, of the people who used Seda, 22.9% found them somewhat effective and 23.8% found them to be very effective. Nonetheless Seda needs to improve other organisations are perceived to be more effective. Examples of this are the IDC, TIA, NEF and Dti.

Table 2.16: Effectiveness of government agencies in assisting small businesses in South Africa, 2017. Percentage of population aged 18 – 64 years

Agency	Used		Effectiveness				
	Yes (%)	No (%)	Completely ineffective (%)	Somewhat ineffective (%)	Average (%)	Somewhat effective (%)	Very effective (%)
National Youth Development Agency (NYDA)	15.0	85.0	14.4	5.4	49.1	17.1	14.0
Small Enterprise Finance Agency (Sefa)	12.0	88.0	12.9	-	43.8	22.8	20.5
Small Enterprise Development Agency (Seda)	16.6	83.4	6.4	12.2	34.6	22.9	23.8
Industrial Development Corporation (IDC)	11.1	88.9	-	-	22.4	36.3	41.3
Technology and Innovation Agency (TIA)	12.2	87.8	-	4.0	28.7	26.5	40.8
National Empowerment Fund (NEF)	13.2	86.8	-	31.0	18.1	19.0	31.9
Department of Trade and Industry (Dti)	12.7	87.3	-	1.5	26	38.9	33.5
Department of Economic Development and Tourism (DEDAT)	14.2	85.8	1.7	-	24.5	47.6	26.1
Other	34.7	65.3	23.3	22.5	-	54.2	

CHAPTER 3: SOUTH AFRICA'S ENTREPRENEURIAL ECOSYSTEM

3.1 An overview of South Africa's entrepreneurial ecosystem

GEM's primary source of information is the Adult Population Survey (APS) and the National Expert Survey (NES). It is one of the few organizations in the world that does primary research on individuals and their entrepreneurial aspirations, perceptions, intentions and business profiles. However, GEM researchers also rely on information provided by other international organizations such as the World Economic Forum, the Doing Business Report, the World Bank and the United Nations to mention just a few. In the 2016/17 South Africa GEM report it stated that the Global Competitive Index Report of 2016/17 had maintained an upward trend with a number of indicators. However, **Table 3.1** shows that from 2016/17 to 2017/18 there has been an increase in certain indicators such as irregular payments and bribes rising from 53 to 91 out of 137/138 countries. This is supported by numerous reports of corruption taking place within government amongst many politicians from the top down. Hence the drop in the level of trust in politicians which in turn affects the level of business confidence and results in a lack of investment confidence by foreign investors in South Africa, all of which are associated with the above indicators as well as a decline in 'favouritism in decisions of government officials", the "quality of infrastructure". 2017 was not a good year for South Africa as the country was declared a junk status economy by two ratings agencies.

Table 3.1: Global Competitive Report Rankings, South Africa – 2016/17 vs 2017/18

Condition	2016/17 out of 138	2017/18 out of 137
Public trust in politicians	109	114
Irregular payment and bribes	53	91
Burden of government regulations	106	89
Favouritism in decisions of government officials	115	127
Business cost of crime and violence	133	133
Quality of overall infrastructure	59	72
Quality of electricity supply	112	97
Quality of education system	134	114
Quality of maths and sciences	138	128
Quality of management schools	21	45
Time required to start a business	125	125
Flexibility of wage determinations	135	132
Hiring and firing practices	135	125
Availability of financial services	2	32
Government procurement of advanced technology	99	57

Political unrest was at its height with a power struggle under way within the ruling political party, civil unrest, an increase in the number of strikes and a generally poor economy. All these factors led to an increase in the level of unemployment to its highest since the advent of democracy.

Of concern is the low rating for anything to do with education and labour laws which dramatically influence the levels of early-stage entrepreneurial activity.

The quality of electricity supply has improved from 2016/17 to 2017/18 and the country is no longer experiencing the rolling blackouts that it had to endure during 2016. However, the rating of 97 is still not acceptable for a country that is supposed to be competing in a first world economy.

Hopefully with a change in the leadership of the ruling political party there will be improvements in factors which adversely effect entrepreneurship, corruption will be suppressed and overseas business confidence will improve. However, only time will tell as the current president is still controlled by the National Executive Committee which has many of the "old guard" still remaining and, who appear to be looking out for one another and protecting the old ways.

3.2 The National Expert Survey (NES)

Environmental factors (social, political and economic) are influential in creating unique business and entrepreneurial contexts. Annually, each economy participating in the GEM cycle surveys at least 36 key experts or informants. The National Expert Survey (NES) is similar to other surveys that capture expert judgements to evaluate specific national conditions. However, the NES focuses only on the environmental features that are expected to have a significant impact on the entrepreneurial attitudes and activities rather than on general economic factors. Experts are asked to express their views about the most important conditions that can either foster or constrain entrepreneurial activity and development in their country. The twelve Entrepreneurial Factor conditions (EFCs) assessed by GEM are access to financing, government policies, taxes and bureaucracy, government programs, school-level entrepreneurship education and training, post-school entrepreneurship education and training, R&D transfer, access to commercial and professional infrastructure, internal market dynamics, internal market burdens, access to physical and services infrastructure, and social and cultural norms.

In 2017, National Expert Surveys provided data on these components of the entrepreneurship ecosystem using a Likert scale of 1 (highly insufficient) to 9 (highly sufficient). Globally (GEM Global Report 2016/17), the following components of the ecosystem have shown an improvement in all three economic group averages, namely, entrepreneurial finance, entrepreneurship education at school age, and internal market dynamics. The need for improvement in these components of the ecosystem has been continuously indicated by GEM surveys and reports. Support and relevance of government policies, another essential component to boost entrepreneurship and innovation was improved in factor-driven and efficiency-driven economies but not in innovation-driven economies. Only the efficiency-driven economies reported improvements in government entrepreneurship programmes, even though many policy makers are working diligently to create government entrepreneurship programmes. This lack of reported progress may be because policy decisions should be complemented with appropriate implementation and monitoring processes. The post-secondary education component was improved in both innovation and efficiency-driven economies but not in factor-driven economies. R&D transfer is important to boost entrepreneurship and innovation; however, only the factor-driven and efficiency-driven economies reported improvements in this ecosystem component. Commercial and legal infrastructure was improved only in efficiency-driven economies and internal market burdens or entry regulation was improved only in factor-driven economies. This is of particular interest at this time since seemingly fundamental geopolitical changes affect internal market burdens as well as entry regulations in many regions and countries. Cultural and social norms as part of the ecosystem improved in innovation-driven economies, while factor and efficiency-driven economies still need to improve cultural and social norms regarding entrepreneurship. No improvements were reported in physical infrastructure, which is continuously considered the most positive ecosystem component, with average ratings above 6 across all three development phases. The weakest condition, reported as such two years in a row, with average values below 4, was school-level entrepreneurship education. However, as indicated earlier, there has been a marked improvement in this component of the ecosystem in all economic groups.

The entrepreneurship ecosystem is strongest overall in the innovation-driven countries, with one overall lower rate regarding the entrepreneurship education at school age. Several other components of the ecosystem with lower rates (under 4.0) are reported for other group of economies.

In factor-driven economies, the following components of the ecosystem get lower rates: R&D transfer, entrepreneurship education at school age, government entrepreneurship programmes and government policies on taxes and bureaucracy are highlighted as areas constraining entrepreneurship. However, as was noted earlier, last year's low rankings regarding access to financing and internal market burdens or entry regulations are improved and are over the 4.0 benchmark.

In efficiency-driven economies, the constraining components are the following: Internal market burdens or entry regulations, R&D transfer, entrepreneurship education at school age, government entrepreneurship programmes, government policies on taxes and bureaucracy.

An encouraging observation is that globally, in each economic development group, about half of the components of the entrepreneurship ecosystem demonstrate an improvement in 2017.

In South Africa, as with other GEM countries, the experts were interviewed using both a semi-structured and structured questionnaire. As in previous years, the national experts continue to rate the South African entrepreneurial ecosystem as generally mediocre but not significantly worst than in other efficiency-driven economies and all GEM countries.

Table 3.2 shows the Entrepreneurial Framework conditions for the 12 key factors comparing 2015 with 2016 and 2017.

The noticeable exceptions are entrepreneurial education at a primary and secondary level plus R & D transfer which have been showing a steady decline over the years and are below the levels in other efficiency-driven economies. Together with government policies these three areas have been highlighted as critical factors influencing entrepreneurial behaviour since 2001 and very little has been done to rectify the problem. The Ministry of Small Business Development still has the opportunity to do better in this area.

Table 3.2: Entrepreneurial Framework Conditions scores, 2015 – 2017. Weighted average, 1 = highly insufficient, 9 = highly sufficient

EFC	South Africa 2015	South Africa 2016	South Africa 2017	Efficiency-driven economies 2017 (average)	GEM average 2017
Financial environment & support	4.0	4.3	4.2	4.1	4.3
Concrete government policies:entrepreneurship priority & support	4.1	4.8	4.0	4.0	4.3
Government policies: taxes & bureaucracy	3.1	2.7	3.2	3.5	3.9
Government entrepreneurship progammes	3.0	3.0	3.2	4.0	4.3
Entrepreneurship education: primary & secondary level	3.1	2.9	2.8	3.0	3.2
Entrepreneurship education :vocational, professional & tertiary level	4.2	3.8	4.2	4.8	4.8
R & D transfer	3.4	3.3	2.8	3.6	3.9
Access to professional & commercial infrastructure	4.9	5.1	4.5	4.7	4.9
Internal market dynamics	4.5	5.2	5.3	5.1	5.1
Internal market burdens	3.9	3.3	3.1	4.0	4.2
Access to physical infrastructure/services	5.9	5.8	5.2	6.3	6.5
Cultural and social norms	3.4	4.0	4.4	4.6	4.8

3.2.1 Government policies and initiatives

Government policy can play an important role in the entrepreneurial pipeline as to whether an intentional entrepreneur actually takes the step to start a business. GEM has always emphasised that it is not government's responsibility to start new businesses but it is definitely their responsibility to create an economic climate that is conducive to starting a business and that as many barriers as possible are removed to make it easier for an entrepreneur to start a new venture, succeed and hopefully create new jobs. However, the persistently poor scores across all government policies and programmes (see **Table 3.3**) is particularly disappointing especially since government keeps stating that small business development is one of their priorities and is the main way in which they can reverse the trend of high unemployment and the many challenges they face in job creation.

The scores shown in **Table 3.3** are well below the norms for the efficiency-driven economies which illustrates the dismal failure of government to address the issue. The onerous "Red tape" still remains a problem in spite of many institutions emphasising the need to cut out the bureaucracy imposed and make it easier for a person to start a business. Many examples of what other countries are doing to alleviate this problem have been documented (GEM Policy Briefs of 2016 and 2017) but do not seem to be heeded.

Every year government comes up with a statement about how they will reduce the levels of unemployment in the country and evey year the goal post seems to change as nothing is done. This is a serious problem as high unemployment can easily lead to unrest and civil strife.

Over the years GEM key expert informants have emphasised how difficult it is to access basic information from government about starting a business and how South Africa seems to be characterised by monopolies and the lack of competition in key areas which effect the viability of small businesses. Examples of such monopolies are seen in the retail trade, in energy supply, telecommunications and the transport sector. All of these effectively increase the cost of doing business for the small companies or prevents them from ease of access to markets.

Since the advent of democracy the government has introduced many programmes to promote entrepreneurial development. This includes organizations such as the Small Enterprise Finance Agency (Sefa) and government incubators to name just a few. The low scores shown in **Table 3.4** are of particular concern.

The figures show that most of the programmes offered by government are failing as there are little or no agencies that proved a "one stop shop"service, that the people staffing the agencies do not have adequate skills and practical knowledge to run a business let alone mentoring a business and that entrepreneurs are not receiving the help that they need. The problems all come down to people and the lack of training and practical experience required.

Table 3.3: Average expert ratings for government policies for entrepreneurship in South Africa, 2016 – 2017. Weighted average, 1 = highly insufficient, 9 = highly sufficient

	Mean score 2016	Mean score 2017
Government policies (e.g. public procurement) consistently favour new firms	4.2	3.4
Support for new and growing businesses is a high priority for policy at national government level	5.1	4.2
Support for new and growing businesses is a high priority for policy at local government level	4.9	4.0
New firms can get most of the required permits and licences in about a week	1.4	2.1
The amount of taxes is NOT a burden for new and growing firms	3.3	3.1
Taxes and other government regulations are applied to new and growing businesses in a predictable and consistent way	4.4	4.9
Coping with government bureaucracy, regulations and licencing requirements is not unduly difficult for new and growing businesses	1.9	2.8

Table 3.4: Average expert ratings for government programmes for entrepreneurship in South Africa, 2016 – 2017. Weighted average, 1 = highly insufficient: 9 = highly sufficient

Weighted average 1 = highly insufficient, 9 = highly sufficient	Mean score 2016	Mean score 2017
A wide range of government assistance for new and growing firms can be obtained through contact with a single agency	2.4	2.7
Science parks and business incubators provide effective support for new and growing businesses	4.0	4.6
There are an adequate number of government programmes for new and growing businesses	4.2	4.0
The people who work for government agencies are competent and effective in supporting new and growing businesses	2.9	2.6
Almost anyone who needs help from a government programme for a new and growing business can find what they need	2.1	2.5
Government programmes aimed at supporting new and growing businesses are effective	2.7	3.4

Table 3.5: Average expert ratings for market openness in South Africa, 2016 – 2017. Weighted average, 1 = highly insufficient: 9 = highly sufficient

Weighted average, 1 = highly insufficient, 9 = highly sufficient	Mean score 2016	Mean score 2017
The markets for consumer goods and services change dramatically from year to year	5.2	5.5
The markets for business-to-business goods and services change dramatically from year to year	5.2	5.1
New and growing firms can easily enter new markets	3.4	3.5
New and growing firms can afford the cost of market entry	3.1	3.0
New and growing firms can enter markets without being unduly blocked by established firms	3.4	3.1
The anti-trust legislation is effective and well enforced	4.5	3.9

3.2.2 Market openness

Having an open market with healthy competition, innovation in products and services and keeping pressure on producers to keep them efficient is essential for any economy. Any rating with a score of four or less out of a possible nine depicts an unhealthy situation. **Table 3.5** shows that there has been a slight deterioration in the expert's perception for new and growing companies to enter the market and also to be blocked and hindered in some way to competing. As mentioned previously, the South African market is essentially controlled by large monopolies which is unhealthy for the small business sector. Market entry is biased in favour of the larger and more established firms especially with respect to government tenders. This needs to be looked at.

3.2.3 Education and training

Over the years GEM has consistently shown that the higher the level of education, the more likely the entrepreneur is to start a business and for the business to grow and prosper. There is a direct correlation between the levels of perceived capabilities and the level of TEA in the country. Over all GEM countries, education is linked with entrepreneurial intentions so having an educated labour force is one of the prime drivers to SMME development and the reduction of unemployment and underemployment.

Historically the key informant experts agree that the education programme in South Africa has dismally failed entrepreneurs as can be seem from the information shown in **Table 3.6.** This is backed up by the information collected and given in the 2017/18 Global Competitive Index Report (**Table 3.1**). The current education system is not providing young people with the skills necessary to compete in a rapidly changing economy that is being increasingly governed by the digital environment. The changes in the GIG economy are so rapid that there must be a reasonable degree of uncertainty as to what skills are required. However, irrespective of the rapidity of these changes the education system is not teaching young people to be independent thinkers, to look out for themselves and not to be reliant on others to provide the much needed employment.

There is also good evidence to show that more is needed in the area of vocational training and educating young people in essential trade skills as was done in the past.

Table 3.6: Average expert ratings for entrepreneurial education and training in South Africa, 2016 – 2017

Weighted average, 1 = highly insufficient, 9 = highly sufficient	Mean score 2016	Mean score 2017
Teaching in primary and secondary education encourages creativity, self-sufficiency and personal initiative	3.3	3.0
Teaching in primary and secondary education provides adequate instruction in market economic principles	2.9	3.0
Teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation	2.8	2.5
Colleges and universities provide good and adequate preparation for starting up and growing new firms	3.0	3.9
The level of business and management education provides good and adequate preparation for starting up and growing new firms	4.3	4.5
The vocational, professional and continuing education systems provide good and adequate preparation for starting up and growing new firms	3.8	4.2

3.2.4 Availability and access to finance

Access to funding is a universal problem for most intentional entrepreneurs. GEM studies over the years have shown that the "lack" of funding is not unique to South Africa but a universal problem probably caused by a rift between what the entrepreneur is able to offer and what the funders require. In South Africa many entrepreneurs are not able to present an acceptable business plan that clearly shows what distinguishes the benefits of the product or service being offered to what is already on the market. Market research is often inadequate and poorly conducted resulting in failure of the business venture before it really starts.

In South Africa there is an abundance of potential funders but for a variety of reasons the funding is not getting to the entrepreneurs who need it. **Table 3.7** shows that the experts are fairly positive about the availability of entrepreneurial finance.

However, some of the experts again qualify their answers by indicating that although the government funding is aimed at previously disadvantaged entrepreneurs it is not getting to them. Agencies need to offer practical advice to entrepreneurs as to how to write an acceptable business plan but this can only be done by experienced and practical consultants who have been in business themselves.

Table 3.7: Average expert ratings for availability of entrepreneurial finance in South Africa, 2016 – 2017

Weighted average, 1 = highly insufficient, 9 = highly sufficient	Mean score 2016	Mean score 2017
In my country there is sufficient equity funding available for new and growing firms	4.5	4.6
In my country there is sufficient debt funding for new and growing firms	4.8	4.8
In my country there are sufficient government subsidies available for new and growing firms	5.0	4.6
In my country there is sufficient funding available from informal investors (family, friends and colleagues) who are private individuals(other than founders) for new and growing firms	4.4	4.4
In my country there is sufficient professional Business Angels funding available for new and growing firms	3.8	4.2
In my country there is sufficient venture capitalists funding available for new and growing firms	4.5	4.4
In my country there is sufficient funding available through initial public offerings (IPOs) for new and growing firms	4.3	3.7
In my country there is sufficient private lender's funding (crowdfunding) available for new and growing firms	3.4	3.5

CHAPTER 4: The Western Cape: A provincial and city-wide view of entrepreneurial activity

4.1 Introduction

The Western Cape vision for 2040:

"A highly skilled, innovation-driven, resource-efficient, connected, high-opportunity society for all"

Western Cape, Provincial Strategic Plan 2014 – 2019: p 2

"The Western Cape is one of the world's most beautiful and iconic regions, and home to some of Africa's most important educational institutions, healthcare facilities, business enterprises, centres of innovation, and cultural and historical sites. It has one of the best performing regional economies in South Africa, and amongst the country's best educational outcomes and health indicators. The Western Cape also faces a series of interrelated challenges, many of them rooted in the apartheid past and in South Africa's more recent struggle to achieve sufficient economic growth to reduce unemployment and poverty. Apart from high rates of joblessness, the Province's challenges include constraints related to natural resources, energy, climate change, infrastructure, housing and skills, as well as social ills such as crime and substance abuse."

Western Cape, Provincial Strategic Plan 2014 – 2019: p 5

4.1.1 The Western Cape as a region

The Western Cape Province takes up 10.6% of South Africa's total land area and with the Eastern Cape is the third most populace province, housing 11.5%[1] of South Africa's population (2011: 11.3%). The population of the Western Cape increased from 5 822 734 million people in 2011[2] to 6 510 300 million people in 2017[3]. The demographic profile of the Western Cape in the 2011 Census[2] indicated a Coloured majority with Coloured people accounting for 50% of the population in the Western Cape, Black Africans accounting for 33%, Whites 16% of the Western Cape population and Indians/Asians 1%. The 2016 Community Survey[3] indicates that the population group distribution across provinces remained relatively constant over the period 2011 to 2016.

The Western Cape accounts for 13.7%[4] of the national GDP with finance, real estate and business services (23.2%), trade, catering and accommodation (15.3%) and manufacturing (13.7%) key contributors to the region's GDP figure. While finance, real estate and business services (2.3%), trade, catering and accommodation (2.2%) and personal services (1.6%) are the sectors in which the highest growth has occurred, manufacturing grew by only 0.9% over the same period. Agriculture, forestry and fishing (- 7.2%) and electricity, gas and water (-2.45%) are the sectors showing the largest decrease in their contribution to the regional GDP figure[4].

4.1.2 Unemployment

Unemployment is a critical concern in South Africa, with between 27.7% (official definition_Q3 2017) and 36.8% (expanded definition_Q3 2017) of the population currently unemployed[5]. The official rate of unemployment includes people who are without work in the week preceding the interview, who are looking for work and are available to take up employment or open a business. The expanded rate of unemployment includes individuals who have given up looking for work. Limpopo and the Western Cape (**Figure 4.1**) have the lowest level of official unemployment, ranging from 18.3% to 21.9% and 20.5% to 22.2% respectively over the period 1 January 2016 to 30 September 2017. However, the expanded unemployment picture is very different, with the Western Cape showing significantly lower rates than the other provinces (**Figure 4.1**).

1 2017, Mid-year population estimates, Statistical release P0302

2 Census 2011, Statistical Release (Revised) p14

3 2016 Community Survey, Statistical Release P0301

4 GDP_P0441_Annual quarterly regional fourth quarter 2017

5 QLFS Trends 2008 – 2018 Q1

Exponential increase in Gauteng-Western Cape migration

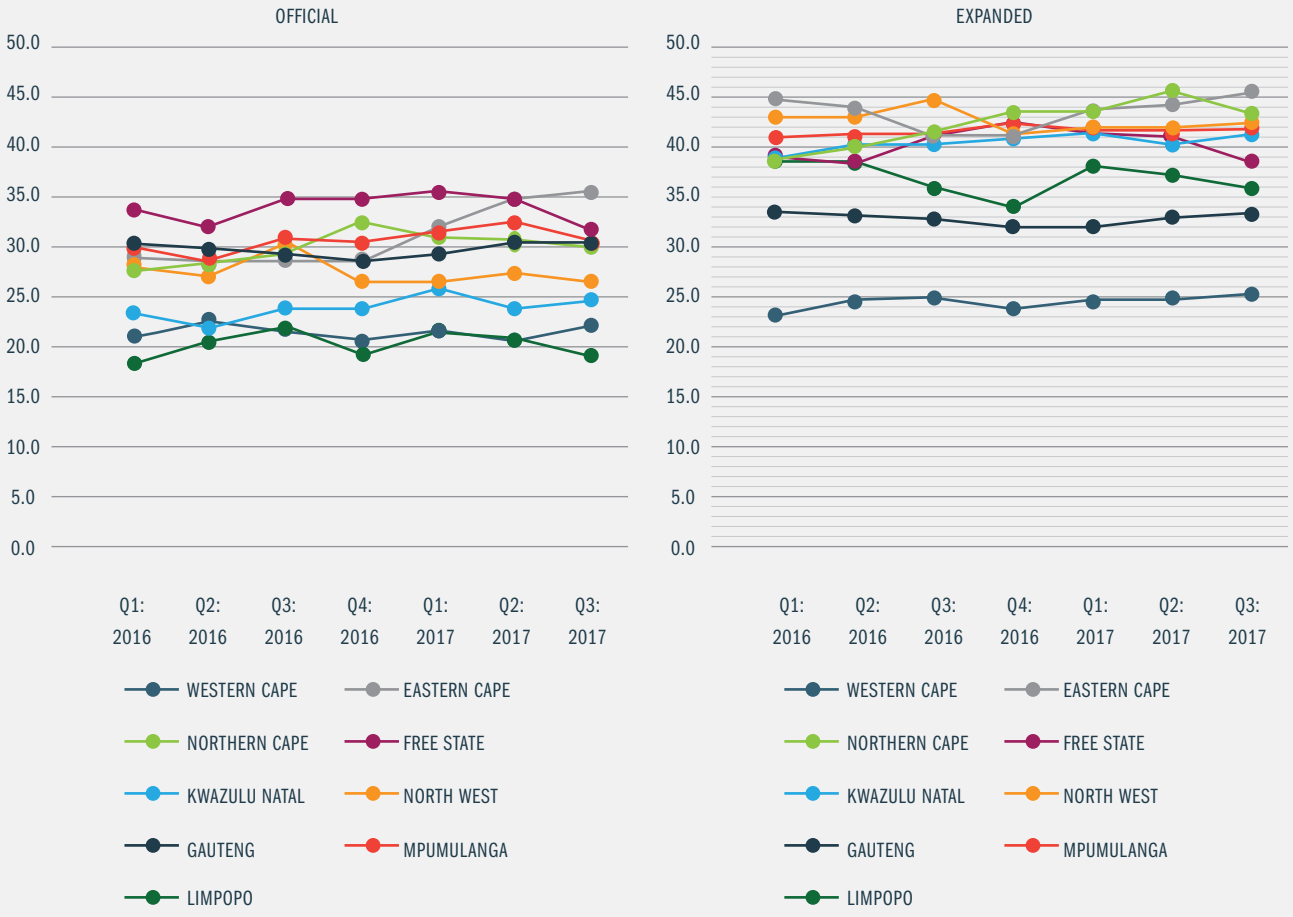
According to FNB, in 2006 the percentage of Gauteng-based repeat buyers leaving for the Western Cape was 0.8%. By 2016, this had increased to 9.1%. FNB's household and property sector strategist John Loos says this is not surprising at all.

"The province's economy is, along with Gauteng's, arguably the most developed and diversified into more modern services industries, and had the second fastest average annual economic growth rate from 2011-2015, only marginally behind Gauteng," he said.

"In addition, Cape Town and surrounding areas have the benefit of a perceived high quality lifestyle compared to many other South African cities and it is this combination of good economic opportunity and lifestyle that appears to be the winning recipe in attracting both wealth and skills to the province in relatively abundant quantities."

http://www.destinyman.com/2017/05/31/exponential-increase-gauteng-western-cape-migration

Figure 4.1: Unemployment, official and expanded, by province



Source: QLFS Trends 2008 – 2018 Q1

While Limpopo and the Western Cape have the lowest official unemployment rates, Limpopo's expanded unemployment rate is almost 90% higher than the official rate (**Table 4.1**) which speaks to an incredibly large number of discouraged work seekers. In contrast, the Western Cape has one of the lowest official unemployment rate and the lowest expanded rate. The expanded unemployment rate in the Western Cape is only 15% higher than the official rate (**Table 4.1**). With respect to Gauteng, with a 10% difference in the official and expanded unemployment numbers, it should be noted that this difference relates to an official unemployment number that is 40% higher than the official unemployment rate in the Western Cape.

Table 4.1: Difference between the official and expanded unemployment rates, quarter 3 2017, by province

Western Cape	15.1%
Eastern Cape	27.6%
Northern Cape	44.1%
Free State	21.1%
KwaZulu Natal	66.7%
North West	62.2%
Gauteng	10.3%
Mpumulanga	35.2%
Limpopo	87.4%

4.1.3 In-migration

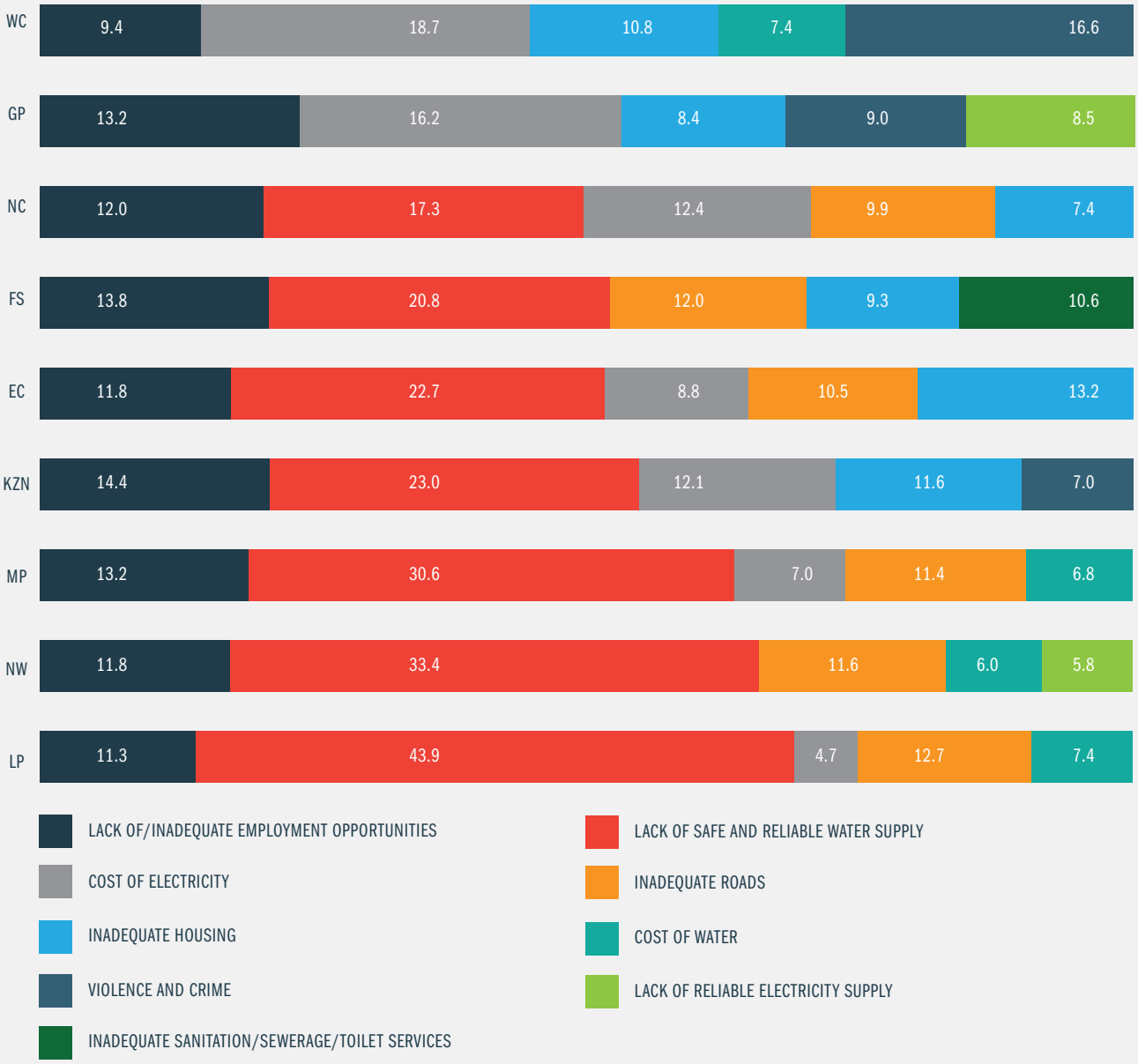
According to the 2016 Community Survey[6], proportionally Gauteng received most migrants, followed by the Western Cape. Eastern Cape and Limpopo had the highest number of out-migrants. Gauteng received the largest proportions of migrants from all provinces, except for those born in the Northern Cape, Eastern Cape and Western Cape. The highest proportion of those that migrated from the Eastern Cape and Northern Cape went to the Western Cape. The number of individuals that migrated from Gauteng to the Western Cape was 1.5 times larger than the number of individuals migrating from the Western Cape to Gauteng.

Figure 4.1, as well as other living standard related data, offers an explanation as to why in-migration is occurring. According to the Quarterly Labour Force Survey (**Figure 4.1**), the Eastern Cape at 45.3% and the Northern Cape at 43.1%[7] continue to have the highest (as per the expanded definition) unemployment rates. **Figure 4.2** shows that the Western Cape is the only province in which "Lack of/inadequate employment opportunities" did not rank as one of the top three challenges identified in the 2016 Community Survey. While "Lack of safe and reliable water supply" was the leading challenge in both the Eastern Cape (22.7%) and the Northern Cape (17.3%), "Lack of/inadequate employment opportunities" ranked as the third most identified challenge in both provinces (Eastern Cape 11.8% and Northern Cape 12.0%).

6 2016 Community Survey, Statistical Release P0301, pg.30

7 Quarterly Labour Force Survey Trends 2008-2018 Q1

Figure 4.2: Five leading challenges facing the municipality presently as perceived by households, by province, as percentage of all main challenges



Source: 2016 Community Survey, Statistical Release P0301, pg. 57

The average household income from pensions, social insurance and family allowances at national level is R11 378, and household incomes from social protection in the Western Cape (R18 824), Eastern Cape (R13 260), Free State (11 403) and KwaZulu-Natal (R12 249) are all above this national average.

Living Conditions Survey 2014/15, Statistical Release P0310, pg. 16

A better education clearly opens the door to better economic prospects. A matric certificate is the only recognised school leaving qualification in South Africa and is a pre-requisite for further study and acceptance into organisations such as the Defence Force or the South African Police Services. Education: A roadmap out of poverty, http://www.statssa.gov.za/?p=2566

With respect to average household income[8] the Western Cape (at R222 959) and Gauteng (at R193 771) have the highest average annual household incomes. Limpopo (at R79 152) has the lowest average annual household income. The Eastern Cape (at R90 156) has the third lowest average annual household income. According to research by World Wide Worx, only 25.2% of people in the Eastern Cape have access to the internet, while 75% of people in the Western Cape have access to the internet[9]. People living in the Western Cape are 1.37 times more likely to have access to the internet compared to people living in Gauteng, the province with the second-best internet coverage by population. According to Alan Winde, the Minister of Economic Opportunities, expanding access to affordable Internet emerged as a key priority for the Western Cape Government for 2017/18. Winde indicated that in order to increase access to the new digital economy, the rollout of public Wi-Fi continues in the year ahead: "*Our Public Access Wi-Fi project with Neotel has seen the installation of 150 hotspots, with 250 new users signing up to the service each day. In the past year, 70 000 devices have connected to our public Wi-Fi hotspots. In 2017/18, a further 224 hotspots will be rolled out.*[10]"

Free State (86.1%), Gauteng (85.1%) and the Western Cape (82.7%) are the three best performing provinces with respect to the 2017 matric results, with the Eastern Cape the worst-performing province with a pass rate of only 65%[11]. It is, however, important to also look at criteria such as the percentage of learners achieving a bachelor pass, the pass rates for mathematics and science, as well as retention of learners in the system as important indicators of the success rate of education within the provinces.

In the 2017 matric results the Western Cape had the highest number of bachelor passes (39.1%), achieved the highest pass rate in Mathematics (73.9%) and second highest, after Free State, in Physical Sciences (74.0%)[12]. A look at the retention rate of students between Grades 10 and 12 shows that the Western Cape has been significantly more successful than other provinces in this regard. Just under two-thirds (64.3%) of Grade 10 students in the Western Cape wrote the matric exam, compared to just over half (51.5%) of the Grade 10 students in Gauteng (the second-best province with respect to retention). Including the retention of learners as a factor when analysing pass rates ensures that schools are encouraged to retain and develop students that are struggling, and not encourage these students to leave, and in so doing potentially inflate the final pass rate.

8 Living Conditions Survey 2014/15, Statistical Release P0310, pg. 16

9 https://techcentral.co.za/internet-access-sa-rural-areas-falling-far-behind/75789/

10 http://www.elsenburg.com/news/drought-relief-internet-access-key-priorities-western-cape-year-ahead

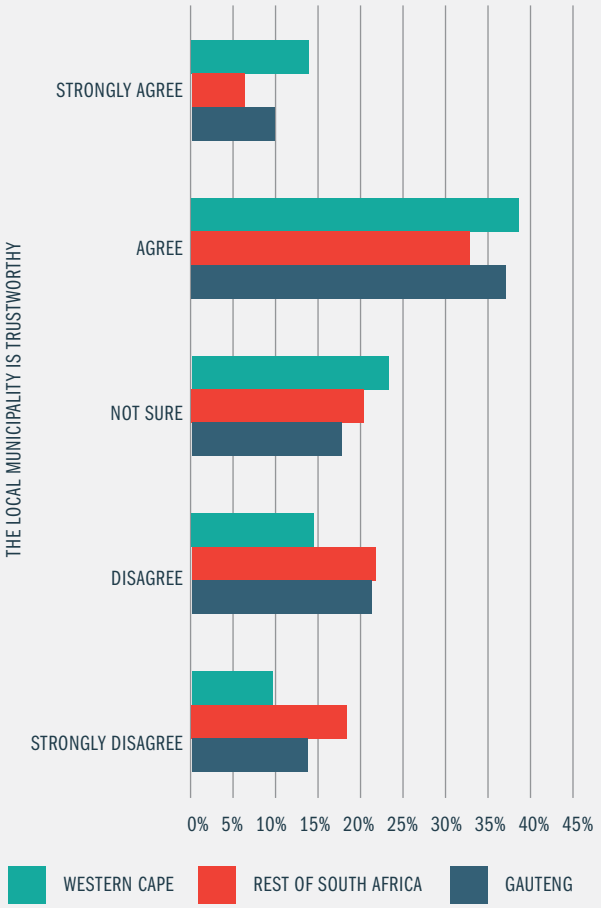
11 https://www.thesouthafrican.com/matric-pass-rate-2017/

12 https://wcedonline.westerncape.gov.za/documents/NSC-results/matricnews/

Respondents were asked to indicate whether they agreed or disagreed with the following statement: "Where you live the local municipality is trustworthy". **Figure 4.3** indicates that over half of the respondents in the Western Cape agreed (37.8%) or strongly agreed (13.8%) that the local municipality is trustworthy and less than 10% of the respondents strongly disagreed with the statement. Respondents from the rest of South Africa (excluding Gauteng) are 1.9 times more likely to strongly disagree that the local municipality is trustworthy than respondents in the Western Cape and are 2.2 times less likely to strongly agree that the local municipality is trustworthy than are respondents in the Western Cape.

Only one in four people in the Eastern Cape have access to the internet, compared to three out of four people in the Western Cape. With the important role the internet plays with respect to communication and information searches, the digital divide between the rest of South Africa and the Western Cape is of concern. This, along with lower unemployment figures, better schooling opportunities and a greater trust in local government, may contribute to the perception that the Western Cape is a better place to live than areas such as the Eastern Cape. These are, therefore, likely to be contributing factors influencing in-migration to the Western Cape.

Figure 4.3: The local municipality is trustworthy, by province, 2017



According to Dr Ivan Meyer, "*the Western Cape Government focuses on outcomes related to growth and jobs as well as education, health and broader social ills, as these impact on economic development. Innovation is key to increase the productivity and competiveness of the Western Cape economy in order to stimulate inclusive growth and development, and is a key policy principle of this Government.*"

4.2 Provincial analysis

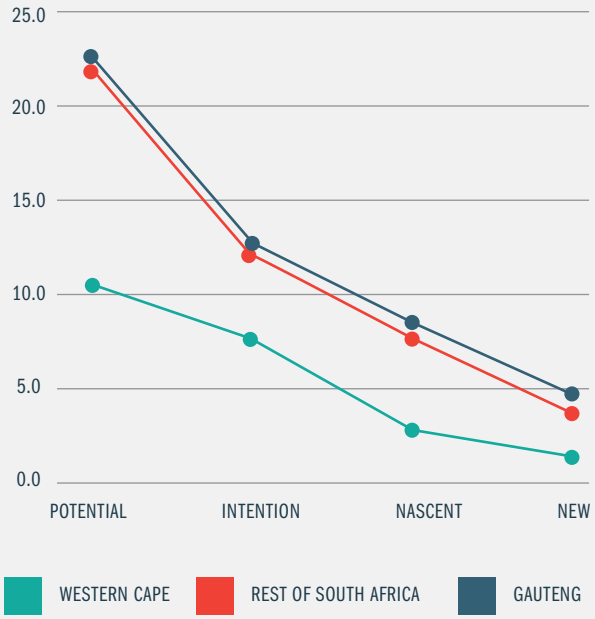
This section will develop an understanding of entrepreneurship from a provincial perspective with respect to Gauteng, the rest of South Africa and the Western Cape. The following section will focus on entrepreneurship within three key cities, namely Johannesburg (Greater Johannesburg including Sandton and Soweto), Durban and the City of Cape Town.

4.2.1 Entrepreneurial pipeline

Figure 4.4 analyses the entrepreneurial pipeline with respect to Gauteng, the rest of South Africa and the Western Cape. Potential entrepreneurs are individuals who believe they have the capacity to run a business and believe that there are plenty of opportunities to start a business. This perception is important as GEM has found that individuals who are confident that they possess the skills to start a business are four to six times more likely to be involved in entrepreneurial activity. Just over a fifth (22%) of the population in Gauteng and the rest of South Africa believe they have the skills and knowledge to start a business and that there are good entrepreneurial opportunities in the area where they live. The Western Cape, on the other hand, has the lowest provincial rate of potential entrepreneurs by a considerable margin (10.5%). The higher rate of potential entrepreneurs in Gauteng is unsurprising as it is the commercial hub of South Africa. Gauteng contributes over a third (34.6%) of South Africa's GDP (**Table 4.2**) and has a Gross Regional Product that is 2.5 times greater than the Gross Regional Product of the Western Cape.

The increased amount of business activity is likely to increase the possibility of individuals believing that they perceive business opportunities. 38.1% of people living in Gauteng indicated that they perceive good business opportunities in the area in which they live, while only 24.2% of people living in the Western Cape indicated that they perceive good business opportunities in the area in which they live.

Figure 4.4: South Africa's entrepreneurial pipeline, by province, 2017



GEM research has shown that individuals in less developed economies often have higher opportunity and capability perceptions than those in more developed economies – a likely explanation being that these individuals have different kinds of businesses in mind. This would suggest that the perception of what is considered an opportunity and the capabilities required to create and manage this entrepreneurial opportunity in less economically-developed areas could differ substantially from these perceptions in more developed areas. In this context, the rate of potential entrepreneurs in the rest of South Africa makes sense. This figure will include a number of responses from individuals in the less-developed provinces where job opportunities are more restricted and society often sees entrepreneurship as a means to improve one's economic and social standing. The Industry profile in the Western Cape is weighted more towards sectors such as information and communication technology and high-end financial and personal services, which require a more sophisticated skill set than, for example, many retail businesses. However, it is a matter of some concern that the proportion of potential entrepreneurs in the Western Cape in 2017 is only half the rate of 22% for 2013, when a similar survey was carried out. In 2013, Gauteng had a potential entrepreneurship rate of 30% (compared to 22% in 2017), while the rest of South Africa reported the same rate in 2013 as for 2017.

The rate of intentional entrepreneurs is the percentage of the population aged 18-64 years (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years. Entrepreneurial intention in Gauteng is considerably lower in 2017 compared to 2013 (12.6%, compared to 19.2% in 2013), while the percentage of non-entrepreneurs in the Western Cape as well as the rest of South Africa who expressed an intention to start a business in the next three years remained very similar to the 2013 levels (at 7.7% and 12.2% respectively). The rate of intentional entrepreneurs in Gauteng is 1.6 times the rate in the Western Cape (compared to 2.7 times the rate in 2013).

Even though an individual may indicate an intention to start a business, before this becomes an actuality there will be an assessment of opportunity costs, which involves comparing the expected returns of entrepreneurship to the expected returns of an alternative occupation. The most common alternative is "being employed." Remaining employed may be a more attractive option to many, especially where employment opportunities are sparse. While the Western Cape has the lowest provincial unemployment rate (**Figure 4.2**) South Africa's unemployment rate is extremely high and the opportunity cost of leaving formal employment to pursue an entrepreneurial opportunity is therefore high. A variety of national characteristics could contribute to this risk-assessment, particularly where formal sector jobs are more plentiful such as in the Western Cape. These include "red tape" which could present unfavourable administrative burdens or high costs to those thinking about starting a business; onerous labour regulations and disruptions due to strikes; access to resources and technical assistance; levels of corruption and crime; the attractiveness of the market; and the competitive environment

Table 4.2: South Africa's population and GDP figures, by province

	Gauteng	Rest of South Africa [KZN indicated]	Western Cape
Percentage of South Africa's population (2017)	25.3%	63.2% [19.6%]	11.5%
Share of South Africa's GDP	34.6% (2016)	51.7% [15.9%]	13.7%
Gross Regional Product*	R1 507.1 billion	[R692.2 billion]	R596 billion

Source: 2017, Mid-year population estimates, Statistical release P0302, GDP_P0441_Annual quarterly regional fourth quarter 2017
*2016 figures by current prices

The Total Early-stage Entrepreneurial Activity (TEA) rate captures individuals that have actually acted on their intentions and are in the process of starting or have just started a business. The TEA rate includes both nascent and new entrepreneurs (**Figure 4.4**). Nascent entrepreneurs are individuals who are actively involved in setting up a business or who already own a business but whose business has not paid any wages or salaries for 0 – 3 months. New entrepreneurs are individuals that are owners/managers of an active business that has been in existence for 3 – 42 months. Gauteng has a TEA rate of 13.3%, the rest of South Africa has a TEA rate of 11.5% and the Western Cape has a TEA rate of 4.3%. Gauteng has a TEA rate three times higher than that in the Western Cape (in 2013, Gauteng's TEA rate was just over double the Western Cape's rate). One explanation for the lower TEA rate in the Western Cape, as mentioned earlier, could be the significantly lower levels of unemployment in the region – particularly when using the expanded unemployment figures. **Figure 4.2** indicates that over the period from the first quarter of 2016 to the third quarter of 2017, unemployment in the Western Cape was around 10% lower than for the next best province (Gauteng) and close to 20% lower than for most of the rest of South Africa. GEM regards the lack of other means to make a living, as well as fear of becoming unemployed in the near future, as strong factors pushing people into entrepreneurial activity. These 'push' factors are likely to play less of a role in the Western Cape with its strong alternative for job-seekers of formal employment. However, the relatively larger drop in TEA from 2013 (compared to Gauteng and the rest of South Africa) is an area that will require attention from policy makers and service providers hoping to be successful in their efforts to stimulate and support new generations of entrepreneurs in the Western Cape.

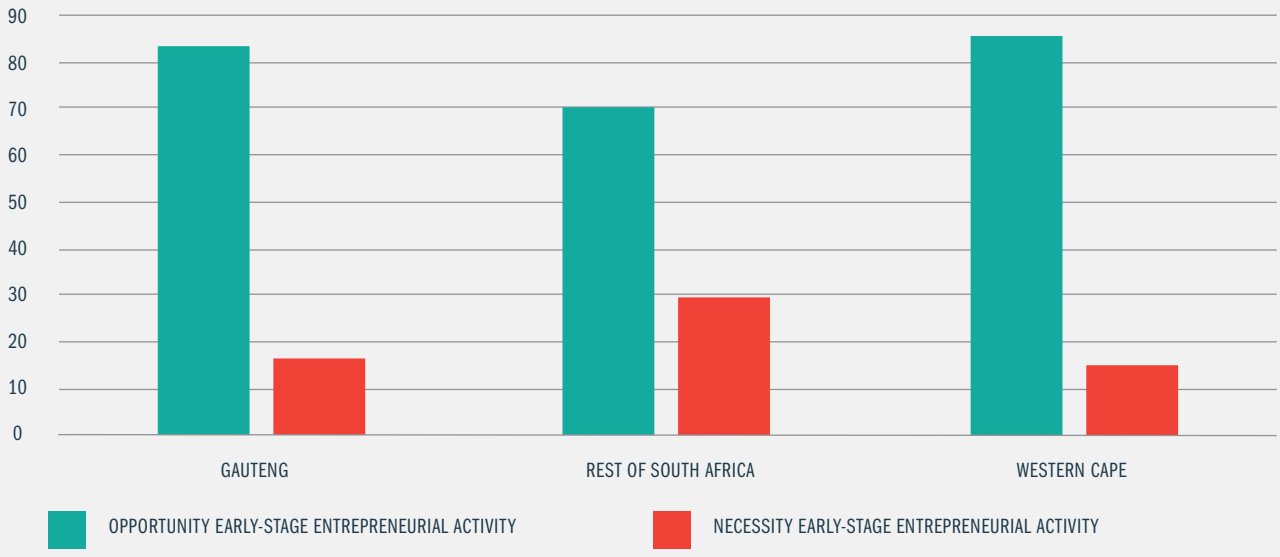
4.2.2 Entrepreneurial motivation

When reviewing the TEA rates of an area, it is important to note that not all business activity is equal in its potential impact on job creation and economic growth. Entrepreneurs may have different motivations for starting a business: in essence, they may be pushed or pulled into entrepreneurship, namely necessity-driven or opportunity-driven entrepreneurs. GEM has shown that businesses started by opportunity-driven entrepreneurs are much more likely to survive and employ people than those started by necessity-driven entrepreneurs.

Figure 4.5 shows that in all three regions (Gauteng, the rest of South Africa and the Western Cape), entrepreneurs are more likely to indicate that they started a business to take advantage of an opportunity rather than starting a business because they have no better option for work. Entrepreneurs in the rest of South Africa reported the lowest average opportunity-motivation, at 70.2%. The Western Cape and Gauteng show a substantially higher proportion of opportunity-motivated entrepreneurs (85.3% and 83.3% respectively).

Entrepreneurs in Gauteng are five times more likely to be opportunity-driven than necessity-driven – more than double the figure for the rest of South Africa. Entrepreneurs in the rest of South Africa are only 2.4 times more likely to be opportunity-driven than necessity-driven entrepreneurs. In the rest of South Africa almost a third (29.8%) of entrepreneurs are motivated by necessity. Poor economic growth in many of the provinces and high competition for low levels of job opportunities in the formal sector means that people, especially in poorer communities, will be forced into necessity-entrepreneurship because of lack of other options for sustainable livelihoods. Entrepreneurs in the Western Cape are 5.8 times more likely to be opportunity-driven than

Figure 4.5: Opportunity/necessity-driven entrepreneurship in South Africa, by province, 2017



necessity-driven. It is encouraging that, although fewer entrepreneurs are engaged in TEA activity in the Western Cape, these individuals are pulled into entrepreneurship in order to pursue an opportunity rather than pushed by necessity. Given that opportunity entrepreneurship makes a far more significant economic contribution than necessity entrepreneurship, including its impact on job creation, this is a positive finding.

4.2.3 Gender

Table 4.3 indicates that across all regions in South Africa, men are more likely than are women to be involved in early-stage entrepreneurial activity. The rest of South Africa shows the best gender parity, with more than seven women engaged in early-stage entrepreneurship for every ten male entrepreneurs. In Gauteng and the Western Cape, on the other hand, the gender gap is wider with fewer than six women engaged in early-stage entrepreneurship for every ten male entrepreneurs. A number of factors may prevent women from perceiving as well as acting on entrepreneurial opportunities. These include: higher levels of domestic responsibility; lack of female role models in the business sector; fewer business-orientated networks in their communities; lack of capital and assets; lower status in society and a culturally-induced lack of assertiveness and confidence in their ability to succeed in business.

4.2.4 Growth projection

A key focus in many economies' development strategies is to facilitate growth that is sustainable and inclusive in order to generate widespread employment and to reduce poverty. Whether entrepreneurs anticipate becoming employers, and the extent to which they have the potential to create job opportunities, is thus a crucial factor that is of paramount interest to policy makers. GEM asks early-stage entrepreneurs how many employees (other than the owners) they currently have and expect to have in the next five years. The difference between current and expected employees indicates growth expectations. It is important to note that the expressed growth potential has, as yet, not been tested – however, businesses that do not aspire to grow are significantly less likely to do so successfully.

Table 4.3: TEA rates by gender in South Africa, by province, 2017. Percentage of adult population for each gender involved in TEA

	Male TEA rate	Female TEA rate	Ratio female to male TEA
Gauteng	16.3	9.6	0.59
Rest of South Africa	12.9	9.8	0.76
Western Cape	5.5	3.2	0.58

Figure 4.6 indicates the growth expectations, over the next five years, among South Africa's entrepreneurs. Growth expectations represent a future assessment of the expansion prospects for a business, as well as an entrepreneur's ambitions to grow the enterprise. The Western Cape has the highest percentage of entrepreneurs who do not anticipate creating any jobs in the next five years (37.8%). About a fifth of entrepreneurs in Gauteng and the rest of South Africa anticipate making no contribution to job creation besides self-employment for the entrepreneurs themselves. About half of the early stage-entrepreneurs in Gauteng and the Western Cape, and 44.7% of those in the rest of South Africa, expect to create between one and five new jobs within the next five years. In terms of medium-to-high growth entrepreneurs (i.e. those projecting to employ six or more people in the next five years) the differences are more distinct. Only 12.2% of entrepreneurs in the Western Cape exhibit these higher-growth aspirations, compared to 26.8% in Gauteng and 36% in the rest of South Africa.

There are a number of factors that could have an impact on entrepreneurs' growth ambitions. The 2015/16 GEM Global Report[13] noted that sophisticated technology and communications may enable entrepreneurs, particularly in more developed regions, to operate on their own, perhaps as part of a broader value network. In addition, entrepreneurs may choose to keep their businesses small as they are then better able to avoid the complexities (such as taxes and other legal requirements) of formalisation. Other factors such as types of businesses started, rigid labour regulations, poor availability of skilled/ educated labour and limited access to entrepreneurial finance may deter entrepreneurs from attempting to grow their ventures. The impact of international as well as regional economic cycles should also not be underestimated in terms of influence on local business ecosystems.

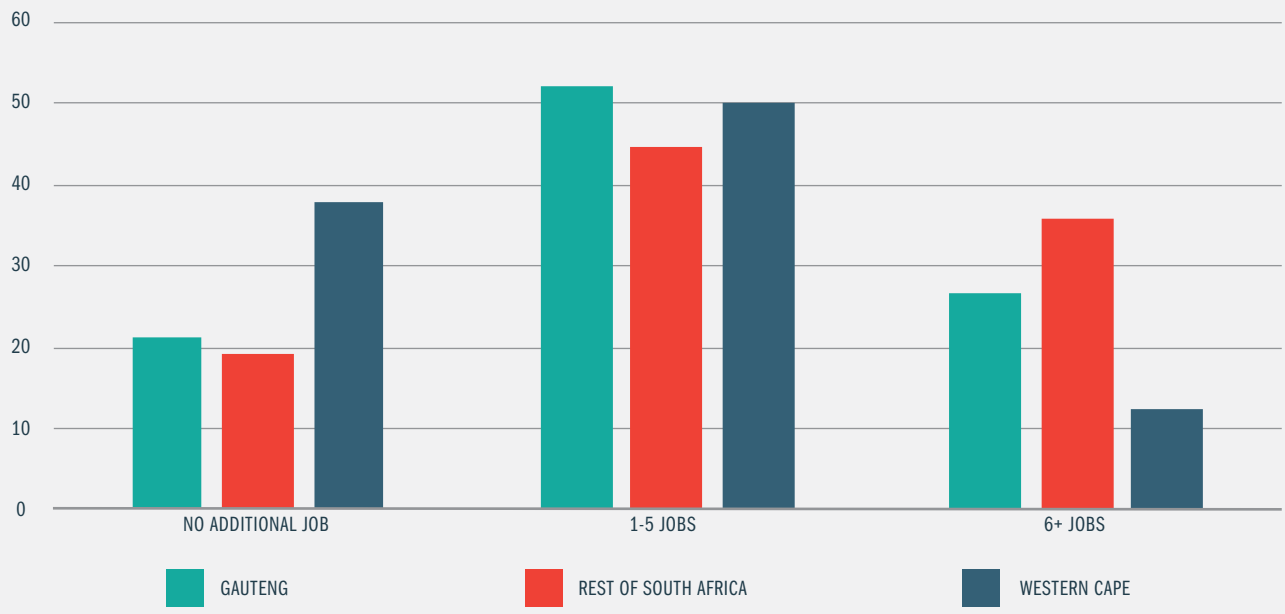
It should be noted that the expressed growth potential has, as yet, not been tested – some entrepreneurs may be unduly optimistic in terms of their projections. However, businesses that do not aspire to grow are significantly less likely to do so successfully. It is important to identify those entrepreneurs with realistic medium to high growth aspirations, and institute policies aimed specifically at supporting them in order to optimise their impact on economic growth and job creation. Small businesses and high-growth businesses have different finance requirements, with small businesses needing better access to grants, subsidies and soft loans, while policies that promote R&D loans and innovation grants, business angel finance and venture finance would be more beneficial in promoting high-growth entrepreneurs[14]. Alleviating regulatory burdens as well as offering targeted financial support is important in developing an environment that allows high-growth businesses to flourish. Research suggests giving high-growth businesses a "honeymoon period" which allows for a time period before high-growth firms need to comply with the additional compliance requirements[15]

13 Kelley, Donna, Singer, Slavika and Herrington, Mike (2016). Global Entrepreneurship Monitor 2015/16 Global Report. London: Global Entrepreneurship Research Association.

14 Erkko A, (2007) *2007 Global Report on High-Growth Entrepreneurship*

15 Erkko A, (2007) *2007 Global Report on High-Growth Entrepreneurship*

Figure 4.6: TEA growth projection in South Africa, by province, 2017



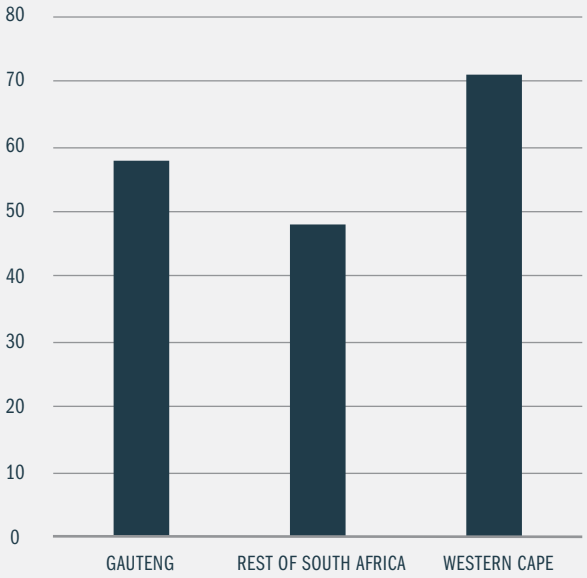
and cautions against creating regulatory traps that deter entrepreneurial firms from growing beyond a certain size.

4.2.5 Innovation

Innovation and entrepreneurship are closely connected concepts. It is argued that entrepreneurs disrupt market equilibrium by introducing new product-market combinations into a market, teaching customers to want new things and driving out less productive firms as their innovations advance the production frontier. Innovation goes beyond just creating novel products and services. To commercialise their innovations, entrepreneurs need to identify new market niches and develop creative ways to offer, deliver and promote their products. All of this requires an awareness of competitive offerings, and the ability to incorporate this knowledge into distinct products and services. Innovation capabilities are thus important to economies' ability to become competitive, particularly in higher-productivity sectors.

One of the ways in which GEM assesses innovation in entrepreneurship is by looking at the degree of newness which an entrepreneur's products or services represent to customers. **Figure 4.7** shows that entrepreneurs in the Western Cape are considerably more innovative than those in Gauteng and the rest of South Africa, with 71.1% regarding their products as new to the market in 2017. A positive finding is that innovation levels in the Western Cape have remained consistently high compared to 2013, while innovation levels in the other two regions have declined significantly over the same time period (from 69.9% to 58% in Gauteng, and from 66.7% to 48% in the rest of South Africa).

Figure 4.7: Percentage products offered to customers in South Africa, considered new, by province, 2017



GEM Reports have posited several factors that contribute to higher innovation levels, including higher levels of education and more diverse industry sector profiles, with higher levels of participation in more sophisticated sectors such as information and communication technology, and professional and other service industries. This, coupled with greater access to advanced technologies, may encourage entrepreneurs to be more innovative. In addition, markets in these regions tend to be more sophisticated and populations more affluent, accommodating and demanding more diverse product offerings. Many of these factors are prevalent within the Western Cape.

The Western Cape Government has been proactive in not only identifying that a critical factor in improving competitiveness within identified sectors is innovation, but also committing itself to promoting the development of more innovative products and processes[16] as well as access to new knowledge in the global economy. As PwC's *Emerging Company Survey* found, there are more small business support, development and innovation programmes in this province than elsewhere in the country.

16 Key Achievements of the Western Cape's Key Sectors, 29 November 2013 http://www.westerncape.gov.za/speech/minister-windes-address-key-achievements-western-capes-key-sectors

These initiatives include CodeX, AlphaCode, the Bandwidth Barn, RLabs, Grindstone Accelerator, Launch Lab, and the Silicon Cape Initiative.[17] Start-ups also have better access to VC in the Western Cape. A recent study by the Southern African Venture Capital and Private Equity Association revealed that the Western Cape has the most VC activity in South Africa. With 75% of all South Africa's VC-type deals, the province has rapidly overtaken Gauteng (20%) within the last five years[18].

The Craft + Design Institute (CDI) has raised the R33m to establish three funds – a Growth Fund, an Innovation Fund and a Loan Book. This funding has been enabled by the National Treasury's Jobs Fund through the Government Technical Advisory Centre (GTAC), the Technology Innovation Agency (TIA), and the Western Cape Department of Economic Development and Tourism (DEDAT). The funding will be for developing 60 growth oriented SMEs and 20 innovative technological solutions – and to create 600 permanent jobs in the process over three years. Solly Fourie, Head of the Department of Economic Development and Tourism in the Western Cape Government, notes: "We know that there is a strong need to develop and improve the socio-economic conditions of the citizens in our region. To this end, the creation of a healthy and vibrant regional innovation system can be a catalytic driver of sustainable economic growth and development. The partnerships created through the Seed Fund and Jobs Fund, and initiatives like it, go a long way to creating an enabling regional innovation system in which we collectively draw on the Quad helix's expertise and resources; promote local industry and attract and grow innovative businesses."[19]

Innovation-driven businesses are reliant on higher levels of research and development within an economy. The Western Cape is home to four top-ranking universities within a 60km range of each other, namely University of Cape Town (UCT), Stellenbosch University (SU), University of the Western Cape (UWC), and Cape Peninsula University of Technology(CPUT). Both UCT and SU are ranked among the country's, and the continent's, top five, along with University of the Witwatersrand. SU and the UCT lead the pack in South Africa for Patent Cooperation Treaty (PCT) registrations over the past five years. These PCT registrations are generally regarded as the first step towards protecting, and an important step towards commercialising, an invention on an international scale.[20]

17 http://ventureburn.com/2015/11/why-is-cape-town-a-world-class-hub-for-tech-startups/

18 Ibid.

19 https://www.thecdi.org.za/news/375900/R33million-boost-for-job-creation-and-innovation-in-SA.htm

20 http://ventureburn.com/2015/11/why-is-cape-town-a-world-class-hub-for-tech-startups/

An efficient IT infrastructure reduces cost of business, increases market reach, improves access to information and allows for innovation. As noted earlier, only a quarter of people in the Eastern Cape have access to the internet, compared to three-quarters of people in the Western Cape[21]. People living in the Western Cape are 1.37 times more likely to have access to the internet than those living in Gauteng, the province with the second-best internet coverage by population. Providing access to affordable Internet remains a key priority for the Western Cape Government for 2017/18.

Tourism is a key sector in the Western Cape and ICT more easily allows innovation in tourism to develop, including innovation in new products and services, and addressing specific market segments such as eco-tourism, various outdoor activities as well as beach holidays which can be marketed more directly to the market segment most likely to respond. ICT can also offer innovative methods of promoting and diversifying the product/service offerings as well as ways of attracting customer notice. Tourism businesses with a web-page are significantly more likely to attract customers, and with a substantial proportion of the European market using the internet to book their own travel, the importance of ICT for small businesses will continue to grow.

4.2.6 Societal perceptions of entrepreneurship

Although not a direct step in the entrepreneurial process, societal attitudes and perceptions play an important part in creating an entrepreneurial culture. Societal perceptions of entrepreneurship include the extent to which people think entrepreneurship is a good career choice, whether entrepreneurs are considered to have high status, and whether entrepreneurs garner significant levels of positive media attention. The positive or negative perceptions that society has about entrepreneurship can have a strong influence on the entrepreneurial ambitions of potential as well as existing entrepreneurs. Positive views on these measures assist in making entrepreneurship more attractive within the community and therefore influence the willingness of individuals to become entrepreneurs. The visibility and attractiveness of entrepreneurship also increases the likelihood that, as society has shown support for these efforts, it will be easier for businesses to find investors, suppliers, customers and advisors.

Table 4.4 indicates that Gauteng and the Western Cape have markedly less favourable perceptions about entrepreneurship as a career and the status of entrepreneurs, compared to the rest of South Africa. The rest of South Africa reports strongly positive attitudes towards entrepreneurship, with almost three-quarters of working-age adults considering entrepreneurship a good career choice while 80% believe that entrepreneurs are admired in their societies.

21 https://techcentral.co.za/internet-access-sa-rural-areas-falling-far-behind/75789/

As mentioned earlier, these perceptions may, to some extent, be influenced by the fact that in areas characterised by low economic growth, high levels of poverty and chronic un- and underemployment, society often sees entrepreneurship as a means to improve one's economic and social standing. A somewhat surprising finding, given its relatively higher rates of TEA, is that Gauteng reports the lowest proportion of people regarding entrepreneurship as a good career choice. The Western Cape reports the lowest proportion of adults believing that entrepreneurs are highly regarded as well as the lowest media publicity for this activity. In terms of positive media attention for entrepreneurship, the Western Cape is a distinct outlier – less than 60% of people in this region believe that there is substantial media visibility for successful entrepreneurs, compared to almost three-quarters of individuals in Gauteng and the rest of South Africa. These perceptions may well contribute to the low levels of potential as well as actual entrepreneurs in the Western Cape.

Previous studies (for example, the 2012 ILO Report) have shown that although many South Africans perceive that entrepreneurship is a good career choice and successful entrepreneurs are afforded high status, the more local experience many people have of small business ownership offers a different, less positive, view of entrepreneurial activity. Many people feel that individuals that start a business have to work too hard for little money. A further concern is high levels of government corruption which creates the belief that "who you know" is more important than "what you do". The development of an entrepreneurial culture in South Africa is likely to be eroded by the perception that working for the government is the best way to earn a living, by the number of discouraged work seekers and the number of people on social grants. GEM has shown that knowing an entrepreneur has a positive impact on the decision to start a business. However, in many communities in South Africa, knowing people who are discouraged work seekers or are recipients of social grants is significantly more likely than knowing an entrepreneur.

Table 4.4: Societal perceptions of entrepreneurship in South Africa, by province, 2017

	Entrepreneurship a good career choice	Successful entrepreneurs high status	Positive media attention
Gauteng	61.0%	68.7%	73.7%
Rest of South Africa	73.6%	80.3%	74.5%
Western Cape	64.8%	58.9%	56.8%

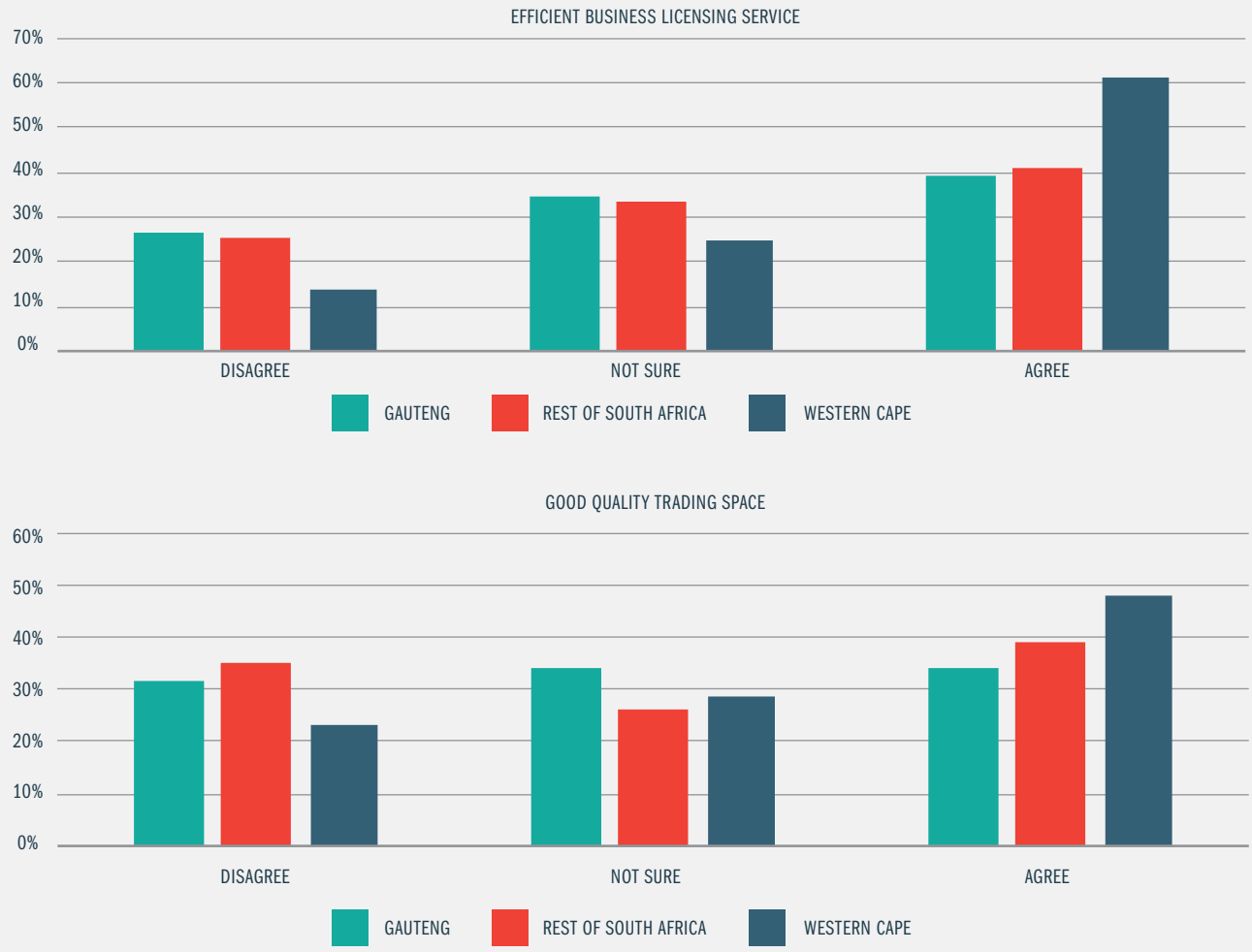
4.2.7 Perceptions of local municipality and other support services

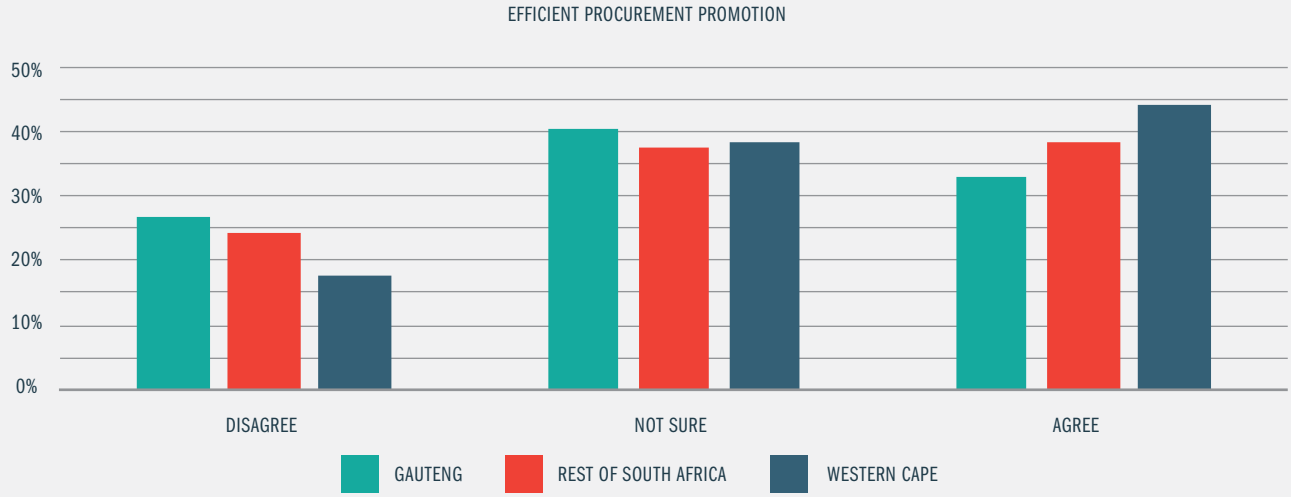
A number of specific questions were added into the Adult Population Survey questionnaire for 2017. These questions assessed the respondents' perceptions regarding the extent to which their local municipalities were effective in providing business-related services and facilities (for example business licensing, procurement and trading space). An additional set of questions related to the impact, efficiency and relevance of a number of government initiatives that have been set up to provide business development and support services for small enterprises.

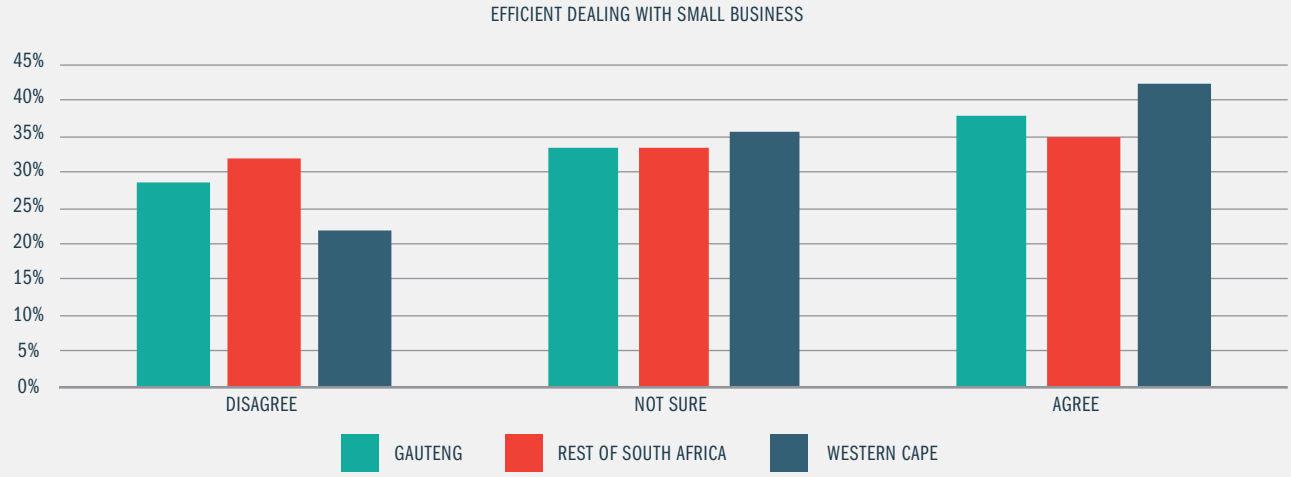
Figure 4.8 summarises the responses to the following statements: the local municipality offers an efficient business licensing service; the local municipality offers sufficient good quality trading space; the local municipality is efficient in its procurement promotion; and the local municipality is efficient in all its dealings with small business owners. Respondents were asked to indicate the extent to which they agreed with each statement using a Likert scale of 1 (strongly disagree) to 5 (strongly agree).

The Western Cape outperforms Gauteng and the rest of South Africa in terms of all four parameters. The largest area of divergence is in terms of effective licensing provision – on average, 60% of working-age adults in the Western Cape believe that their local municipalities provide efficient licensing services, compared to only 40% of individuals in Gauteng as well as the rest of South Africa. Just under half of respondents believe that Western Cape municipalities provide access to good quality trading space, compared to a third of respondents in Gauteng. It is likely that the more favourable perceptions of local municipalities business support services in the Western Cape are the result of the fact that the Western Cape Government has, over the years, implemented regulations and policies to lessen the burden of procedures for businesses.

Figure 4.8: Effectiveness of local municipality, by province, 2017







These include the Red Tape Reduction Unit, which seeks to remove bureaucratic blockages to make it easier and more cost-effective to do business.

Respondents were asked to indicate whether they had heard of, and if so, whether they had used, a number of business support initiatives/organisations. **Table 4.5** provides the list of these business support initiatives/organisations and the acronym under which they appear in **Figure 4.9**.

Figure 4.9 shows the National Youth Development Agency and the Department of Trade and Industry are not as well recognised in the Western Cape as they are in Gauteng and the rest of South Africa. The National Empowerment Fund has a considerably higher recognition value in the Western Cape, in comparison to Gauteng and the rest of South Africa. People in the Western Cape and Gauteng are 1.9 times more likely to have heard of the Technology and Innovation Agency compared to people in the rest of South Africa.

Table 4.5: Business support acronyms

National Youth Development Agency	NYDA
Small Enterprise Finance Agency	SEFA
Small Enterprise Development Agency	SEDA
Industrial Development Corporation	IDC
Technology and Innovation Agency	TIA
National Empowerment Fund	NEF
Department of Trade and Industry	DTI
Department of Economic Development and Tourism	DEDAT

Figure 4.9: Heard of and used business support structures, by province, 2017

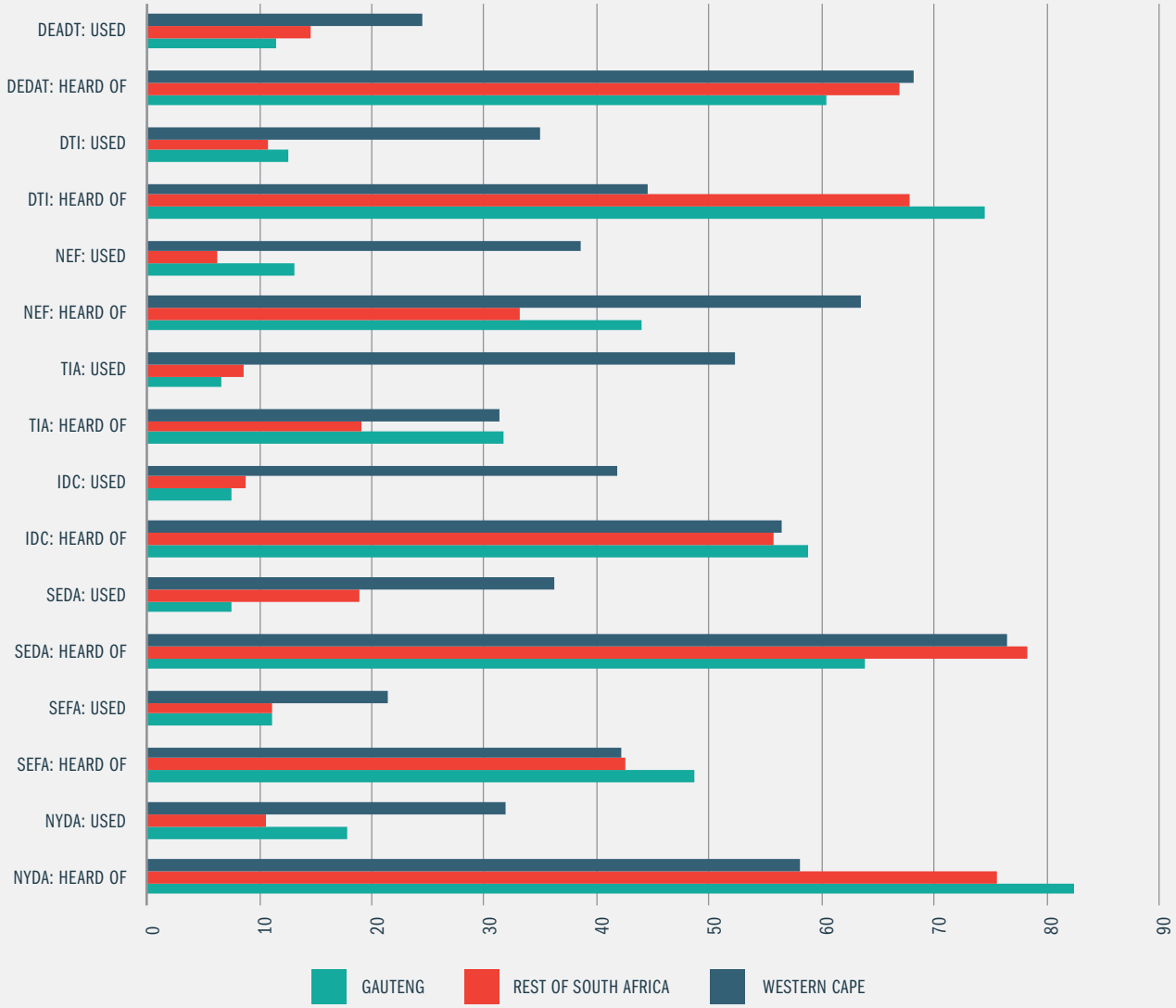


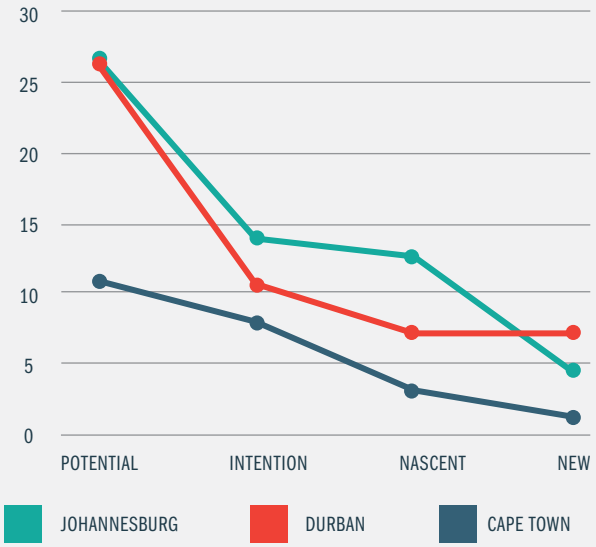
Figure 4.9 also shows the Western Cape as the highest users of all the business support initiatives/ organisations. This could be explained by the greater internet coverage in the Western Cape, which makes it easier and quicker to find information and to access organisations throughout the country. The Western Cape has the highest proportion of opportunity-driven businesses. These individuals are pulled into entrepreneurship because they identify an opportunity. Individuals that are pulled into a business opportunity through choice are more likely to have a clearer idea of what support they would require and to search out the necessary assistance.

The usage patterns particularly for the Technology and Innovation Agency, the Industrial Development Corporation and the National Empowerment Fund are significantly higher in the Western Cape than in both Gauteng and the rest of South Africa. The Western Cape is approximately 6.5 times more likely to use the Technology and Innovation Agency and approximately five times more likely to use the Industrial Development Corporation than Gauteng and the rest of South Africa. The significantly higher usage of the Technology and Innovation Agency is not surprising, given the difference in the level of innovation found in the Western Cape in comparison to Gauteng and the rest of South Africa.

4.3 City analysis

The previous section developed an understanding of entrepreneurship from a provincial perspective with respect to Gauteng, the rest of South Africa and the Western Cape. This section will focus on entrepreneurship within three key cities, namely Johannesburg (Greater Johannesburg including Sandton and Soweto), Durban and the City of Cape Town.

Figure 4.10: South Africa's entrepreneurial pipeline, by city, 2017



4.3.1 Entrepreneurial pipeline

Figure 4.10 analyses the entrepreneurial pipeline with respect to Johannesburg, Durban and City of Cape Town. Around a quarter of Johannesburg and Durban respondents (26%) believe they have the skills and knowledge to start a business and that there are opportunities in the area they live. In Cape Town, on the other hand, only 10.6% of respondents are considered to be potential entrepreneurs (**Figure 4.10**). The gap between Cape Town and the other two cities has widened since 2013 – in 2013 individuals in Johannesburg and Durban were 1.9 times more likely, compared to Capetonians, to believe they have the skills and knowledge to start a business and that there are opportunities in the area they live; in 2017, the ratio was 2.5 times more likely. The low rate of potential entrepreneurs in Cape Town, in comparison to Durban, could be explained by the significantly higher expanded unemployment rate in KwaZulu-Natal (around 40%) versus an expanded unemployment rate of around 25% in the Western Cape (**Figure 4.2**). As noted earlier, the lower unemployment rate in the Western Cape could act as a disincentive when considering possible opportunities to start a business, given the alternative of permanent employment. Cape Town is also positioning itself as a technology hub and the perception of what is considered an opportunity and the capabilities required to create and manage such an entrepreneurial opportunity would differ substantially from the perceptions of what is needed to manage less technologically-advanced entrepreneurial opportunities.

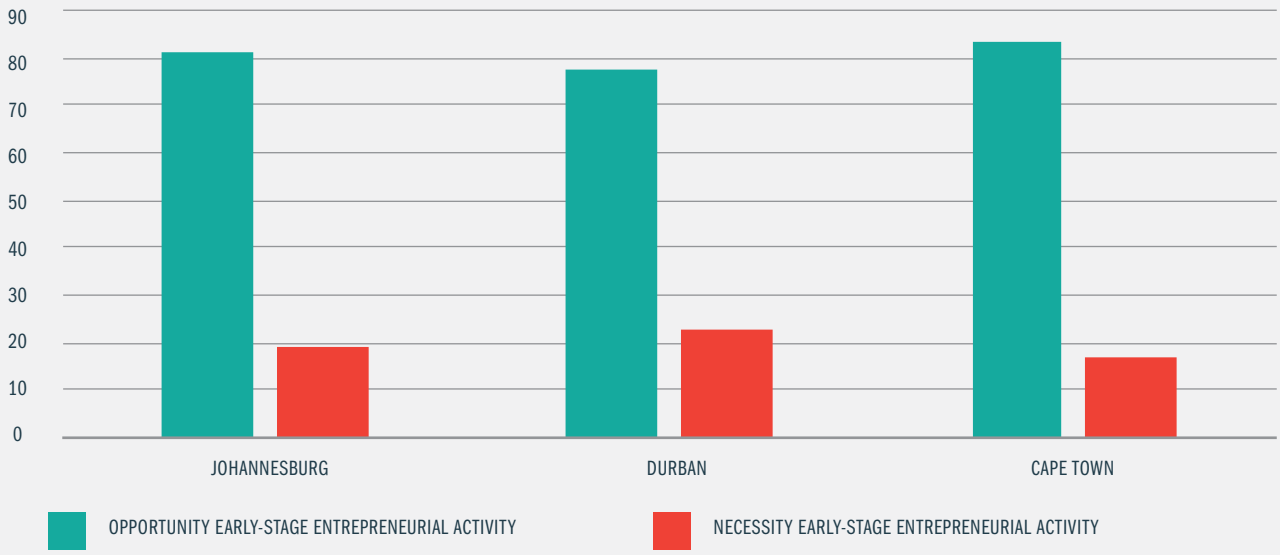
Johannesburg (13.8%) has the highest rate of non-entrepreneurs expressing an intention to start a business in the next three years – 1.7 times higher than the intentional entrepreneur rate of 8.1% for Cape Town. This is likely to be driven by the higher unemployment rate in Johannesburg compared to Cape Town (**Table 4.6**). A more positive explanation for the higher levels of entrepreneurial intention in Johannesburg is the higher level of opportunity perception in this city. In Johannesburg, 41.1% of working-age adults believe there are good business opportunities in their area, compared to 23% of Capetonians. Durban has the highest rate of opportunity perception, with half (51.5%) of respondents perceiving good opportunities in their area.

Table 4.6: Official and expanded unemployment, by city, 2017

	Official Q3: 2017	Expanded Q3: 2017
City of Cape Town	23.2%	25.0%
eThekweni [Durban]	23.3%	30.5%
City of Johannesburg	29.6%	31.2%

Source: Source: QLFS Trends 2008 – 2018 Q1

Figure 4.11: Opportunity/necessity-driven entrepreneurship in South Africa, by city, 2017



Johannesburg has the highest TEA rate (17.1%), closely followed by Durban on 14.7%. Cape Town reports significantly lower levels of early-stage entrepreneurial activity, with a TEA rate of 4.5% – a drop of almost 40% from 2013's TEA rate of 7.4%. Individuals in Johannesburg and Durban are more than three times more likely to be engaged in early-stage entrepreneurial activity than are their counterparts in Cape Town. Higher levels of unemployment in Johannesburg and Durban may account for some of the difference (**Table 4.6**), but are not dramatic enough to suffice as an explanation. It is important for policy makers in Cape Town to identify and reduce factors which inhibit entrepreneurial intentions and activity in the city.

4.3.2 Entrepreneurial motivation

Both Cape Town and Johannesburg report high levels of opportunity-motivated entrepreneurship (83.2% and 81.6% respectively) – an encouraging finding. Entrepreneurs in Cape Town are 4.9 times and those in Johannesburg 4.3 times more likely to have started a business because they perceived an opportunity rather than being pushed into entrepreneurship because of no other option (**Figure 4.11**). In 2013, entrepreneurs in Johannesburg were only 2.7 times more likely to start an opportunity-driven than a necessity-driven business. As noted earlier, almost twice as many working-age adults in Johannesburg believe there are good business opportunities in the area in which they live, compared to those in Cape Town. This marked difference in opportunity-perception is clearly a contributory factor to the low levels of TEA in Cape Town relative to Johannesburg. Durban has the highest level of necessity-motivated entrepreneurship – almost a quarter (22.7%) of early-stage entrepreneurs in this city have started a business because of no other option for a livelihood.

4.3.3 Gender

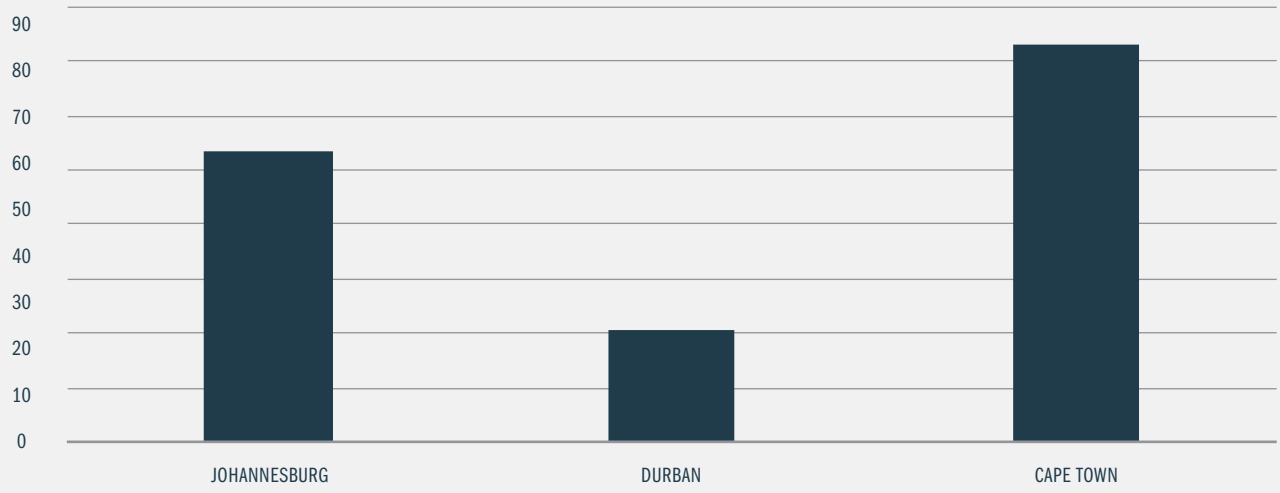
Both Durban and Johannesburg show good gender parity in terms of TEA activity (**Table 4.7**). In Durban, in fact, women are slightly more likely to be engaged in early-stage entrepreneurship than are their male counterparts.

Table 4.7: TEA rates by gender in South Africa, by city, 2017. Percentage of adult population for each gender involved in TEA

	Male TEA rate	Female TEA rate	Ratio female to male TEA
Johannesburg	19.4	14.9	0.77
Durban	13.7	14.6	1.07
Cape Town	6.6	2.6	0.39

In Johannesburg, almost eight women were engaged in early-stage entrepreneurship for every ten male entrepreneurs. Women in these two cities are 5.6 times more likely to be engaged in TEA than are women in Cape Town. Cape Town not only has the lowest female TEA rate by a substantial margin but also exhibits the widest gender gap in terms of early-stage entrepreneurial activity, with fewer than four women engaged in TEA for every ten male entrepreneurs. This gender gap is an area that needs to be addressed, as a matter of some urgency, by policy makers and service providers.

Figure 4.12: Percentage of products offered to customers considered new in South Africa, by city, 2017



4.3.4 Innovation

One of the ways in which GEM assesses innovation in entrepreneurial businesses is by looking at the degree of newness the entrepreneur's products or services represent to customers. **Figure 4.12** shows that almost three-quarters of entrepreneurs in Cape Town (73%) believe that their product or service is new to some or all customers – a substantially higher proportion than in Johannesburg (53.7%%) or Durban (20.6%). This is a positive sign for the City of Cape Town as a high degree of innovation-orientation is important to economies' ability to become competitive, particularly in higher-productivity sectors. According to the Innovation Cities Index, Cape Town has kept its rank as Africa's most innovative city over the past decade, with Dar es Salaam and Dakar referred to as "rising cities" regionally.[22]

An important focus for the Western Cape's Department of Economic Development and Tourism is for Cape Town to be an innovation hub, and one of Africa's key area for technology start-ups. This is being driven by falling bandwidth prices, an increase in the availability of funding, and a new generation of risk-taking entrepreneurs. Cape Town offers supportive infrastructure: Internet penetration in Cape Town is 63% and the city has one of the largest open access fibre networks in Africa. Expanding access to affordable internet remains a key priority for the Western Cape Government, and the decrease in bandwidth prices reduces a key barrier to competitiveness in the IT industry. Investors are also drawn to the city, thanks to the range of quality start-ups, tax incentives and access to the rest of Africa.

The success of the Western Cape as a preferred destination for IT companies and start-ups is due to the Western Cape government proactively supporting this sector through strategic partnerships with the private sector. Cape Town has more than 25 co-working spaces and more than 20 local and international accelerators. Examples of co-working spaces are the Khayelitsha Bandwidth Barn, the Woodstock Bandwidth Barn, Rise Cape Town, Workshop 17 and Work & Co. Accelerators include VeloCiTi Entrepreneurial Development Programme, Grindstone, Startupbootcamp, Injini and Seedstars. It is estimated that accelerator programmes support between 10 and 15 start-ups in Cape Town each year.

The Cape Innovation & Technology Initiative (CiTi) is regarded as one of the oldest tech incubators on the continent. It has incubated more than 2 000 businesses and supported more than 3 000 entrepreneurs.[23]

4.3.5 Societal perceptions of entrepreneurship

As indicated previously, the positive or negative perceptions society has about entrepreneurship can strongly influence the motivations of people to enter entrepreneurship.

22 http://ventureburn.com/2015/11/why-is-cape-town-a-world-class-hub-for-tech-startups/

23 https://www.fin24.com/Entrepreneurs/News/entrepreneurs-flock-to-cape-town-africas-start-up-capital-20180515

Table 4.8: Societal perceptions of entrepreneurship in South Africa, by city, 2017

	Entrepreneurship a good career choice	Successful entrepreneurs high status	Positive media attention
Johannesburg	65.5%	72.0%	77.2%
eThekweni [Durban]	71.1%	80.0%	74.5%
City of Cape Town	66.9%	61.3%	56.8%

Around two-thirds of working-age adults in Cape Town and Johannesburg believe that entrepreneurship is a good career choice (**Table 4.8**), with those in Durban reporting slightly more positive perceptions (71.1%). Individuals in Cape Town diverge strongly from those in Johannesburg and Durban in terms of the other two parameters, however, with a significantly lower percentage of working-age adults believing that entrepreneurs are admired in their society and that there is positive media attention for entrepreneurs. Local media (such as community newspapers and local radio stations) in Cape Town therefore have a crucial role to play in creating a positive perception of entrepreneurship as a potential career path. Accessible entrepreneurial role models (to whom specific communities can relate) should be showcased. In addition, entrepreneurship events should be well-publicised in local media – both before and after the event to inform as well as to inspire potential entrepreneurs within these communities.

4.3.6 Perceptions of local municipality effectiveness

Figures 4.13 and **4.14** summarise respondents' attitudes towards and perceptions regarding the extent to which their local municipalities were effective in providing business-related services and facilities, for the three cities. **Figure 4.13** indicates that the scores across most parameters are very similar for Johannesburg and Cape Town. Cape Town outperforms Johannesburg in terms of efficiency of business licensing services (57.7% compared to 51.3%) and provision of effective small business centres (57.6% compared to 48.8%). Respondents from Johannesburg are slightly more likely to regard their local municipalities as trustworthy (53.9% compared to 49.5% for Cape Town) – however, **Figure 4.14** indicates that Johannesburg also has the highest percentage, by a substantial margin, of respondents strongly disagreeing with the statement "The local municipality is trustworthy" (12.1%).

Figure 4.13: Percentage of respondents agreeing/strongly agreeing, by city, 2017

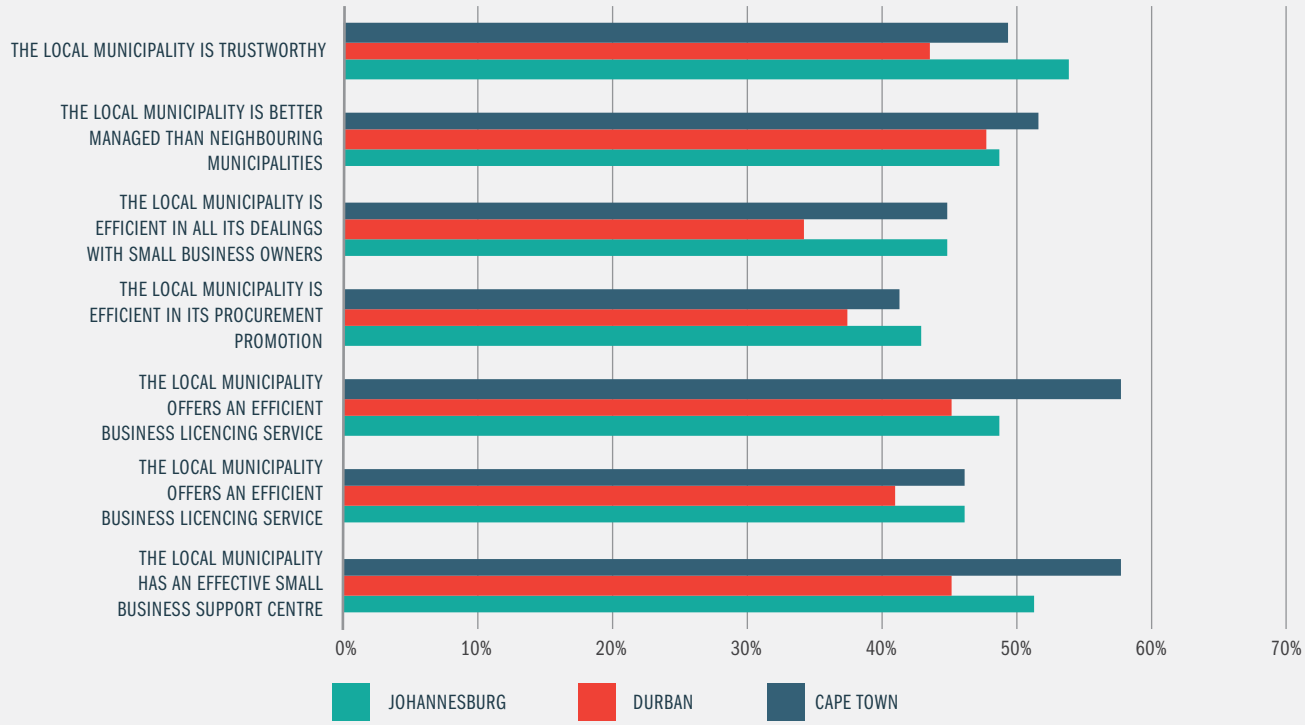
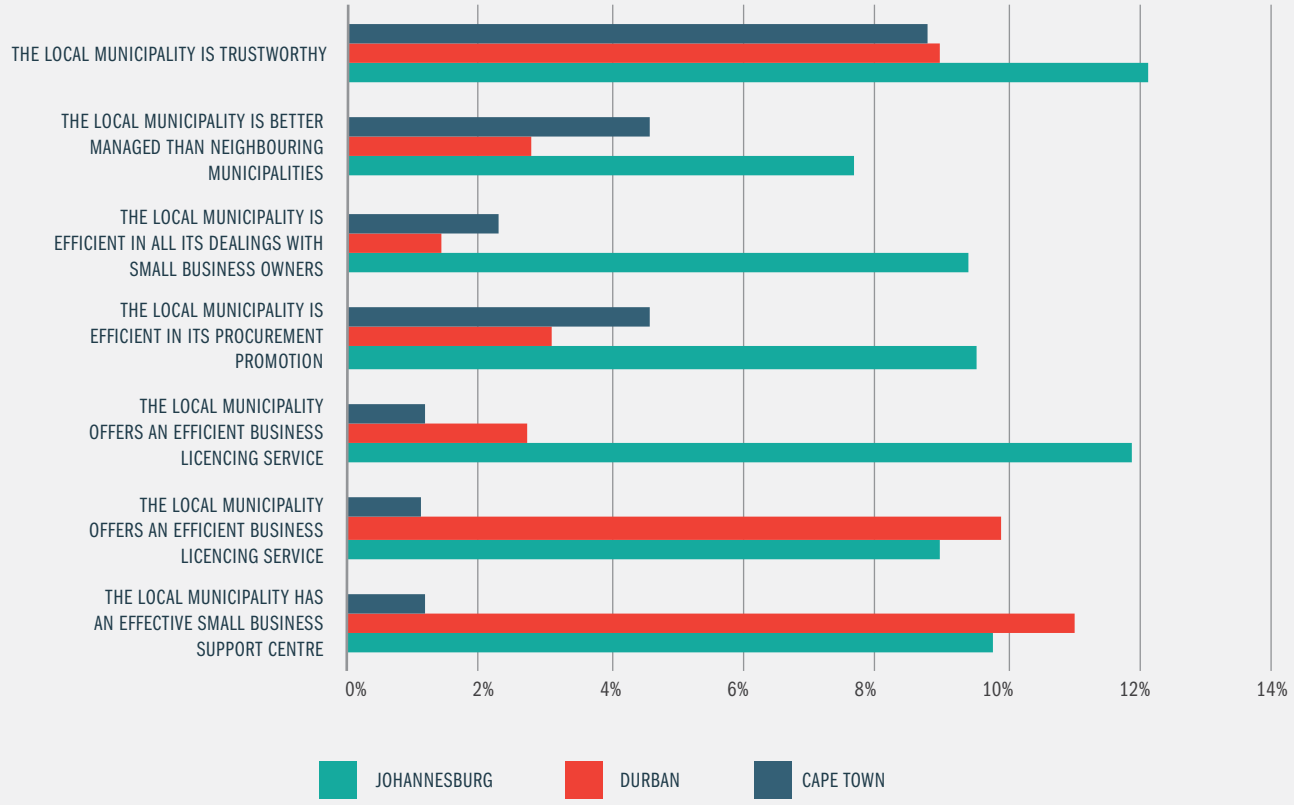


Figure 4.14: Percentage of respondents strongly disagreeing, by city, 2017



Less than 2% of respondents from Cape Town strongly disagreed that the local municipality offered good trading space and has an effective small business support centre, compared to over 9% for the other two cities (**Figure 4.14**). Overall, **Figures 4.13** and **4.14** indicate that individuals in Cape Town have more favourable perceptions of their local business support environment than do their peers in Johannesburg and Durban – testament to the Western Cape government's ongoing commitment to reducing the administrative burdens on small businesses and creating a supportive and enabling ecosystem for entrepreneurs.

4.4 Entrepreneurial pipeline inhibitors

Enabling entrepreneurship in the Western Cape is important to promote economic development. However, it is important to remember that the basic requirements such as offering quality primary and secondary education; ensuring that the correct infrastructure, of a good quality, is in place and institutions such as policing are operating efficiently; and ensuring that the government's macro-economic policy is conducive to promoting entrepreneurial activity are still the priority. Entrepreneurship is unlikely to contribute to substantial improvements in wealth creation if these basic requirements are not operating efficiently throughout the Western Cape. While there are a number of policy decisions that have as their mandate to ensure that the Western Cape becomes more dynamic, competitive and innovation-orientated, these will only be truly advantageous for the Western Cape economy if both the basic requirements and efficiency-enhancing conditions are in place and of a high quality. For example, deteriorating transportation infrastructure and shortages of power would do more to impede entrepreneurial activity than policies aimed at promoting entrepreneurship could ever do to enhance it. Uncertainty in economic policy will also inhibit entrepreneurial activity. As one expert indicated, "There is a feeling that the economic climate does not encourage the development of business. Uncertainty around the government's economic policy means that many people are hesitant to embark on entrepreneurial ventures – they are afraid to commit their money when they do not have assurance that they will get a return, or even be able to retain their capital."

Table 4.9: Entrepreneurial Framework Conditions most likely to impact on each stage of the entrepreneurial pipeline

Potential entrepreneurs	**Culture and Social Norms:** The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income. **Education:** The extent to which entrepreneurship and entrepreneurial qualities receive attention in all phases of the educational and training system.
Intentional entrepreneurs	**Culture and Social Norms:** The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income. **Education:** The extent to which entrepreneurship and entrepreneurial qualities receive attention in all phases of the educational and training system. **Access to Finance:** The supply and demand of financial resources, especially for new and expanding businesses. One component is the venture capital market. **Government Policy:** The extent to which government policies, seen as a whole, influence new and growing firms. This includes the tax regime, labour market regulation, social security legislation, as well as regulations and schemes that specifically target at the small business sector.
Nascent and new entrepreneurs	**Education:** The extent to which entrepreneurship and entrepreneurial qualities receive attention in all phases of the educational and training system. **Financial Support:** The supply and demand of financial resources, especially for new and expanding businesses. One component is the venture capital market. **Government Policy:** The extent to which government policies, seen as a whole, influence new and growing firms. This includes the tax regime, labour market regulation, social security legislation, as well as regulations and schemes that specifically target at the small business sector. **Research and Development Transfer:** The extent to which national research and development will lead to new commercial opportunities and whether or not these are available for new, small, and growing firms. **Market Dynamics:** The extent to which commercial arrangements undergo constant change and redeployment as new and growing firms compete and replace existing suppliers, subcontractors, and consultants.

Table 4.10: Expert commentary relating to Entrepreneurial Framework Conditions impacting on each stage of the entrepreneurial pipeline. These ideas and suggestions are taken verbatim from interviews with the 2017 key informants.

Potential entrepreneurs	Culture & Social Norms: ■ The societal ethos is one of entitlement and state-dependency, rather than one of self-sufficiency. ■ SA has a national culture not attuned to entrepreneurial activity. The modal cultures amongst both Black and White segments of the population have traditionally been authoritarian, rule-based and restrictive. ■ Failure is not tolerated – entrepreneurship is a risky endeavour and fear of failure (and society's judgemental attitude towards failure) acts as a disincentive to start a business. ■ South Africa does not have a strong entrepreneurial culture, which is being eroded by social welfare grants, me-too businesses earning less than social grants, and corruption as well as the hype about entrepreneurship which is leading to people with no more than a basic idea believing they are entrepreneurs and failing, thus further entrenching negative perceptions about entrepreneurship. ■ Education in primary and secondary schools tends not to inculcate a positive attitude towards entrepreneurship as a viable employment option. Formal employment is promoted as the career path of choice while self-employment is often seen merely as a "stop-gap". ■ Low levels of business acumen – SA's socio-political history means that the majority of South African citizens do not have family legacies of businesses/ local role models. The education system does not teach business basics and financial literacy remains low. Few people have practical experience of running a business – this is compounded by a lack of formal employment as a gateway to business skills transfer. The population, therefore, has no inherent understanding of the basic precepts of business (cash flow, systems, operations, marketing, sales, etc.) ■ Persistent socio-economic inequality often deadens creativity and innovative spirit.

Potential entrepreneurs	**Education & Training**
	■ Basic education in this country is inadequate. There is limited access to quality education, and the education system is clearly failing a large proportion of South Africa's youth. The schooling system allows people with poor linguistic and numeracy skills to exit the system, which hinders further education and training. ■ The education system does not prepare young people for the current economic realities – often a mismatch between skills and market needs. ■ Critical entrepreneurship capacities such as thinking creatively, critically and independently; taking initiative; determination and self-reliance; and having an appetite for risk and adventure are not generally encouraged in the school system. ■ Although entrepreneurship is meant to form part of the secondary school curriculum, it is taught neither widely nor effectively enough – a situation which must be addressed as entrepreneurial education and training is one factor that has been shown to have a significant impact on entrepreneurial attitudes and aspirations. ■ Entrepreneurship is seldom taught by entrepreneurs but rather by teachers and lecturers with no 'feel' for entrepreneurship, and the few practical exercises encourage 'me too' type activities like selling fast food. Even determined and motivated entrepreneurs will often start a business while lacking training in crucial skills in selling, HR, finance and marketing.
Intentional entrepreneurs	**Culture & Social Norms:**
	See above.
	Education & Training
	See above.
	Access to Finance
	■ Access to finance is not easy – unless one is already linked to a family/ friends with influence. ■ It is difficult to access government-sponsored start-up capital – government agencies are often slow and ineffective. ■ Information about the institutions that offer funding to SMMEs. – including up to date contact information, as well as details about the criteria for receiving funding – is not readily accessible. ■ Many commercial banks are risk-averse. Entrepreneurs with a new business model/ concept are frowned upon as too risky, while individuals with standardised franchise applications stand a much better chance of obtaining finance. ■ The turn-around time for financial support approval needs to be reduced so that entrepreneurs do not lose out on good opportunities while waiting for approval.
	Government Policy
	■ More effective government policies with regard to dealing with rampant petty and more aggravated forms of crime in society are crucial, as relative security is an essential part of an enabling business environment. ■ There is a lack of tax incentives for starting and running a small business – where they do exist, tax benefits are poorly communicated. ■ Consistency in government policies and practice is needed to encourage entrepreneurial activity. Many good intentions are not implemented by the tiers of government with the necessary power, because of ignorance, ideological differences or inertia. Lack of co-ordinated focus is a problem – for example, red tape is removed from one area at the same time as legislation adds red tape in another area.
	Business Support
	■ Lack of access to relevant networks. ■ Lack of accessible and realistic information on how to start/ run a business. Most people only learn how to run a business once they start one; people also have many misconceptions about business and success. ■ Government programmes and initiatives do not effectively target their markets – research has shown that many entrepreneurs are unaware of the programmes available. ■ Government agencies tend to be concentrated in urban areas, and particularly in Gauteng. However, the need for these programmes is often more critical in rural areas and less developed provinces. ■ Business support structures, in general, are also concentrated in major cities, with little effective targeted support in rural and peri-urban areas.

Nascent and new entrepreneurs	**Education & Training** ■ See above. ■ The inadequate education system and poor skill levels in the country hinder business efficiency and affect businesses' growth. A good basic education has been shown to make individuals more trainable, allowing for flexibility and productivity in the labour market. A good educational foundation also enhances the time and cost-effectiveness of training. Poorly educated individuals require more training at a greater cost and often with fewer demonstrable results. ■ Maths and science education is of particularly poor quality. It is important to include technology in the school curricula as well as adult education programmes to ensure that the wider population becomes more familiar with technology. ■ Entrepreneurial trainers and consultants are not always well-trained and/or experienced in the specific area of expertise that they offer, for example accounting, HR or logistics. Training programmes must be up to date and focus on the entrepreneurs' needs. **Financial Support** ■ See above. ■ There is a considerable amount of funding available. However, accessing the funding is difficult and time-consuming as every funder has a different system, many requiring numerous (and differing) forms and requirements. There are so many unnecessary hurdles to accessing funding. ■ Obtaining funding from banks can be difficult for entrepreneurs for whom collateral is a problem – for example youth, women and rural entrepreneurs. ■ Inadequate support for entrepreneurs post-investment. Many entrepreneurs in new businesses lack the skills and experience required for business growth and survival. ■ Many of the government agencies mandated with providing financial support to the SMME sector have proved to be singularly unsuccessful. Poorly managed, inefficient and controlled by political appointees rather than by experienced professionals, these organisations have done little to foster entrepreneurship. ■ The lack of venture capital is a concern, as well as a lack of information relating to where and whom to approach for venture capital. With the relatively small venture capital market, there is little available with respect to specialist venture capital. **Government Policy** ■ See above. ■ Lack of co-ordinated government response – the will is there in policy but implementation is lacking. Factors that contribute to ineffective implementation include poor staff capacity and competence, as well as corruption. ■ Onerous labour/ employee protection laws create restrictions for business growth. Many entrepreneurs are hesitant to start a business, but especially to grow a business, as do not want to be beholden to unionised staff, CCMA, etc. Therefore, they look for ideas that are tech, system and process heavy, but labour light. ■ Bureaucracy – too much red tape, SARS is unhelpful and often aggressive in dealing with SMEs, and it is very difficult to acquire licences to do business from government departments. There is too much inefficiency in many government departments. ■ Compliance is very expensive for small businesses – important aspects such as company registration and obtaining licences/ certificates, for example, are costly. ■ The government's BEE criteria place additional administrative and financial burdens on small businesses, which has a negative impact on their profitability and sustainability. In the words of one expert: "Government is too keen to tie entrepreneurial activity to its own programmes of social justice, black economic empowerment and service delivery. Since entrepreneurial activity is not understood as a social utility in its own right, it gets little help and lots of obstruction from government, even as government claims to be supporting it." ■ Corruption in government limits access to business opportunities – procurement departments don't practice fairness. The integrity of a number of government-aligned entrepreneurship programmes is compromised as there is a belief that they only support people they know. **Research & Development Transfer** ■ National expenditure on R&D is too low. ■ Our entrepreneurial innovation ecosystem is weak and inadequate in firstly encouraging uniqueness/ novelty (not only high-end intellectual property driven inventions, but also BoP solutions) and secondly, incentivizing innovation success. ■ The low level of Maths and Science in schools means that the portion of the labour force that can be involved in scientific and technological areas is extremely small. R&D is hampered by the small numbers of researchers. Products/services/inventions are developed overseas, making them costly for local entrepreneurs. ■ Information regarding where and how to bring new technology to market is difficult to find. ■ There are insufficient digital platforms in rural and township areas.

Nascent and new entrepreneurs	**Business Support** ■ See above. ■ Lack of effective institutional support: for example, there are a number of small business financiers, but entrepreneurs are not adequately supported to better present/ package their business plans, making a significant number of applications unsuccessful. ■ There is a lack of qualified practitioners to support entrepreneurs. The competency of many public officials is sub-standard. ■ Established entrepreneurs do not offer themselves for mentorship programmes. There is a general lack of willingness to share information with others or support others in growing their businesses. ■ Although a number of entrepreneurship training interventions and programmes have evolved over the past decade, the cost of the majority of these excludes those who really need skills development (both entrepreneurial and small business managerial skills). ■ The quality of content and effectiveness in terms of outcomes (e.g. ready to start-up or ready-to-grow) of support programmes is still not adequately measured. ■ There are too few interventions aligned with the needs of established small businesses that require professional skills to excel in growth and expansion. **Market Dynamics** ■ Procurement policies are not clear – difficult to find information from government departments about business opportunities. ■ Regulations for tenders often favour bigger firms that have been operating for many years – therefore making it difficult for new businesses to access opportunities and prove themselves. ■ The relationship between large corporations and SMEs needs to be improved – corporates hoard the space with their peers rather than procuring from SMEs. ■ Big businesses make it extremely difficult for small businesses to engage with them. The vendor registration processes is time-consuming and complex and small businesses are expected to provide so much documentation. There is no recognition of the cost of this compliance (both in time and real cost) to a small business. ■ Lack of access to global markets. An improvement is also needed in cross-border trade – focusing on reducing documentation, costs and time. ■ Energy, transport, financial and communication markets are too regulated – this leads to increased costs to small businesses, and also reduces the flexibility for small businesses to find niche markets. ■ Rural areas have small, unreliable markets with high levels of competition for the limited customer base. This makes it extremely difficult for under-resourced entrepreneurs to break into and succeed in these markets.

4.5 Recommendations for policy and practice

An important focus of the national experts' survey is not only to identify key weaknesses in the entrepreneurial environment, but also to obtain recommendations that can be used to inform policy decisions and stimulate entrepreneurial activity. The recommendations in this section take into account the trends in entrepreneurial activity in the Western Cape, as well as the key recommendations identified by the national experts in 2017.

Facilitate an entrepreneurial culture

- Promote a culture of self-belief and national pride – help entrepreneurs to perceive themselves as key economic role players.
- Formal employment is seen by many South Africans as the career path of choice – self-employment is still seen as a "stop-gap" by many. Entrepreneurial education in primary and secondary schools is important to inculcate a positive attitude towards entrepreneurship as a viable employment option.
- Government should provide incentives for youth, especially those with higher education, to become entrepreneurs rather than enter professions.
- Business competitions and media coverage of entrepreneurial success stories are promoting interest in entrepreneurship – more are needed.
- Government and other stakeholders need to promote the benefits of senior entrepreneurship and raise awareness of its potential as a late-career alternative. The media is also critical in this respect. A great deal of focus is placed, rightly, on youth entrepreneurship, but it is important not to forget that people aged fifty and over have skills and resources that could prove highly beneficial to an economy if harnessed in entrepreneurial ventures.
- A key focus in the Western Cape's development strategy is to facilitate growth that is sustainable and inclusive in order to generate widespread employment and to reduce poverty. It therefore remains essential to promote regional and local entrepreneurship within townships and rural communities. This requires increased investment in rural development as a strategic development intervention – holistic rural development is needed, in the form of establishment of business support services, business trading institutions, and infrastructure (improved roads, telecommunication lines, electricity etc. to ease operation and productivity of businesses located in peri-urban and rural communities).

Expand education and training interventions and initiatives

- Expand interventions to deal with the grass-roots skills gap. This could include: the establishment of a wide-ranging apprenticeship system to provide artisan skills, especially to young people; setting up experiential incubators which are easily accessible to young potential entrepreneurs, where they can learn and earn while they learn to earn.
- Prioritise teaching of financial literacy skills at school level.
- Redesign vocational training programmes to include a business component, and encourage people to view vocational training as a good option post high school.

- Provide quality technical education to create entrepreneurs with critical technical skills within priority sectors in the economy.
- It is critical to address the quality and relevance of curricula. Mismatches between the skills required by industry/ the economy and those provided by schools and universities are prevalent. Educational facilities need to improve their capacity to provide the education and job skills that will be needed to develop greater productivity and technology-intensive industries.
- In addition to encouraging and supporting the extension of ICT infrastructures throughout the region, policy makers could promote training in the business use of ICT generally as a medium for sales, market and product research, innovation and seeking sources of finance.

Promote entrepreneurship among women

- Access to networks: GEM research has shown that, in general, significantly fewer women know an entrepreneur, compared to their male counterparts. In this way, women are disadvantaged from the start, having fewer role models (which could affect their willingness to engage in entrepreneurial activity) as well as mentorship opportunities and professional connections, which could affect the sustainability of their businesses in the long run.
- Access to finance: Women often resort to obtaining loans through personal and family connections rather than attempting to approach a commercial bank. They also often lack knowledge of how to develop and present a robust business plan. Funding agencies and options geared specifically towards women-owned SMEs are needed in to support women entrepreneurs.
- Women often have lower capability perceptions and higher fear of failure rates than men do. Belief in one's capabilities is rooted in both education and in social support. Initiatives that increase visibility and access to role models are likely to encourage women entrepreneurs to start and grow businesses. Programs that enhance skills and competencies for women entrepreneurs, and other initiatives such as mentoring and advising, should include developing and assessing women's confidence to take advantage of opportunities and building their capacity for managing risk.
- Girls need to be encouraged to pursue scientific and technology courses – at school and in tertiary studies. Early introduction to ICT will alleviate the "fear of technology" which might inhibit their later use of ICT.

Focus on mentorship and business support initiatives

- Set up local forums and support local chambers of commerce in order to facilitate networking among SMEs. Many new businesses don't have networks in place, don't know how to access them, and don't always understand the importance of networking and meeting with their peers.
- Many potential entrepreneurs lack contact with successful entrepreneurial role models whom they can turn to for support and business advice. It is important to provide mentorship programmes where the mentors have practical personal experience of running a business. Schemes such as in-service education and the linking of entrepreneurial training to enterprise development could equip young people with the skills and experience to operate their own businesses successfully.
- Provide more entrepreneurship workshops, especially in township areas. Ecosystem stakeholders must include rural and township entrepreneurs into existing programmes and initiatives.
- Clusters/ business hubs should be created – including entrepreneurs as well as commercial and professional support structures – so that start-ups can be assisted in a more protected and supportive environment. This is particularly important in rural and semi-rural areas where poor infrastructure (physical and commercial) is a major barrier to entrepreneurship.
- Not everyone has a computer –it is important to use various communication strategies and channels in order to make relevant information accessible to people.
- Encourage the development of more expos, selling platforms and exhibitions that cater for emerging entrepreneurs as well as the more established entrepreneurs – thus cultivating an entrepreneurial community that works together and shares information.
- Government and financial institutions should collaborate to build a data-base of potential funders that is easily accessible and does not require long and complicated internet searches.
- Promote sharing of ideas between state agencies and better co-ordination between Departments of Higher Education and Science & Technology and, for example, the Department of Economic Development and DTI to ensure promotion of R&D and make patents easier to get. Results of research – especially technology research – conducted by universities and other public institutions should be shared with and made accessible to new and growing firms.
- Reduced taxes on importing essential materials could make especially SMEs more competitive. These could include tax breaks to import solar panels, for example, which have the added benefit of reducing electricity costs of enterprises.
- Effort should be placed into differentiating the needs of new and growing firms by sector, size, etc. Entrepreneurs should be stratified in order to provide customised support to SMMEs – what works for a survivalist or lifestyle venture won't be suitable for a high-growth business. Although policy is often dismissive of the informal sector, informal traders should be encouraged and supported. While they may not always grow into formal businesses, the informal sector is an important area for skills development and employment creation.
- Identify high potential small businesses early on and assist them – for example wage subsidies to bridge the talent gap and enable them to attract skilled workforce.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

2017 was a difficult year for South Africa. The economy was predicted to grow at a low 0.7%, unemployment rose to its highest levels since the advent of democracy at 27.6% with an expanded rate of slightly in excess of 40.0%, youth unemployment and underemployment exceeded 65% rising as high as 80% in some areas. Rating agencies Standard and Poor and Fitch downgraded South Africa to junk status, political tension and division amongst the ruling African National Congress party was at its height with the resignation of President Jacob Zuma and the election of a new ANC President, Cyril Ramaphosa. There were numerous Cabinet re-shuffles with a number of changes within the Ministry of Finance, where Malusi Gigabi replaced Pravin Gordhan, all leading to a disillusionment of foreign investors and a reluctance to invest in the country. Business confidence reached an all time low and local investment in capital structures seemed to come to a halt. A number of private companies were implicated in corrupt dealings including Steinhof, Oakbay and KPMG. Huge scandals revolved around the Gupta Family and President Zuma with several cabinet ministers and leading politicians being implicated.

However, in spite of all this bad news the economy actually grew by 1.3% in 2017. The fourth quarter experienced the highest growth rate in the year with the economy expanding by 3.1% quarter on quarter (Stats SA).

One missing link in the South African enterprise development is a strong participation of industry, this is a particularly important area for Seda, where it can coordinate better and forge a closer relationship and more sustainable partnership with the private sector for the benefits of all Seda clients. A one-sided approach has led to an increased difficulty in Seda clients, penetrating the market and having sustainable businesses. As captains of industry many private sector companies have a wealth on information and knowledge that can assist young people and young entrepreneurs through partnering with government and positively react to government programmes towards enterprise development.

The Department of Small Business Development, established in 2015, has struggled to achieve its goals due to numerous factors both internally and externally. This has meant that while South African government is taking steps to try and address the issues surrounding small business development these are not as effective as they should be. Some steps that the South African Government could consider are as follows:

Small business development should sit within the Presidency as it impacts and is affected by all other departments, and it needs to have a cross functional role as opposed to being relegated to a specific function. All government initiatives, local and national should be required to report to this body to ensure standardisation of SMME development and efficient spending. Private sector expert panels and partners should be included so as to provide insight into the various challenges faced by small business and to provide practical solutions to these problems.

Since the beginning of GEM in South Africa in 2001 and for the past 17 years, the national experts have been reporting the same inhibitors to entrepreneurial activity, namely:-

- Government policies relating to the regulatory environment
- Access to finance, and
- Education and training

yet very little tangible progress seems to have been made and unless acted upon by all branches of the government will continue to remain obstacles and unemployment will continue to rise until major civil unrest forces either a change in government or the present government to do something about it.

The recommendations in this chapter remain much the same as in previous GEM reports except possibly to take into account the changes in the environment over the last 12 months.

5.1. Government policies

There was a lot of optimism when the government announced the formation of the Ministry of Small Business Development under the leadership of Lindiwe Zulu. The business sector looked upon this as a positive move that would help overcome many of the obstacles standing in the way of entrepreneurs who wanted to start their own businesses, become less reliant upon large companies for employment and stimulate the SMME sector in growing the economy. It was hoped that this Ministry would have enough power and drive to be able to liaise with other Ministries in removing such hindrances and moving the economy forward.

Effective policy alignment requires the breaking down of silos and a holistic perspective from government at all times. Cross- department coordination is crucial to the effective implementation of the department's mandate.

However,this has not happened. Political will, a professionalised civil service and coordinated departmental alignment will go a long way towards making a change.

Almost every national expert over the years has cited over-regulation of businesses, unnecessary bureaucratic burdens and onerous labour laws to be the key constraints to entrepreneurial ventures.

Valuable lessons could be learnt from other countries (GEM Policy Briefs 2016 and 2017) as to how they overcame these barriers and what effect the changes they introduced made to the economy and small business development. The most important suggestions made include:-

- Review the regulatory burdens on small businesses and make it easier for businesses to register, open a bank account and comply with tax requirements thereby allowing entrepreneurs to run their businesses and not be bogged down by pointless and unproductive administration.

- Ease the restrictive labour laws governing businesses especially small businesses by doing away with wage negotiations that currently apply to both large and small businesses. Let market dictate what wages are paid.

- Simplify the procedure for retrenchments and for firing practices. Small businesses are reluctant to hire new people because if they have made a mistake with a new person it is very costly and time consuming to be able to get rid of them.

- Corruption must be addressed as soon as possible starting from the top down. There should be serious implications for corruption and harsh sentences handed down and carried out quickly especially among those who work for the government.

- The high level of crime needs to be addressed in the severest form. A strictly enforced zero tolerance policy needs to be introduced at all levels.

5.2 Access to finance

The apparent lack of access to finance by entrepreneurs seems to be a universal problem at all levels in the entrepreneurial pipeline. Entrepreneurs often put the blame on the financiers but more often than not the problem lies with the entrepreneurs who do not have a financially viable business idea, are unable to show discernible differences in their product of service and just don't know how to write a business plan that is acceptable to a funders. In many instances the entrepreneurs do not have the collateral or funds to start a business and expects the financial institution to take all the risk.

Table 2.7 shows that in 2017, 27.0% of businesses had to exit because of a lack of finance which is almost twice the average for other African countries at 15.6%.

Research has shown that over 90% of businesses started in South Africa obtain their funding from personal savings, friends and family and not from banks, venture capitalists and angel investors.

Suggestions have been made by national experts over the years as to how to try and overcome this apparent lack of available funds, such as:-

- Help prepare small businesses so that they are financially ready to start a business.

- Allow angel investors and venture capitalists to write off their investment in the first year and not have to amortize it over many years which increases their risk. This is being done in Israel with much success.

- The turnaround time for financial support from banks and government institutions needs to be improved. Many businesses have to wait from 6 –12 months to get approval and by that time the opportunity has passed.

- Government subsidies and guarantees should be available to all viable small businesses and not just to Black-owned companies. This was first done by Khula Enterprise Finance but the process was cumbersome and flawed by unnecessary bureaucracy.

- Initiatives like the Western Cape Funding Fair sponsored by the Department of Economic Development and Tourism (DEDAT) should be duplicated in all provinces. This event is widely attended by both funders and entrepreneurs and provides an ideal opportunity for the two parties to get together and ascertain what each party requires.

- A national database of funders needs to be put together somewhat on the same principles as alibaba.com where the customer and supplier are linked so that the requirements of both parties can be matched.

- Find new mechanisms and criteria for funding which moves away from the strictly asset-based methods and the requirement for substantial collateral.

5.3 Education and training

The recommendations with respect to education and training are long term ones and are not a quick fix. However, until this dire situation is fixed there is very little likelihood of any major improvements in the entrepreneurial ecosystem of South Africa. An educated workforce is critical to any country's economic growth and hence government should look upon rectifying this as a national priority.

- Consider a strategic partnership between the Department of Small Businesses and Department of Education (basic & higher education departments).

- There should be a complete overhaul of the education system but this should be done in conjunction with all parties including educationalists, government, funders and business experts to ensure that the new curriculum is structured to fit in with the needs of a modern and rapidly changing technological environment.

- The structural problems facing the education system need to be fixed. Even though South Africa spends more than most developing countries on education per capita of the population, schools are still plagued with book shortages, poor facilities, broken classrooms and both high teacher absenteeism and/or poor quality of teachers. The power of the unions is such that it is difficult to break this stronghold they have on the system which contributes to the low standards as it is difficult to discipline delinquent and poor quality teachers. Another problem facing the education system is that a large number of students who start school do not finish resulting in unacceptable drop-out rates. Even if students get to the level of Matric, the pass rate is so low that having a Matric qulaification often means very little to the employer.

- The focus on primary and secondary education must be on improving the quality of the education especially with respect to both literacy and numeracy skills.

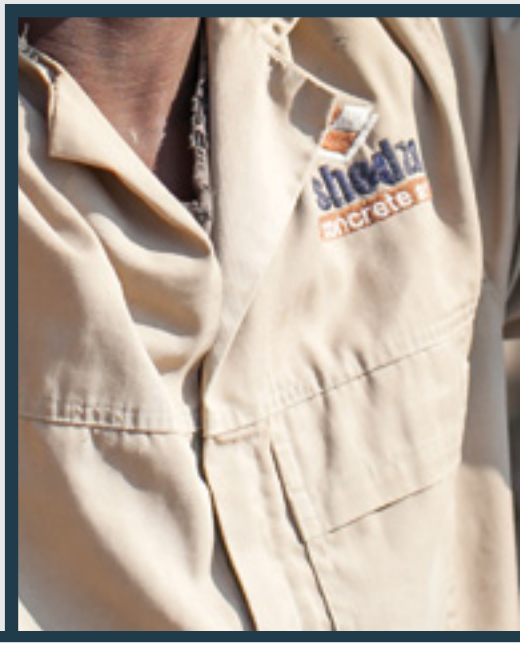
- At every level of education, the system should be geared to teaching competencies that skills students to think freely and not to rely on large corporations to provide employment but rather to teach the young population to create their own opportunities .

- Entrepreneurship must be taught by people who have actual business experience. More often that not it is taught by people who do not understand the practicalities of starting and running a business and who have learnt their skills from a text book.

- It is important to improve the skills gap that is prevalent in the education system by introducing interventions such as apprenticeships, technical and vocational training.

- SEDA could play an important role in educating both entrepreneurs and business advisors in how to write an acceptable business plan and how to give advice from a practical point of view.

APPENDIX A: COUNTRY PROFILES (AFRICA REGION)



EGYPT

Population: 91.5 million (2017)

GDP: $330.8 billion (2015)

GDP per capita: $3,340 (2017)

SME contribution to GDP: 80% (2015)

World Bank Ease Of Doing Business Rating (2017): Rank: 122/190

World Bank Starting a Business Rating (2017): Rank: 39/190

World Economic Forum Global Competitiveness Rating (2015): 3.7/7; Rank: 115/138

Economic Development Phase: Efficiency-Driven

Composite Index

	Value	Rank/54
Entrepreneurial Spirit Index	-0.26	45

Self-Perceptions About Entrepreneurship

	Value %	Rank/54
Perceived opportunities	43.5	29
Perceived capabilities	46.6	31
Fear of failure	30.2	41
Entrepreneurial intentions	55.5	2

Activity

	Value %	Rank
Total Early-stage Entrepreneurial Activity (TEA)		
TEA 2017	13.3	19T/54
TEA 2016	14.3	17T/65
TEA 2015	7.4	43/60
Established business ownership rate	5.7	38/54
Entrepreneurial Employee Activity – EEA	2.2	29/54

Motivational Index

	Value	Rank/54
Improvement-Driven Opportunity/Necessity Motive	0.6	54

Gender Equality

	Value	Rank/54
Female/Male TEA Ratio	0.40	52
Female/Male Opportunity Ratio	0.69	50T

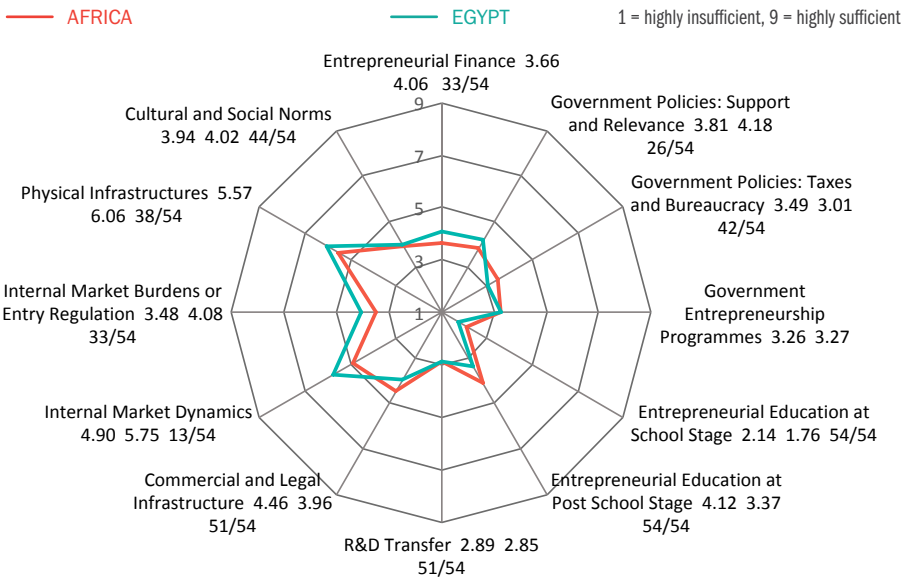
Entrepreneurship Impact

	Value %	Rank/54
Job expectations (6+)	23.7	20
Innovation	25.3	30
Industry (% in Business Services Sector)	3.9	51

Societal Value About Entrepreneurship

	Value %	Rank/52
High status to entrepreneurs	82.0	3
Entrepreneurship a good career choice	75.9	7

Expert Ratings of the National Entrepreneurial Framework (ranked out of 54)



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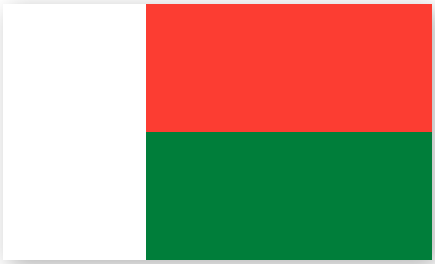


Population: 24.2 million (2015)

GDP: $9.7 billion (2015)

GDP per capita: $420 (2015)

SME contribution to GDP: N/A

World Bank Ease Of Doing Business Rating (2017): Rank: 167/190

World Bank Starting a Business Rating (2017): Rank: 113/190

World Economic Forum Global Competitiveness Rating (2017): 3.3/7; Rank: 128/138

Economic Development Phase: Factor-Driven

Composite Index

	Value	Rank/54
Entrepreneurial Spirit Index	0.07	21

Self-Perceptions About Entrepreneurship

	Value %	Rank/54
Perceived opportunities	24.4	50
Perceived capabilities	55.4	15
Fear of failure	42.0	14
Entrepreneurial intentions	39.8	9

Activity

	Value %	Rank
Total Early-stage Entrepreneurial Activity (TEA)		
TEA 2017	21.8	7/54
TEA 2016	N/A	N/A
TEA 2015	N/A	N/A
Established business ownership rate	29.4	2/54
Entrepreneurial Employee Activity – EEA	0.6	45T/54

Motivational Index

	Value	Rank/54
Improvement-Driven Opportunity/Necessity Motive	2.2	30

Gender Equality

	Value	Rank/54
Female/Male TEA Ratio	0.90	7
Female/Male Opportunity Ratio	1.16	1

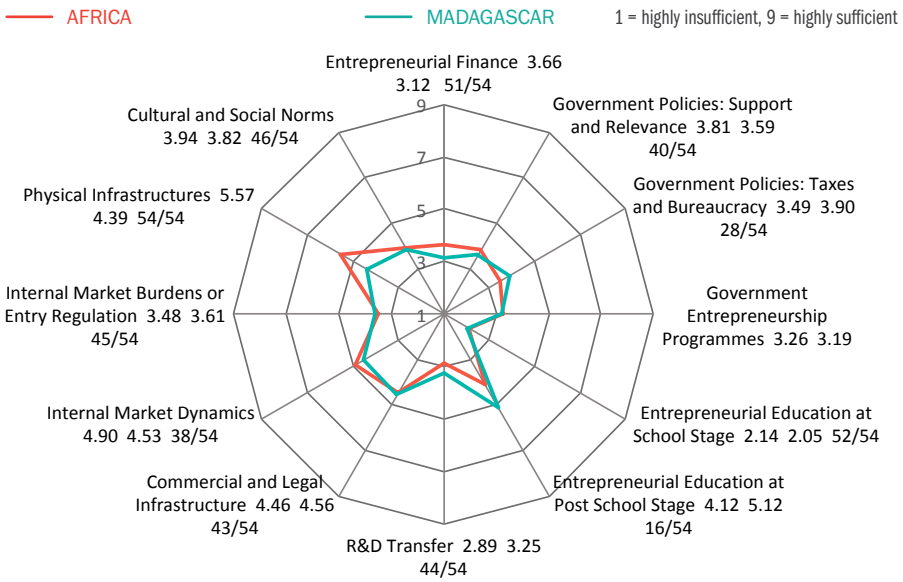
Entrepreneurship Impact

	Value %	Rank/54
Job expectations (6+)	1.1	54
Innovation	20.9	38
Industry (% in Business Services Sector)	0.9	53

Societal Value About Entrepreneurship

	Value %	Rank/52
High status to entrepreneurs	77.8	9
Entrepreneurship a good career choice	83.6	2

Expert Ratings of the National Entrepreneurial Framework (ranked out of 54)



MOROCCO

Population: 34.4 million (2017)

GDP: $103.1 billion (2015)

GDP per capita: $3,040 (2017)

SME contribution to GDP: 38% (2014)

World Bank Ease Of Doing Business Rating (2017): Rank: 68/190

World Bank Starting a Business Rating (2017): Rank: 40/190

World Economic Forum Global Competitiveness Rating (2015): 4.2/7; Rank: 70/138

Economic Development Phase: Efficiency-Driven

Composite Index

	Value	Rank/54
Entrepreneurial Spirit Index	0.02	24

Self-Perceptions About Entrepreneurship

	Value %	Rank/54
Perceived opportunities	37.7	33
Perceived capabilities	49.6	24
Fear of failure	52.9	4
Entrepreneurial intentions	26.6	16

Activity

	Value %	Rank
Total Early-stage Entrepreneurial Activity (TEA)		
TEA 2017	8.8	37/54
TEA 2016	5.6	59/65
TEA 2015	4.4	58/60
Established business ownership rate	10.4	14T/54
Entrepreneurial Employee Activity – EEA	0.5	48T/54

Motivational Index

	Value	Rank/54
Improvement-Driven Opportunity/Necessity Motive	1.6	38T

Gender Equality

	Value	Rank/54
Female/Male TEA Ratio	0.37	54
Female/Male Opportunity Ratio	1.03	9T

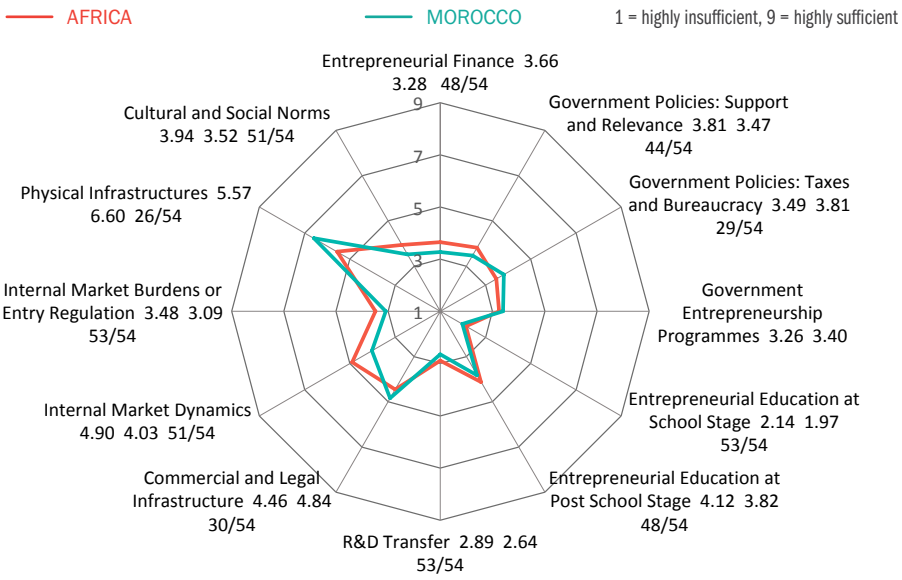
Entrepreneurship Impact

	Value %	Rank/54
Job expectations (6+)	10.8	38T
Innovation	18.7	41T
Industry (% in Business Services Sector)	2.7	52

Societal Value About Entrepreneurship

	Value %	Rank/52
High status to entrepreneurs	63.3	37
Entrepreneurship a good career choice	75.8	8

Expert Ratings of the National Entrepreneurial Framework (ranked out of 54)



SOUTH AFRICA

Population: 55.0 million (2017)

GDP: $313.0 billion (2015)

GDP per capita: $6,050 (2017)

SME contribution to GDP: 36% (2015)

World Bank Ease Of Doing Business Rating (2017): Rank: 74/190

World Bank Starting a Business Rating (2017): Rank: 131/190

World Economic Forum Global Competitiveness Rating (2015): 4.5/7; Rank: 47/138

Economic Development Phase: Efficiency-Driven

Composite Index

	Value	Rank/54
Entrepreneurial Spirit Index	-0.02	42T

Self-Perceptions About Entrepreneurship

	Value %	Rank/54
Perceived opportunities	43.2	30
Perceived capabilities	39.9	45
Fear of failure	31.3	38
Entrepreneurial intentions	11.7	39

Activity

	Value %	Rank
Total Early-stage Entrepreneurial Activity (TEA)		
TEA 2017	11.0	27/54
TEA 2016	6.9	52/65
TEA 2015	9.2	38T/65
Established business ownership rate	2.2	50/54
Entrepreneurial Employee Activity – EEA	0.5	48T/54

Motivational Index

	Value	Rank/54
Improvement-Driven Opportunity/Necessity Motive	1.5	42

Gender Equality

	Value	Rank/54
Female/Male TEA Ratio	0.69	25T
Female/Male Opportunity Ratio	0.80	44

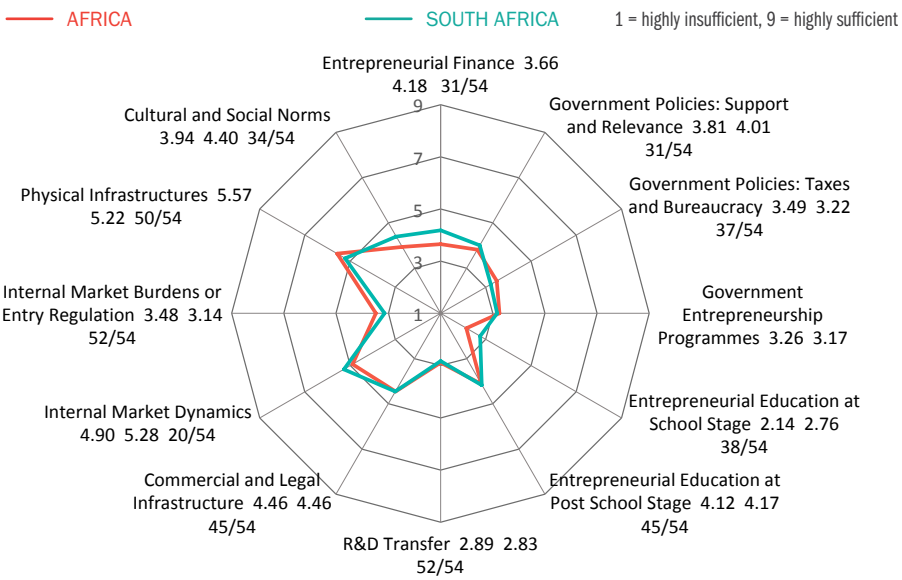
Entrepreneurship Impact

	Value %	Rank/54
Job expectations (6+)	32.0	7
Innovation	29.7	13
Industry (% in Business Services Sector)	10.3	35

Societal Value About Entrepreneurship

	Value %	Rank/52
High status to entrepreneurs	74.9	14
Entrepreneurship a good career choice	69.4	14

Expert Ratings of the National Entrepreneurial Framework (ranked out of 54)



GEM