

State of SA entrepreneurship: More early-stage startups growing into established businesses

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Source: [Pexels](#)

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The latest [Global Entrepreneurship Monitor South Africa](#) (GEM SA) report, released on Wednesday, found that while South Africa's supportive environment for entrepreneurship is rated lower than global averages, there are positive signals in increased early-stage entrepreneurial activity and rising entrepreneurship rates among women and young people.

The GEM report is considered the most authoritative annual survey of the global state of entrepreneurship, measuring entrepreneurial activity levels and attitudes, the contribution of entrepreneurship to national economies, and the quality of the enabling environment.

The South African leg of the report, by Stellenbosch Business School in partnership with the Global Entrepreneurship Monitor (GEM) and the Small Enterprise Development Agency (Seda), found that early-stage entrepreneurial activity, the percentage of adults who were starting or running a new business, rose to 17.5% in 2021, up from 10.8% in 2019. Those owning or managing an established business, in operation for at least 3.5 years, were at 5.2%, up from 3.5%.

Encouraging growth curve

Although South Africa ranked 45th out of 50 countries in the *GEM National Entrepreneurial Context Index*, a measure of the favourability of the environment for entrepreneurship and new business creation, GEM SA lead author Angus Bowmaker-Falconer, research fellow at Stellenbosch Business School, said the uptick in the established business rate was particularly encouraging.

“Having survived the startup phase, these businesses would now have a real possibility of contributing to the country’s economy. It means more early-stage entrepreneurs made it to the established business stage between 2019 and 2021 despite the constraints on business due to Covid-19, and if these rates can continue this upward path, it should lead to a greater depth of established businesses in South Africa.”

“Given the generally high failure rate of startups, the overall positive entrepreneurial activity in 2021 is to be welcomed. However, there were also mixed signals around the confidence of entrepreneurs, fear of failure, business exits, and adoption of digital technology.”

“This tells us that there is still much to be done to strengthen the enabling environment and ease of doing business so that we can truly unlock the potential of entrepreneurs to contribute to economic growth and job creation,” Bowmaker-Falconer said.



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Thato Ntseare, Mneworkers Investment Company 20 Jun 2022



More key findings

The GEM SA 2021/2022 key findings include:

- The business discontinuance rate (including businesses sold or closed down) increased from 4.9% in 2019 to 13.9%, with South Africa the third worst on this indicator. The impact of the Covid-19 pandemic was a key driver of businesses closing shop, along with the business being unprofitable and problems accessing finance.

Bureaucracy and struggles with red-tape increased significantly as a reason for business closure, while positive reasons for exiting, such as an opportunity to sell, accounted for only 6% of the reasons for exiting.

- South Africans’ attitudes to entrepreneurship have continued on an upward trend since 2003, with more than 80% viewing entrepreneurship as a good career choice (up from 69.4% in 2017) and one with high status (up from 74.9%). These are higher than the GEM global averages and the rates in other developing economies.
- The foundation for future entrepreneurship activity looks healthy, Bowmaker-Falconer said, with 57.9% of South Africans believing the country has good entrepreneurship opportunities (although down from 60.4% in 2019, but still well above GEM global average of 54.8%) and 69.7% believing they have the knowledge, skills and experience to be entrepreneurs.
- More than half (53%) of those who see good opportunities, however, would not start a new business due to fear of failure, limiting the potential increase in the rate of new businesses being created.

- While rapid adoption of digital technologies for doing business was a global trend in the GEM, in South Africa only half (52%) of those in the entrepreneurship startup stage planned to use digital technology to sell their goods and services, the lowest rate among developing economies.

This could be due to lack of access and affordability, said Bowmaker-Falconer, but also an indication that South African early-stage entrepreneurs are less likely to adjust their business plans in response to new global business realities. He said that South Africa's low rating on ease of access to entrepreneurial finance (3.4/10) was a constraint that could dampen business investment, including in digital technology.

- With South Africa's high youth unemployment rate (47% of the labour force aged between 15 and 34 unemployed [in Q1 2022](#)), the report found promising rates of involvement in business startups in the groups aged 18-24 and 25-34 years. These rates improved significantly from 3.4% and 5.3% respectively in 2001, to over 19% in 2021.
- While entrepreneurship is seen as an engine of job creation, South African entrepreneurs are not optimistic in this regard – 41.6% in 2021 anticipated creating no new jobs, almost double the 22.6% in 2019; while those anticipating creating between one and five new jobs declined from 46.8% in 2019 to 27.9% in 2021. In contrast, on a positive note, those who expected to create more than six new jobs in 2021 remained fairly constant at approximately 30% since 2017.



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Moving from startup to scaleup

The researchers identified key priorities to strengthen a South African “entrepreneurial ecosystem” that enables business startup, growth and sustainability, supporting entrepreneurs to “move from startup to scaleup”.

“All of the conditions of the entrepreneurial framework, those factors that either support or hinder business startup and growth, need strengthening. Some require a medium- to long-term view, such as policy change, deepening a culture of entrepreneurship, and improving the physical infrastructure of logistics, utilities and communications that enable investment.

“Others can be addressed and vitalised over a shorter timeline, including improvement in coordination of government support programmes, entrepreneurship education in schools, and financial and market access,” Bowmaker-Falconer said.

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