Entrepreneurial ecosystem in South Africa
October 2014
Our Global Presence: Working as a catalyst with enterprising people in the developing world since 1968

Building competitive enterprises, farms and industries with 1400 staff in over 30 countries to raise incomes and employment for resource poor individuals and communities

Active Country Offices
Benin Brazil Burkina Faso Chile Colombia Côte d’Ivoire Ethiopia Ghana Guatemala Haiti Honduras India Kenya Malawi Mexico Mozambique Nicaragua Nigeria Peru Rwanda South Africa Swaziland Tanzania Uganda Zambia Zimbabwe

Emerging Botswana DRC El Salvador Morocco South Sudan

Past Madagascar Mali Sudan

TNS Corporate Offices
- Washington, DC (HQ)
- London, UK
- Norwalk, CT

Business Solutions to Poverty
TechnoServe in South Africa
- 11 years on the ground with strong track-record

ABOUT US

- **In operation since 2003** as a registered non-for-profit (NPC), local board structure
- **43 staff** members in South Africa
- Currently operating **13 funded programmes**
- Typical programme size ranges between $200k and $3.7 Million

STRATEGY/ FOCUS AREAS

- Enterprise and Supplier Development – BBBEE Codes, Corporate, donor, philanthropic clients
- Small Farmer Support Programmes – Land Reform
- Integrated Local Economic Development programmes – ESD, SHF, RE/Biofuels, Mining

FOOTPRINT

- Johannesburg
- Mpumalanga
- Limpopo
- KwaZulu Natal
- Eastern Cape
- North West

POSITIONING

- Successful track record in Business Plan Competition, Acceleration/Incubation programmes and AfterCare methodology
- Small farmer support programmes – regarded as market leaders – linkages to MNC retailers/processors
- Building blocks of development in specific spatial areas
The Context
Africa is emerging as the fastest growing continent, posing both opportunities and challenges

**TARGET GEOGRAPHIES AMONG TOP 10 FASTEST GROWING**

<table>
<thead>
<tr>
<th>World's ten fastest-growing economies*</th>
<th>2011-2015‡</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2001-2010†</strong></td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>11.1</td>
</tr>
<tr>
<td>China</td>
<td>10.8</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10.3</td>
</tr>
<tr>
<td>Nigeria</td>
<td>8.9</td>
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<tr>
<td>Ethiopia</td>
<td>8.4</td>
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<tr>
<td>Kazakhstan</td>
<td>8.2</td>
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<tr>
<td>Chad</td>
<td>7.9</td>
</tr>
<tr>
<td>Mozambique</td>
<td>7.9</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7.7</td>
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<tr>
<td>Rwanda</td>
<td>7.6</td>
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</tbody>
</table>

| **2011-2015‡**                        |           |
| China                                 | 9.5       |
| India                                 | 8.2       |
| Ethiopia                              | 8.1       |
| Tanzania                              | 7.2       |
| Vietnam                               | 7.2       |
| Congo                                 | 7.0       |
| Ghana                                 | 7.0       |
| Zambia                                | 6.9       |
| Nigeria                               | 6.8       |

* Excluding countries with less than 10m population and Iraq and Afghanistan
‡ 2010 estimate † 2015 forecast

**HOWEVER, SEVERAL CRITICAL FACTORS NEED TO BE CONSIDERED**

- **Vulnerable employment** – 77% of SSA
- **Youth Unemployment** – approx. 59.5% in SSA; In Southern Africa, 51% of young women and 43% of young men are unemployed.
- **Population growth** rate of 2.5% will result in a population in 2050 of 2.4 billion
  - Youth population in Africa is expected to be 561 million by 2050
  - Limited absorption of tertiary graduates by formal sector; and many youth lack education/skills to access formal market
- **Priority** – to improve incomes of working poor; and create jobs
- **To achieve this**: Education, basic workforce skills and development, and Entrepreneurship are critical
The Departments of Trade and Industry and of Economic Development play the most significant role in developing policy and support structures to grow very small enterprises in the country.

Whilst policies/legislation are robust, limited and poor delivery/implementation continue to limit start up growth.

Enabling Environment: The Government of SA plays a key role in promoting, regulating and supporting small business growth in SA:

- The National Development Plan focuses on incubation systems and early stage entrepreneurship, including agriculture.
- The National Growth Path - a framework for economic policy & driver of SA’s jobs strategy.
- IPAP has a strong focus on localization (Supplier development). It highlights key sectors, namely: automotive, agric-processing, footwear, leather, metals, clothing, advanced manufacturing.
- BBBEE Act 2003/2014 – Amended Codes in Oct 2013 give rise to focus on Enterprise Development, Preferential Procurement and Supplier Development. This will change the support corporate buyers will give to SME’s and make this an imperative for spending. 2% of NPAT on Supplier Development, 1% of NPAT on Enterprise Development. Bonus points are awarded to programmes that focus on both Enterprise and Supplier Development.

Source: Business Inclusivity: The development of very small enterprises within the value chain of larger organisations.

Business Solutions to Poverty
Entrepreneurship has been identified as a key vehicle for addressing unemployment and inclusive growth, however there are key obstacles...

- The Government’s National Development Plan (NDP) has identified entrepreneurship as the key to closing the inequality gap and addressing unemployment issues. Whilst the SA ecosystem is expansive and growing, key structural barriers remain:
  - A critical ‘Finance Gap’, where only 28% of adults have access to credit, stifling entrepreneurship. Unequal access to land and limited collateral further limits access to finance.
  - **Skills shortages** related directly to a poorly performing education sector and inadequate access to and quality of training, knowledge and skills development required to start up a business effectively.
  - A crowded but **uncoordinated/fragmented start up support ecosystem** with competing and donor dependent players
  - Rigid, bureaucratic and **over-burdening Labour Laws/Red Tape** with high regulatory costs
  - Limited/Poor implementation of **government policy**
  - Lack of **entrepreneurial culture** and supporting structure is not mature (apartheid history)

"The education system has been tailor-made for South Africans to be workers. “ (SEFA Manager, Tushiya)
Mapping the Landscape
Key Players in South Africa

Social Impact Platform (investors, businesses, researchers)
- GIBS Inclusive Markets Program/BOP Hub; CENFRI
- BOP Hub partners: Nestle, Nedbank, Adcock-Ingram, PepsiCo, BASF, and Nampak
- Reciprocity, Harambe
- Gov’t – Community Works Program (CWP TIPS)/EPWP

Start Ups/Small Growing Businesses
- # launched
- # scaling
- # Leveraging ecosystem services
- # accessing finance
- # accessing mentorship/information

Financial Institutions
- Gov’t: SEFA, NYDA, IDC, DTI, Gijima KZN, NEF, Khula Enterprise Finance, Land Bank, National Treasury, DBSA, National Treasury, Ithala Development Finance Corporation, NYDA
- DFIs: WDB, Masisizane
- Banks: (Standard Bank, Absa SME fund, Nedbank – Entrepreneur Fund)

Private Investors (PE, Angel, Impact)
- Thunda Fund, EdgeGrowth, Business Partners, GroFin, Invenfin
- Angel Hub, Silicone Cape, Enablis Media Institutions

Formal (well developed): Targeted Programmes: The Money Show – Business TV Channel; The Money Show – 702 radio; The Big Small Business Show; Primedia
- Ventureburn, Tech Central, Bandwith Blog
- Gap – rural level: Community newspapers & radio (in local languages)

Industry MSME Associations
- Construction – CIDB, Chemicals – CAIA
- FMF (Footwear), Clotex (textiles), NACAAM (auto); Tourism Associations

Advocacy Organizations
- Simodisa Association, Enactus
- SABEF, SACCINational Small Business Chamber (NSBC), BLSA
- Non-fin support Think tanks – Centre for Development & Enterprise
- Fin support think tanks e.g., CENFRI
- National Small Business Council
- ANDE?
- NAFCOC

Corporates
- Anglo, SAB Miller, Pick n Pay, MTN, Growth Point, Sasol, Massmart, Nestle, PepsiCo, Tiger Brands, Barloworld, JP Morgan etc

All Measured entities – ESD spend of 3% (2% to SD and 1% to ED)

Hubs/Incubators/Accelerators
- Innovation Hub, Aurik, Shanduka, Raizcorp, Impact Hub, Impact Trust, Bandwith Barn, Rlabs, EdgeGrowth, Endeavor, SEDA 27 Industry-specific incubators, SEED Engine, DTI ISP

Universities/Academic Institutions
- GIBS/UP, Wits Centre for Entrepreneurship, UCT Bertha Centre for Social Innovation and Entrepreneurship, Milpark Business School

Other market players/NGOs
- AWETHU, Hope Factory, Impact Trust, TNS, Harambe, NACCW, Dalberg, Start Up SA (launching), Branson Centre for Entrepreneurship, Enterprise Room, Junior Achievement SA, Raymond Ackerman Academy, SAIE, Government

Not-for-profit sector
- Policy/Regulation, Ministry of Small Business
- Non-fin: SEDA, Ministry of Small Bus, DTI, TIA, CSIR, NYDA,
- Fin (see FI)

Private Sector

Membership Organizations

Government
Mapping against business growth Path

Stage of growth

Blueprint – conceptual/prototype

Validation – post revenue, demonstrate viability

Preparation – internal systems, supplier development

Scale – growth, profitable, expanding

Source: TechnoServe research analysis
Growing the number, size and quality of SMEs is vital to SA’s growth

Our desktop and primary research on MSME performance uncovered the following perspectives from key market players on what it takes to grow a business:

**Education:** BDS providers in the urban and peri-urban markets expressed that education plays an integral role in SMME abilities to understand their businesses, the environment in which they operate and processes to improve their business.

- The Women’s Development Trust (WDB) suggested that education is not a key success factor if funders and BDS providers are willing to provide practical training to entrepreneurs in a language they understand; and adequate monitoring systems. WDB supports SMMEs in rural markets in the agriculture and manufacturing sectors.

**Experience:**

- Scalability was often linked to having past experience in a particular expertise, often gained from a formal corporate environment prior to starting a business. These entrepreneurs are able to leverage networks, organise their businesses better and have insights into positioning themselves in their respective markets.

- Ability to run a successful business was also linked to age, which reinforces the limited youth entrepreneurship activity in SA*. Entrepreneurs that are older tend to run sustainable businesses and are favoured for attracting funds and investment. They also tend to create more high growth businesses that can attract more sustainable jobs.

**Skills:** Successful SMMEs were associated with having a combination of technical, business management and entrepreneurial skills, usually from more than one individual.**

- **Entrepreneurial Flair** was considered (by many of the market actors) to be the engine behind the success of most SMMEs.

**Innovation:** Innovative businesses are growing faster and are able to create or access markets better than the typical supply chain businesses.

- SMMEs targeting government tenders are struggling to succeed due to the payment process and bureaucracy, they are also unable to plan ahead and therefore have irregular turnover patterns.

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Lack of skills, burdensome regulations, local economic conditions, a lack of finance and the cost of labour are identified as the key factors inhibiting the growth of SMEs
<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Access to finance:</strong> Working capital, machinery, seed capital, etc</td>
<td>Smaller enterprises struggle to access finance due to lack of understanding of the requirements; and of the various forms of finance required for the different needs of the business. Believe funding to be expensive and intimidating and expressed a lack of trust for the financial sector.</td>
</tr>
<tr>
<td><strong>Size of finance required: micro-finance</strong></td>
<td>Smaller enterprises require smaller investments of below R250,000 (especially micro loans of less than R50,000) not readily available which results in micro businesses accessing from loan sharks. Banks offer these loans but have stringent requirements. There are also limited micro-financiers in SA.</td>
</tr>
<tr>
<td><strong>Adhering to quality, capacity and compliance standards for large corporate/government contracts</strong></td>
<td>Smaller businesses struggle to attract or meet the standards of large corporate clients. The process is daunting and often the requirements are not clear. The businesses are often too small to meet the capacity demands. The businesses often seek funding too late as they do not understand the lengthy funding processes of financiers. This results in them not complying in time for funding.</td>
</tr>
<tr>
<td><strong>Developing personal, entrepreneurial, business and technical skills</strong></td>
<td>Entrepreneurs express a need for a holistic approach to BDS provision to include mentors that can assist with their own personal journeys, strategic goals, understanding their businesses in a practical way, and most importantly their abilities to improve their technical skills from relevant industry experts. They complain that BDS provision tends to focus only on financial and general business acumen, but lacks assistance that is relevant to their particular businesses</td>
</tr>
<tr>
<td><strong>Setting up businesses: registration process, SARS, BEE requirements</strong></td>
<td>Entrepreneurs expressed the challenges in setting up their businesses; and that there were too many steps that are not explained. As a result, they often do not comply to all the regulatory requirements until they are faced with a contract or tender which makes the process longer.</td>
</tr>
<tr>
<td><strong>Access to markets</strong></td>
<td>Smaller businesses struggle to get access to big contracts due to their inability to establish relationships with procurement managers which is key in positioning for supply chain contracts. Corporates also express that they cannot trust smaller businesses with big contracts</td>
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Our research uncovered the following critical challenges experienced by micro and small businesses

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<tbody>
<tr>
<td>Access to business networks, peer networks and platforms to share learning and experiences from peers</td>
<td>Entrepreneurs especially in rural and peri-urban markets expressed a lack of networks that are accessible to them. They expressed that the entrepreneurship journey is lonely and they struggle to find credible people to do business with. They also expressed a need to meet with other entrepreneurs to share stories, insights etc.</td>
</tr>
<tr>
<td>Negotiating price and payment delays with corporate or government</td>
<td>Entrepreneurs express the challenges of negotiating preferential terms with corporates and government departments for large contracts. They feel they are powerless to negotiate better terms and require assistance. A crucial issue is the delays in payments from these larger organisations which can cause bankruptcy and closure</td>
</tr>
<tr>
<td>Information on youth programmes</td>
<td>The youth are unclear as to the programmes that are available to them especially funding options</td>
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Enabling Environment: Compliance and restrictive labour laws are still critical barriers to start up growth

• According to the findings of the Business Inclusivity survey, SMMEs feel excluded from the process of drafting legislation and are not familiar with the various laws.

• SMMEs request programmes that provide practical implementation guidelines of the various laws and government products.

• The top issues identified as cumbersome/constraints to SMMEs include:
  – South African Revenue Services (SARS) regulations
  – Tender compliance
  – Labour regulations
  – BEE compliance

• SARS has adopted a new single registration process which consolidates the registration of all types of tax products for both individuals and legal entities into one single registration process with the intention of saving small businesses time and money.

• This process is fairly new and monitoring of the impact of this new approach would need to be done to verify its effectiveness in driving ease of doing business for the very small businesses in South Africa.

• There has been poor uptake of tax and other related incentives due to onerous procedures required to access these and limited awareness of incentives available.
Assessing the Landscape – challenges and opportunities
## Analysis of key Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Possible Solution</th>
<th>Possible Partners</th>
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</table>
| Poor coordination between Financial and non-financial support programmes | • Direct/Structured Linkages between FIs and BDSP service providers  
• BDS providers to collaborate with other providers to ensure entrepreneurs are provided with a holistic service  
• Centralised platform to share information and educate the market.  
• Sector/industry specific information portals coordinating various fin and non financial support players  
• Multi-stakeholder Workshops explaining the different forms of funding, benefits and requirements | • Portal: JP Morgan Catalyst for Growth; Min. for Small Bus  
• BDS Providers  
• Tertiary entrepreneurship centres (GIBS, WITS, UJ, UP)  
• Financiers: SEDA, SEFA, WDBIH, TIGF  
• Associations: EO, SAVCA, SABEF |
| Lack of micro-financiers | • Establishment/Identification of formal organisations offering micro-loans  
• Information on credible micro-financiers  
• Identify and capacitate Fi’s to develop and offer relevant products to small businesses  
• Crowd in players to incentivise Fis to finance start ups through three pronged approach (availability of guaranteed market, TA and access to finance) | • Financiers: WDBIH, SEFA, SEDA  
• Min. For Small Business  
• Tertiary entrepreneurship centres (GIBS, WITS, UJ, UP)  
• Associations: SABEF |
| Disconnect between entrepreneur and Market requirements | • Simplified registration, tender and compliance documents/processes communicated to the entrepreneurs in a centralised platform.  
• Clarity by FIs re: processes through BDSPs and other innovative channels so that entrepreneurs can plan better for the tenders/contracts  
• Collaborations between small businesses to collectively meet the corporate demands  
• Tailored business development programmes by BDS providers. BDS providers should know the capacity requirements and up skill the entrepreneurs  
• Contractor (Government/Private sector) training programmes on the tender process  
• Crowd in Players: Corporates/BDS providers operate as facilitators, negotiating relationships with corporate or government procurement managers and FIs to add credibility and de-risk SMMEs through presence of available TA, A2F and end-buyer.**  
• Rural ‘roadshows’/information workshops in local languages. | • BDS/Training providers  
• Funders: SEFA, WDB  
• Corporate supply chain programmes  
• Government agencies: SEDA, DTI, IDC |
Conclusions

- A well structured collaborative environment is required to share best practices, to learn from each other and to share new ideas and approaches.
- The BOP markets require a new approach to business and a desire to bring new innovative solutions that can result in a win-win solution for all.
- The case studies have shown that a win-win solution can be achieved if:
  - Corporate SA is willing to invest in some corporate innovation to change how they do business,
  - BDS providers invest in more specialised and sector focused programmes that take into consideration corporate requirements,
  - BDS providers establish relationships with big business to assist linkages with BOP markets to formal markets
  - Funders collaborate with BDS providers – Package SME finance with robust BDS
  - Academia provide platforms that link government with private sector and SMMEs to ensure their policies are in deed assisting entrepreneurs on the ground as well as assisting big business to do business with SMMEs
  - Research organisations share their knowledge and distribute their research to the wider ecosystems
- More emphasis needs to be placed in understanding the various ecosystems that exist in SA and ensuring that each is well equipped and structured for excellence.
- The new Ministry for Small Business has the potential to close these gaps and ensure better accountability on the execution of support programmes. This can be achieved if it collaborates with the private sector.
- Better communication is needed on the policy framework and its effectiveness in assisting entrepreneurship in SA.
- More advocacy and lobbying is required to build the culture of entrepreneurship.
- Entrepreneurial thinking needs to form part of the formal education from the early levels of education.
- Media needs to participate in sharing stories and highlighting entrepreneurship to showcase role models, entrepreneurial activity and to help build the culture of entrepreneurship. This needs to reach the BOP markets.
Summary of Recommendations

1. Coordinated Collaboration Spaces:
   - Govt (New Ministry)
   - Funders (Catalytic Financiers: USAID DCA, DFID CF, Gov’t)
   - BDS Providers,
   - Academia
   - Corporate SA

   - There is opportunity to provide collaboration between the various organisations to share experiences, needs, to leverage other organisations and to understand how the various players fit in the ecosystem.

   - The academic institutions have made some inroads in creating forums and workshops to bridge the gap between Corporate SA and the SMMEs. GIBS in particular has hosted a number of these forums and have successfully created working relationships and market access opportunities for SMMEs through Corporate SA supply chains.

   - A series of events are hosted where representatives from various organisations as well as entrepreneurs are invited to share insights, experiences and opportunities to participate in case studies. The discussions are used for academic purposes by GIBS.

   - There is a great opportunity for TechnoServe to leverage these existing forums by working with academic institutions such as GIBS and UCT; non-conflicted NGO/NPO such as Impact Amplifier, Impact Trust and Ande to sponsor a series of events through the DFID programme. The case studies can be made accessible to other organisations such as government to drive policy, corporate companies to create awareness of inclusive programmes and SMMEs to share knowledge sharing and best practices.

   - These platforms will also bridge the gap with government, private sectors and SMMEs where structured conversations can be facilitated.
Summary of Recommendations

Facilitate Knowledge Management:

• There has been extensive research done on the requirements of SMMEs, their performances and challenges, however it is scattered and inaccessible. There is great opportunity to work with research organisations such as Dalberg, JP Morgan, Ande, think tanks and academic institutions to consolidate the research findings in a centralised manner.

• TechnoServe can play a role in funding a centralised platform where all research is stored and updated. This will be done in collaboration with a research organisation.

• The research can include:
  – Performance of SMME
  – Challenges facing SMMEs and responses to these
  – Recommendations to policy changes
  – Relevant services and focus for the different clusters of entrepreneurs
  – Entrepreneurship programmes in school level education
Summary of Recommendations

Facilitate Education and Awareness:

• A number of the BDS providers are wanting to understand how other organisations are operating, ways to counter similar challenges such as pipeline, fundraising, referrals of solid organisations, networks etc.

• There is therefore great opportunity in facilitating the sharing of information in the ecosystem in collaboration with partners that are geared to host these forums or events.

• TechnoServe can play a role through the DFID programme to fund various organisations that are relevant for particular topics where the organisations that are subject matter experts can host the events and draft white paper findings sponsored by TechnoServe.

• These include:
  – Sustainability models for BDS providers – Ande, Wits, GIBS
  – Facilitating practical implementation and awareness of Govt products, legal framework – SARS, DTI, Dept of Labour
  – M&E models and Accountability for industry standards – JP Morgan, TechnoServe, Endeavor, Hope Factory
  – Training (incubation support, technical assistance, business skills) – Academic institutions, Hope Factory, SAICA, Shanduka, TechnoServe
  – Information platforms that will direct SMMEs to relevant services – JP Morgan
  – Mentorship networks – EO, Ashoka
  – Corporate Supplier Development Programmes (best practices) – GrowthPoint, Anglo American
  – Enterprise Development Forums – Impact Amplifier, ED Council
  – Practical application of legislation – DTI, GIBS
Addressing youth opportunities

• Background to Youth Empowerment through Entrepreneurship Programme (YEEP)
  – Macro factors – youth unemployment
  – Social Grant System – key government concern – policy thinking post 18 years
• Barclays challenge to National Association of Child Care Workers on entrepreneurship
• Design elements – unique to the sites and targeted youth
• Results to date and current status
• YEEP II – other sites – KZN/EC?