
OVER 1000 ENTREPRENEURS SURVEYED!
THE REAL STATE OF
ENTREPRENEURSHIP SURVEY
2019
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The Real State of Entrepreneurship Survey 2019

Contents

Seed Academy

Forward

2019 marks Seed Academy's fifth year of engagement with South African entrepreneurs through an annual survey to diagnose and unpack the social and economic conditions for entrepreneurship in South Africa. Since inception, Seed Academy has surveyed more than 5000 entrepreneurs and collected trends for more than 5000 businesses.

We believe that the voice we provide entrepreneurs, through their involvement in this survey, is critical to the ecosystem. There are a lot of people developing "solutions" or products to address the needs of entrepreneurs but few are directly engaging entrepreneurs to understand their needs. The importance of entrepreneurs cannot be overstated as they hold the ability to provide solutions and high economic growth – especially in low income regions or areas where economic growth and stimulation is required.

Once again, the results highlight a positive relationship between education and the likelihood of pursuing entrepreneurial interests. This finding is aligned to our reports from 2015-2018 as well as reports released by the Organisation for Economic Co-Operation and Development (OECD).

Over the years we have looked at various themes including, but not limited to, entrepreneurs engaged in ESD programmes as well as the split between women, men and youth entrepreneurs.

Building on the findings of the 2018 report, where we alluded to the difficulty of doing business in South Africa, this year we have addressed some of these issues 'head on'. The 2019 report has taken the theme of 'South Africa: A Society in Transition and What This Means for Those Engaged in Entrepreneurial Ventures'. We asked entrepreneurs about load shedding; addressed bribery, xenophobia and human trafficking and interrogated whether these issues had significant impacts on productivity. An alarmingly high percentage of respondents were impacted by these issues.

What is different from last year?

We gave ourselves the challenge to change the geographical spread of the survey to have a better representation across South Africa – this has been achieved. This year we wanted to focus on making sure that, from a gender perspective, we have an equal number of women to men responding. This is aligned to the research we were commissioned to do for UN Women in South Africa to understand the gender divide and barriers to entry women face in particular sectors. Our research has extended to also understand high growth-oriented entrepreneurs, education and training (mostly through ESD programmes) which remains something that entrepreneurs believe is the silver bullet to deliver results. Despite being offered uniformed solutions through ESD programmes, not all entrepreneurs are operating equally. We were also able to substantiate views on entrepreneurs who are motivated by survival rather than addressing a need or opportunity in the market place.

We believe the granularity of our survey results, combined with our in-depth understanding of the ecosystem, allows for this study to be one of the most highly quoted reports with respect to findings on entrepreneurship in South Africa. This in-house study allows us to inform programmes that we run for our partners and to tailor make them to the needs the entrepreneurs themselves have verbalised through the survey findings.

Forward

Looking forward

We have analysed the new economic plans developed and released by the Ministry of Finance which outline clear objectives to enable SMEs in South Africa to thrive. We have great hope that these recommendations will be successfully implemented and that we will see changes in the ecosystem. One aspect that we highlighted in our study in 2018, and are glad to see included, is the ease of setting up a business in South Africa.

Despite the tough economic climate and often punishing operating conditions for small business, entrepreneurs in South Africa remain buoyant and are responding to challenges through finding their own solutions to help them remain in business and meet challenges.

Donna Rachelson
Director Seed Academy

Limitations

of the study

For the fifth year Seed Academy has reached out to entrepreneurs and asked difficult questions. We wanted to highlight the nature of our economy and the transitions that are taking place in our young democracy and the impact of these on entrepreneurs. We do, however, acknowledge the following limitations to the study:

- Issues of xenophobia and human trafficking are difficult issues to acknowledge and talk about;
- The expectation that entrepreneurs may declare that they have undocumented persons working for them may well create suspicions of who is asking and for what purposes;
- We are able to report the overall impact of the issues identified on businesses but not which of the particular issues was the most harmful to a business;
- Where businesses have said that they were left in a position where they were unable to operate, we did not go into the granular detail of which of the issues were the most impactful and therefore the cause of the business to cease operations;
- We once again looked at ESD programmes. In the context of the issues we are highlighting this year, many of them seem to be unable to deliver what an entrepreneur would need to survive in the current operating environment.

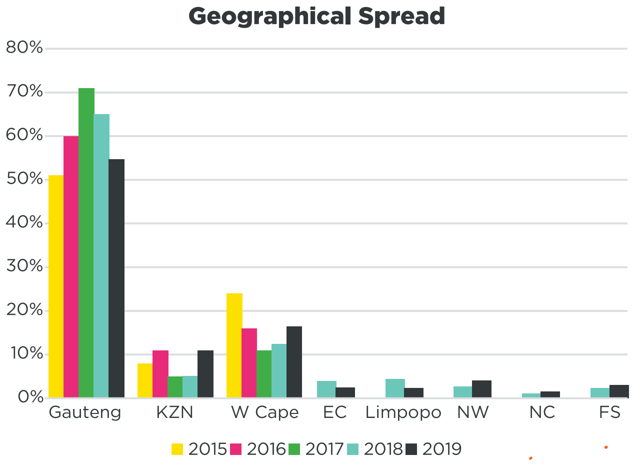
ABOUT THE ENTREPRENEURS

Seed Academy

Geography

Where are the respondents from?

This year we once again tried to get a more even geographical spread across the various provinces.



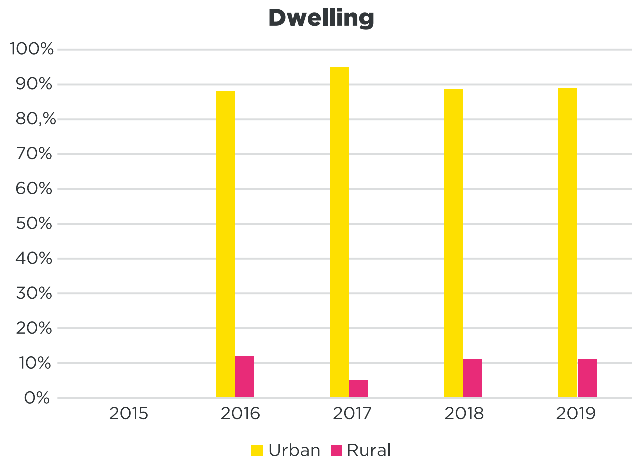
Despite sending the questionnaire to over 15000 entrepreneurs across South Africa, we still have the skewed result of the provinces with the large Metros being the most represented and the smaller provinces being, in our view, 'underrepresented'. This is aligned to the economic activity of the country and opportunities being situated in the Metropolitan areas rather than the more rural provinces. While it may appear that we have not received responses from 5 provinces, this is not the case. The number of responses for these provinces is so low, relative to the other three provinces, it doesn't register.

Dwelling

Where do they live?

The split between urban vs rural areas is once again marked and largely unchanged.

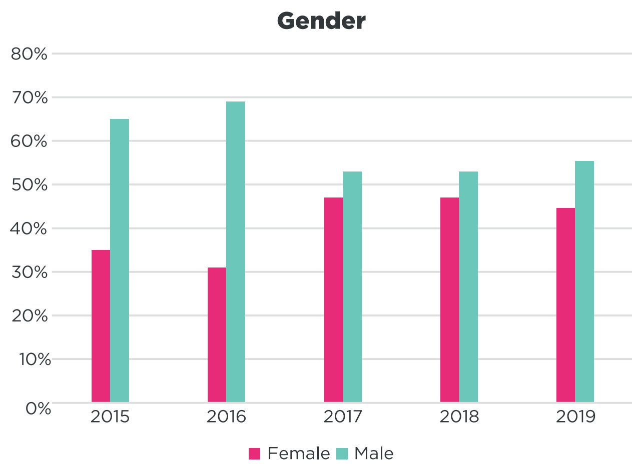
The majority of the respondents live in urban metro areas with 88.71% coming from these areas in the 2019 findings. Reaching entrepreneurs in outlying areas that are peri urban or rural remains a challenge. Given the number of questionnaires sent out and the various touch points used, it is assumed that all the groups we engaged also have the largest number of entrepreneurs that they work with located in urban areas.



Gender

The split in gender is closing. The number of female respondents have increased over the last three years and many of these women are locating their businesses across non-traditional sectors.

As with last year and aligned to the OECD 2018/19 report, the increase in representation of women entrepreneurs has increased. Even so, according to UN Women, the barriers of entry for women in sectors such as energy, transportation and logistics remain high.



CLOSER LOOK

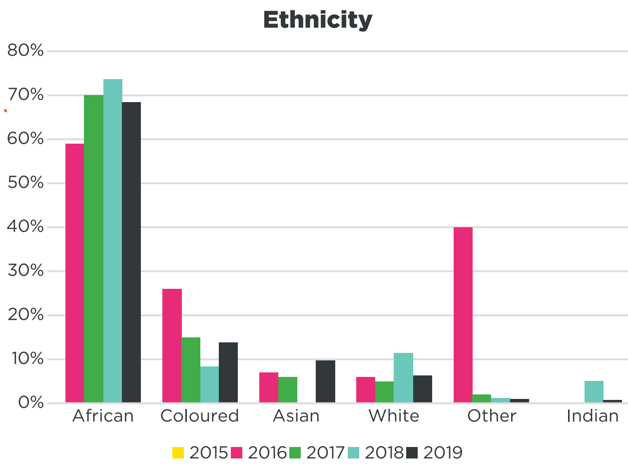
Of concern, with respect to gender, is the lack of public procurement that is allocated to women owned businesses. The Commission for Gender Equality (CGE) reports for 2018, with respect to public procurement, that "Departments that appeared before the Commission generally demonstrated lack of efforts to integrate gender as a fundamental component in their procurement practices." This is worrying given the presence of gender targets in the B-BBEE codes and also the efforts of our government and multilateral agencies to create synthesis to address gender imbalance.

DID YOU KNOW?

Seed Academy has an impactful intervention for building and growing women owned businesses called AccelerateHer. The overwhelming demand for support to women owned business has grown exponentially and the AccelerateHer programme is able to offer high impact business development support, market access, funding readiness as well as address the psychosocial issues that women face. Visit www.seedengine.co.za for more information.

Ethnicity

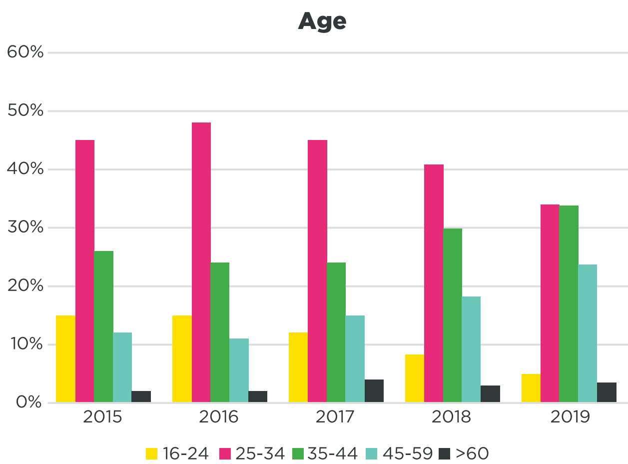
Once again the overwhelming majority of respondents were black (per the B-BBEE Act) with a marked increase in the number of coloured and Indian people represented.



Age

As with previous years and aligned with GEM 2018/19 study the majority of the respondents fall within the category of youth.

The GEM study refers to the power of entrepreneurship where people are able to relate to people who "look like them" which contributes to the overall combined force of entrepreneurship around the world. This could well be true in South Africa along with the large number of incentives and government schemes that exist to develop and encourage entrepreneurship amongst the youth. Interestingly, the desirability of entrepreneurship as a job is highlighted once again and is evidenced in the results where we see an increase from 2015-2019 in entrepreneurs who are highly skilled, well networked and have job experience. People in the highest entrepreneurial category mirror the GEM study in that they may not yet have reached a point in their careers where they own and manage established businesses but have identified opportunities to pursue that can, in time, translate into successful businesses.



DID YOU KNOW?

According to the WEF, founders in their forties are likely to have developed extensive industry social networks to help recruit staff, make sales connections and find suppliers. They could also benefit from a better understanding of finance and have more access to capital than younger entrepreneurs. The research suggests young people with business ideas might be better off waiting a while before rushing to launch a start-up. Some of the numerous grants and programs aimed at encouraging young entrepreneurs could be better aimed at 'older' entrepreneurs.

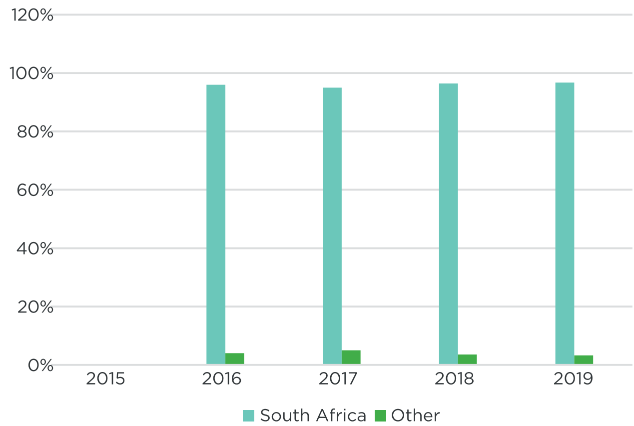
Citizenship

Citizenship has become something of a 'hot potato' in South Africa given the recent xenophobic attacks where it is claimed that foreign nationals are trying to take away from the economic prosperity of locals by taking jobs and opportunities.

Our findings aligned with those of Raphael Chaskalson (2018) who suggests that immigrants add value to the economy through creation of jobs.

While most of the immigrants appear to have a level of necessity as survivalist entrepreneurs, this drops once they reach a level of economic prosperity.

Local vs Foreign Nationals



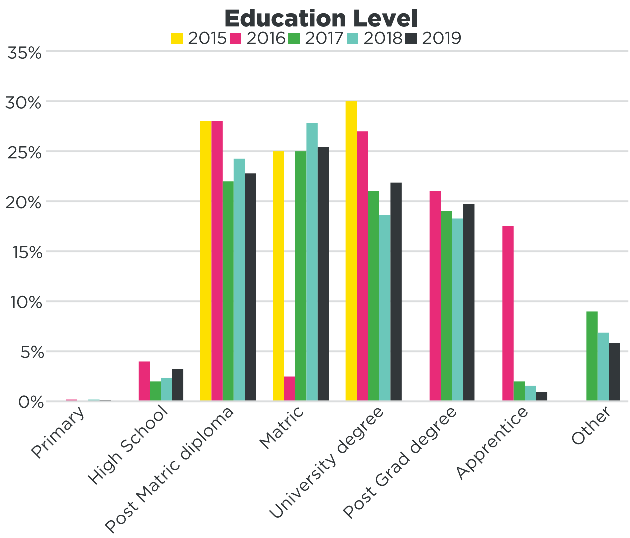
FOOD FOR THOUGHT

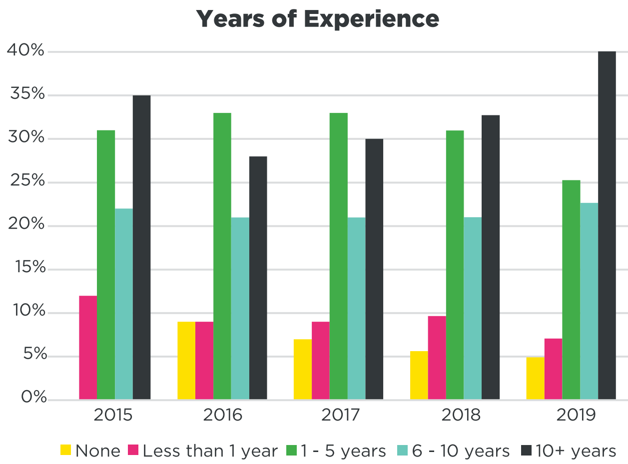
The OECD-ILO labour market impact analysis (2018) suggests the presence of immigrant workers has no significant impact on South African-born employment at the national level. However, at the sub-national level, the presence of immigrant workers has both negative and positive effects on the South African-born population. It was further concluded that the presence of "new" immigrants, who have been in South Africa for less than ten years, increases both the employment rate and the incomes of local workers. This is likely a result of the economic growth associated with immigration (together with the reality that immigrants are more likely to be self-employed and therefore employ South Africans).

Education

The entrepreneurs who responded tend to be very well educated.

This could be due to the partners we work with and where we source the entrepreneurs who respond. Or alternatively, this finding is aligned to the OECD report that suggests that South Africa is a country that has highly skilled entrepreneurs.





FOOD FOR THOUGHT

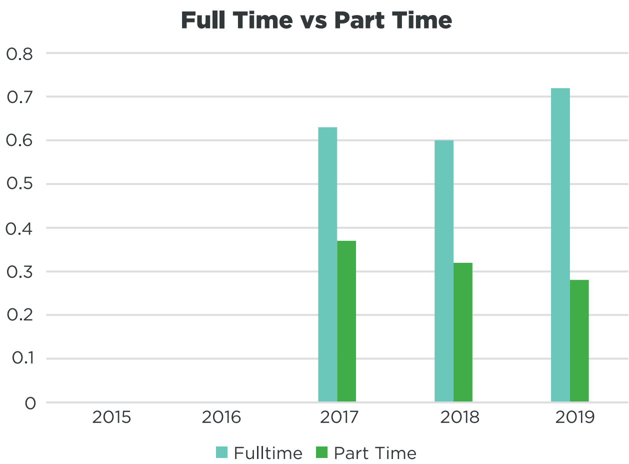
According to Dr Prof. Chris Fredrich there is empirical evidence that entrepreneurship courses in South Africa are not necessarily achieving the goals they set out to achieve. The most successful courses are those that provide a thorough practical orientation to entrepreneurship education, focusing on learning by doing – whereby students are not only learning about entrepreneurship but also how to become entrepreneurial.

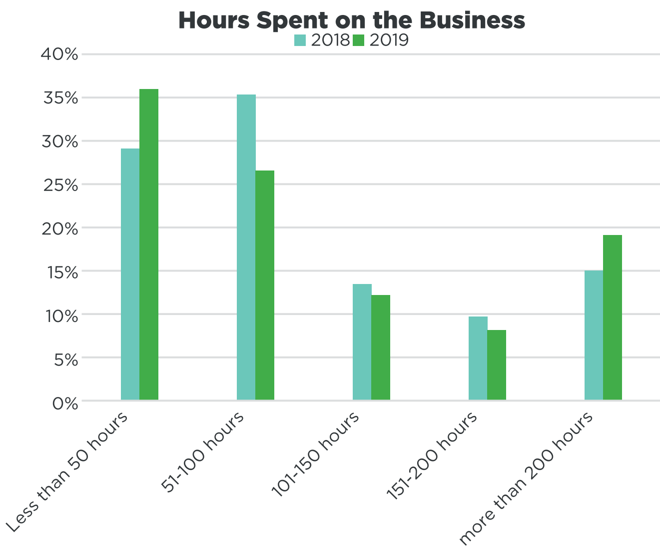
Full time vs part time

entrepreneurs

71% of respondents said they are full time entrepreneurs, a 10% increase from last year.

Similarly, time spent on the business has seen a huge jump on last years reported figures. It would seem from the results that our entrepreneurs are taking their entrepreneurial ventures very seriously with respect to time spent in the business, although a number still view entrepreneurship as a part time job.



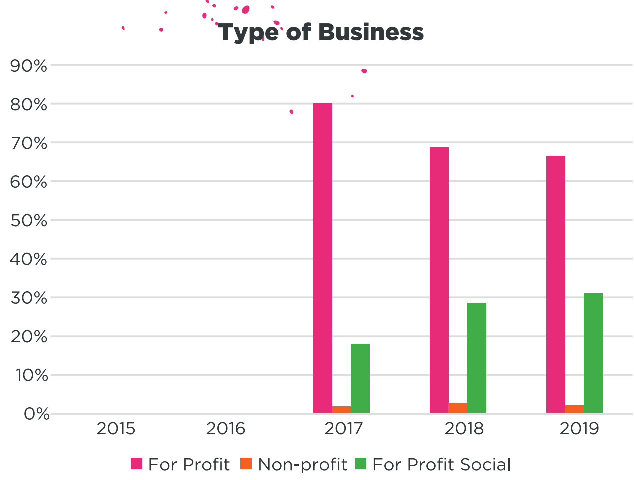


ABOUT THE BUSINESSES

Type of business

This years' results show a 2% increase in social enterprises, with the 'for-profit' businesses by and large staying the same.

The drivers of these decisions we can assume are therefore the same as last year and 2017. Entrepreneurs who are closer to social problems in their communities are very conscious about addressing issues in their communities. The businesses are across sectors with the majority being in health services, education and services.



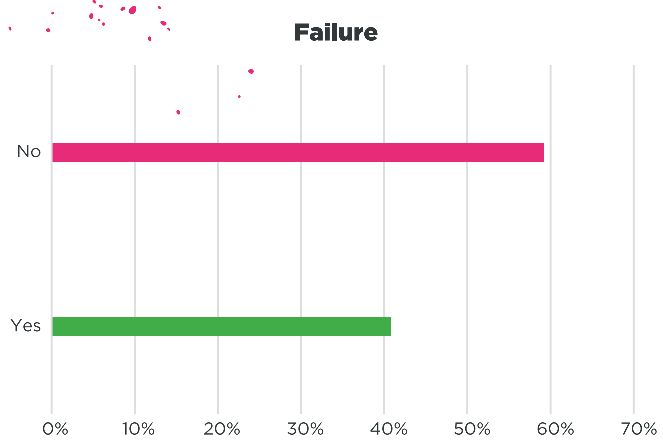
FOOD FOR THOUGHT

In his paper "Social entrepreneurship as a catalyst to break the poverty trap", Roger Eliiot defines one of the critical factors of being a successful entrepreneur as 'being able to identify a need', which in the case of many social entrepreneurs means being 'close' to the social problem. This does not necessarily suggest spatial closeness to the problem as technology, and the rise in global citizenry has made this type of proximity less important, but rather having knowledge of a social or environmental problem ... it may also include instances where an individual has 'first-hand', rather than remote, knowledge and has endured some financial or social hardship as a child.

Fear of failure

We asked our respondents if they have had any other business and what the success or failure rate was.

59% had engaged in another business venture with 41% saying they have had a business that failed. Seed Academy started exploring 'failure' with entrepreneurs in 2018 as we do not have a society that is open to failure, which we know is par-for-the-course in entrepreneurship.



CLOSER LOOK

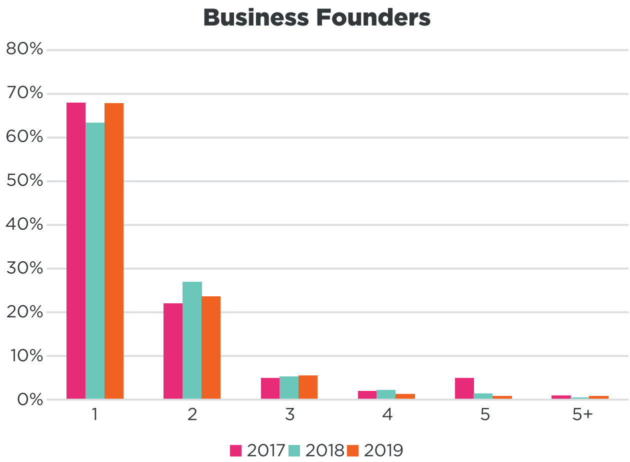
According to the OECD report, 2019, fear of failure is crippling decisions around starting businesses. The research identified seven sources of fear:

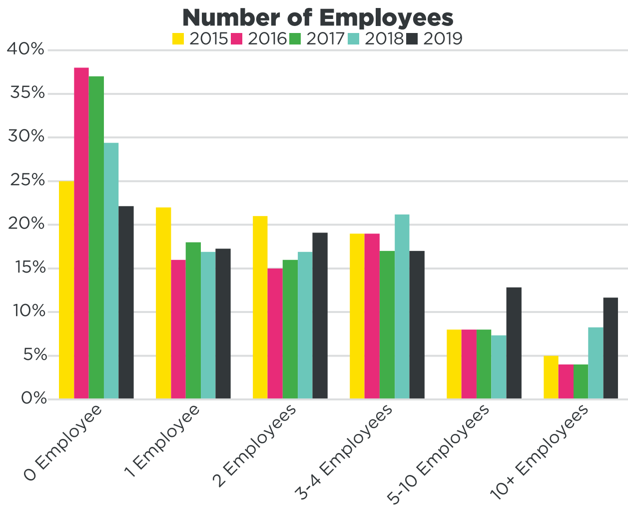
- **financial security**
- **ability to fund the venture**
- **personal ability/self-esteem**
- **potential of the idea**
- **threats to social esteem**
- **the venture's ability to execute**
- **opportunity costs**

Founders & employees

As with previous years (63% in 2018 and 66% in 2017), the overwhelming response (67%) was that the business was started by an individual.

With respect to number of employees, there has been a jump in the number of companies who employ between 5-10 people from 8% in 2018 to 11% in 2019. Our entrepreneurs remain singular as owners and operators.





FOOD FOR THOUGHT

For the African continent, the SME sector is critical. According to World Bank data, SMEs contribute up to 60% of all employment and as much as 40% of all GDP in emerging economies. In South Africa, despite the prominence of the SME sector in government plans to ease the burden of unemployment and stimulate economic growth, recent statistics suggest the SME sector must be revitalised. Efforts such as the newly launched SME Fund is one of the responses that has been put in place. A research study by the Small Business Institute found that there are only a quarter of a million formal SMEs in the country, with millions of smaller businesses that don't create additional employment opportunities.

DID YOU KNOW?

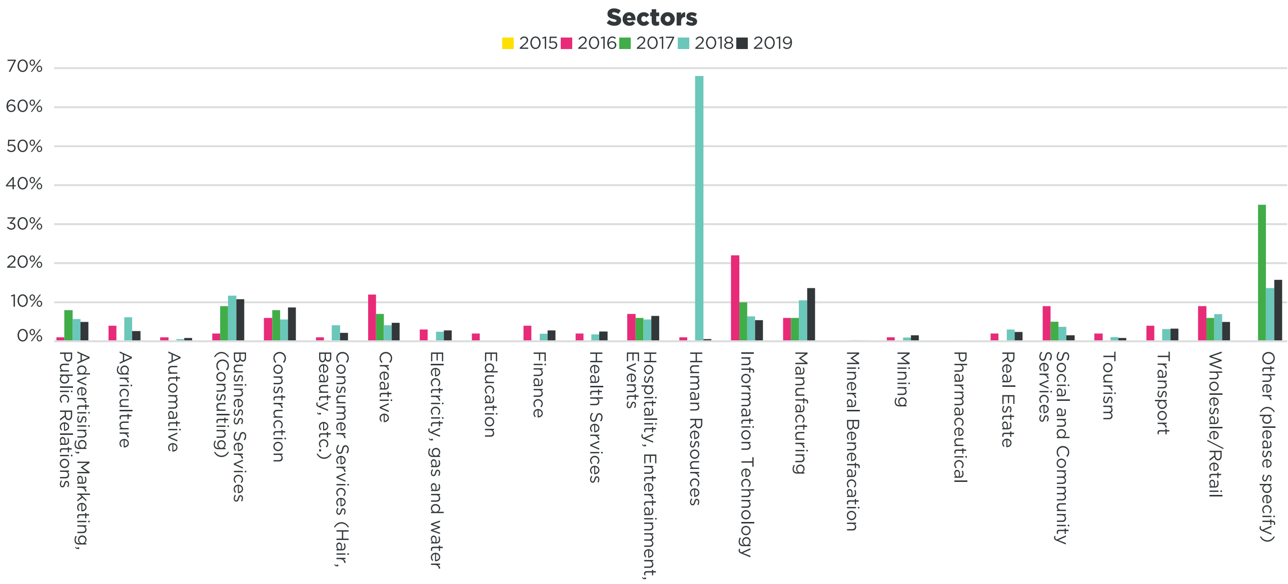
Both GEM and the OECD segment entrepreneur types. They identify 'Solo Entrepreneurship' as a trend where, although there is a single entrepreneur, they often involve family and may take "short-term gigs". They have said that it is rare that entrepreneurs operate singularly without a view to employ others. Solo entrepreneurs can be found in all regions and at all levels.

Sectors

The sector spread, focussed on the sectors with lower barriers to entry, is as expected and aligned with previous years.

This year we had only 10% of respondents in business consulting compared with 12% in 2018. There was an increase in the representation of manufacturing businesses with 13% of respondents coming from manufacturing versus 10% last year. There is also a marked drop in representatives from hospitality and related services. Certain sectors remain monopolistic and closed to real entrepreneurial inputs due to the presence of large companies who make it very difficult for smaller players to enter these sectors. These include transportation and logistics, freight forwarding and clearing, tourism, financial services, and mining services.

Although it is not reflected in the results, in our interviews and conversations with entrepreneurs who participated in the survey, a number are preparing themselves for engagement with 4IR (4 industrial revolution) through technological innovation and changes to their businesses.



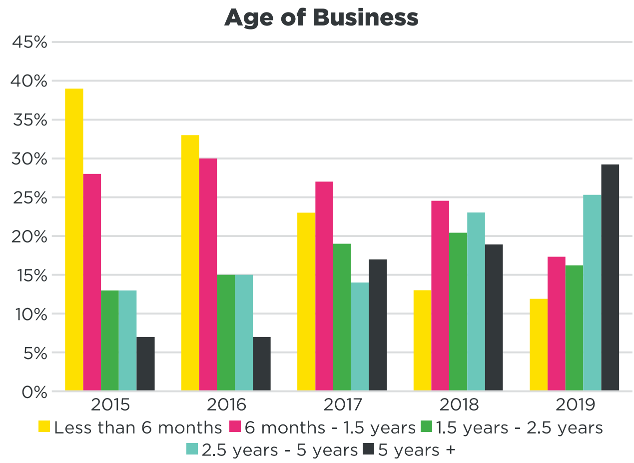
FOOD FOR THOUGHT

According to the OECD report 2019, E-commerce has been a major driver of changes in retail trade business practices. Physical shops are at the dawn of a revolution as they adapt to new market conditions through smart apps, mobile and cashier less payment services, big-data optimised offers and virtual augmented reality experiences that cannot be replaced online. In the construction sector, collaborative digital platforms are changing work practices. Smart 3D model and digital twin allows collecting and sharing data along the life cycle of the building, while improving construction and maintenance. Sensors and drones are increasingly used on construction sites to monitor and secure operations. In the accommodation and food services industries, sharing platforms, self-driving cars and drones are poised to transform lodging models and food delivery.

Age of business

This year the respondents were mostly in the categories of 'less than 6 months – 1.5 years' and 5 years +.

South Africa's small business failure rate of almost 80% within the first three years means the average entrepreneur's chance of starting a business, growing it and creating much-needed jobs is painfully slim. However, our trends over the year show more and more businesses are succeeding and reaching survival beyond two years on a declining scale to those who have reached five years plus.



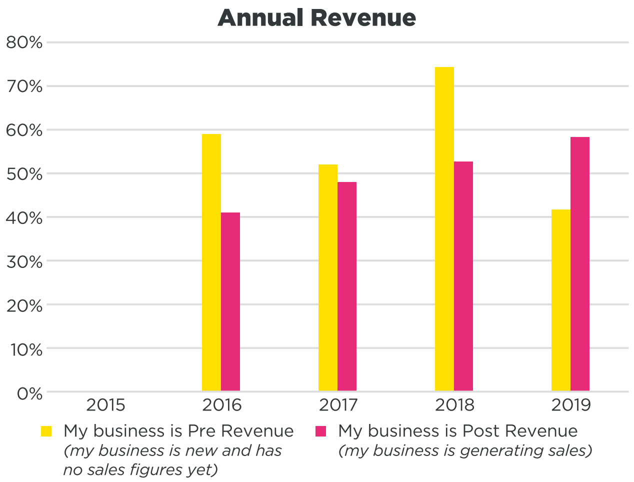
DID YOU KNOW?

The South African Institute of Chartered Accountants (SAICA) says that the biggest challenges facing SMMEs include economic uncertainty/volatility, rising costs, difficulty accessing finance and compliance with laws & regulations. An inability to manage cash flow and debtors, as well as an inability to manage administrative and business functions are cited as common reasons for failure.

Annual revenue

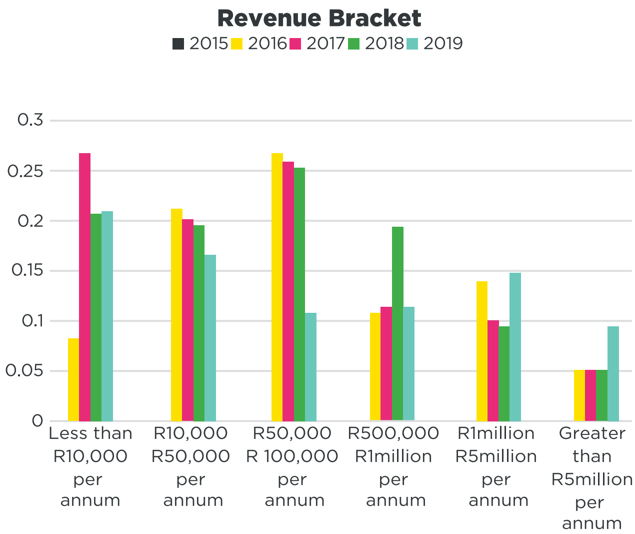
In 2018, 74% of respondents self-reported pre revenue.

Converse to this in 2019, 41% self-reported that they are pre revenue. This paints a much brighter picture than last years' results and can be attributed to the age, years in business and longevity of the entrepreneurs surveyed in 2019 compared to 2018.

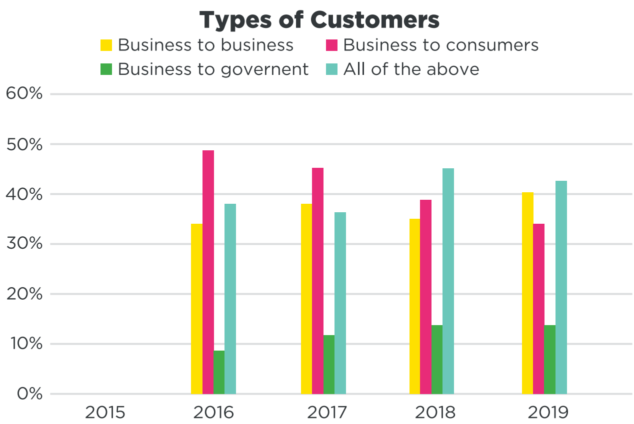


Revenue bracket

Of the businesses that responded in 2019, the majority were located in the lower than R50,000 bracket or the R1m – R5m bracket.



Types of customers



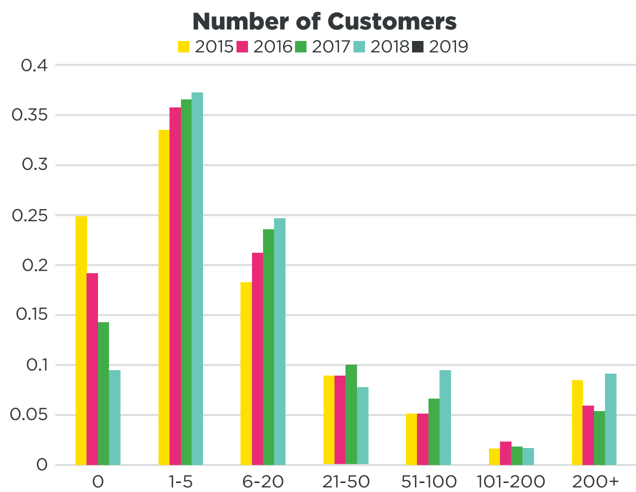
We looked at three categories of customer segments, business to government, business to consumers and business to business.

Business to consumers is the largest segment of type of customer with business to business second with the lowest being business to government.

Number of customers

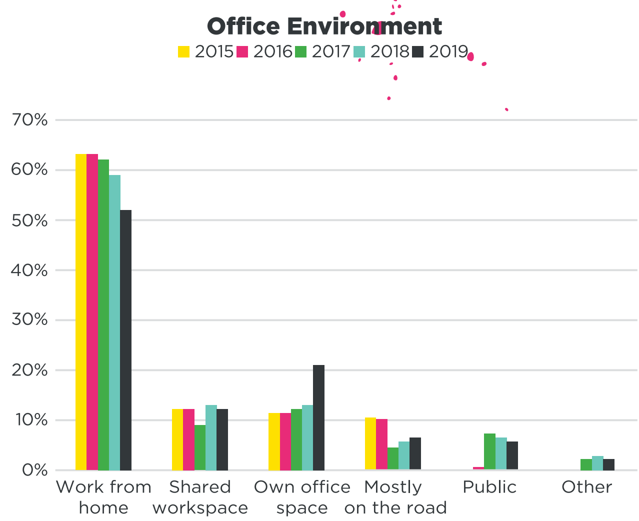
Most respondents have 1-5 customers. This makes logical sense when one considers the size of the majority of the businesses that responded and also their inputs on who they are doing business with.

Reasonably, a business of a smaller size that is in consulting (as many of our respondents are) would not be able to manage too many customers without an increase in staff.



Office environment

The majority of the entrepreneurs surveyed, as with previous years, either work from home or are in co-working spaces.

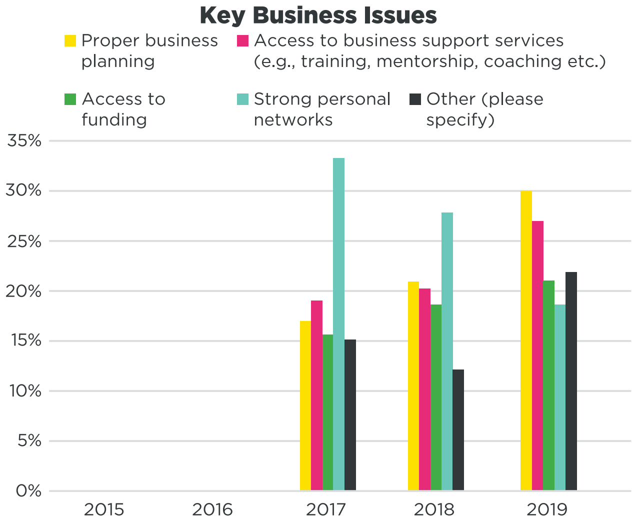


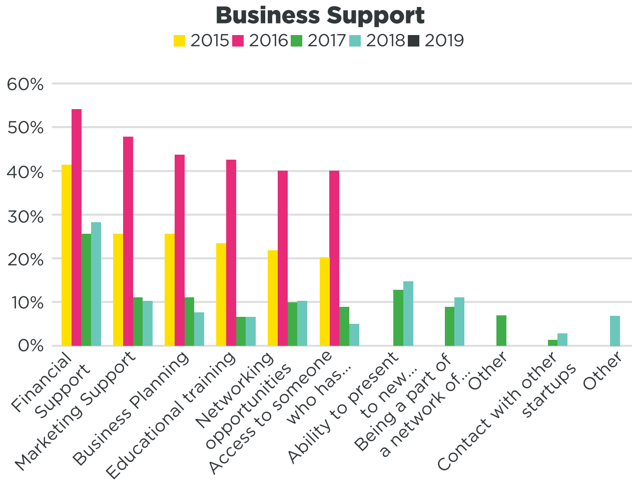
Source: *https://www.coworkinghandbool.com*

Support required

Despite the favourable funding environment that South Africa has in place for entrepreneurs, the majority of entrepreneurs still identify a lack of funding or a need for financial support as their biggest need.

As with previous years, entrepreneurs believe that this is the big step required to take their businesses to the next level. From our interventions at Seed Academy, we have often found that the amount the entrepreneur believes they need and what they actually need are quite divergent. Often the entrepreneurs view is skewed to much higher figures than what funders are willing to address.





FOOD FOR THOUGHT

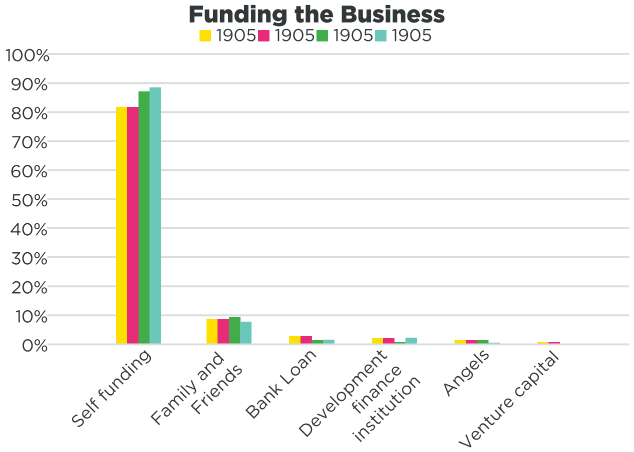
In his new plan, Minister of Finance Tito Mboweni has highlighted the following for small businesses:

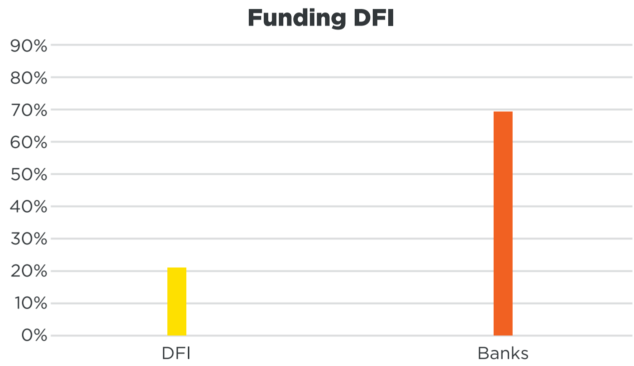
- **Competition and market structure issues should be considered in the drafting of new legislation, policies and regulations;**
- **Development finance should be made more accessible to new entrants, with a small business and innovation fund being created for businesses currently in the ideation/start-up phase; and**
- **Government support, in the form of incentive programmes, being better communicated and simpler to apply for, especially for small business.**

Funding the business

In response to the question if entrepreneurs have ever applied for funding, the overwhelming answer was "no" with only 25% having applied for funding at either a Direct Funding Institution (DFI) or bank.

The majority of the respondents were deterred by the lengthy application processes, no knowledge of where to apply for funding or alternatively they just wanted to self-fund their businesses.





INTROSPECTION MOMENT FOR ENTREPRENEURS

Critical questions business owners can ask themselves against the perceived need for funding:

- What exactly do you need the money for? And by when exactly? Lack of clarity on the purpose of the funding will weaken the business case.
- What makes you sure that the funding you want will get you the additional profits/ sustainability? This is about knowing where, why and how your revenues and costs are made up and what will influence them in future.
- What is your Unique Value Proposition and how do you protect your position? The investor needs to evaluate the risk of loss, but also the opportunity to generate a return on the investment.
- What may go wrong? And can you create a Plan B? What is wrong with you, relates firstly to being upfront about your weaknesses and disclosing things like past judgements before the financier finds out themselves. Second, have you thought through and are you able to put in contingencies for things that may go wrong?
- Why may we think you are not as "sexy" as you think you are? How do you put a value on your business or the business/asset you want to acquire? Are you offering an attractive investment opportunity?
- Is there a business if you are not there? How dependant is the business operation and value on you as individual? Would it be an asset that can be sold without you being involved?

Funding the business

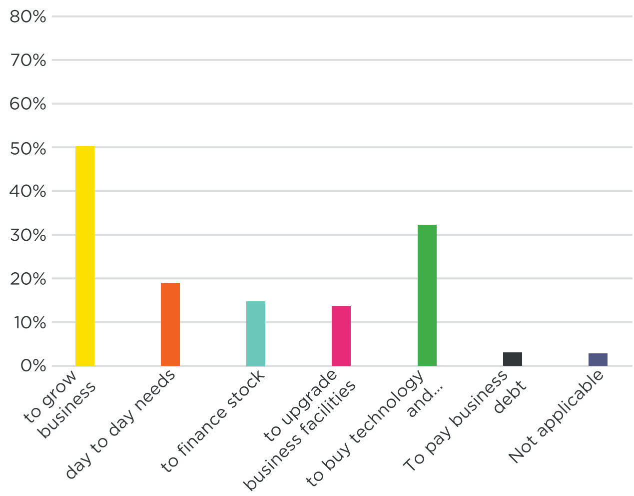
continued

Taking the business to the next level was something that we asked entrepreneurs to reflect on.

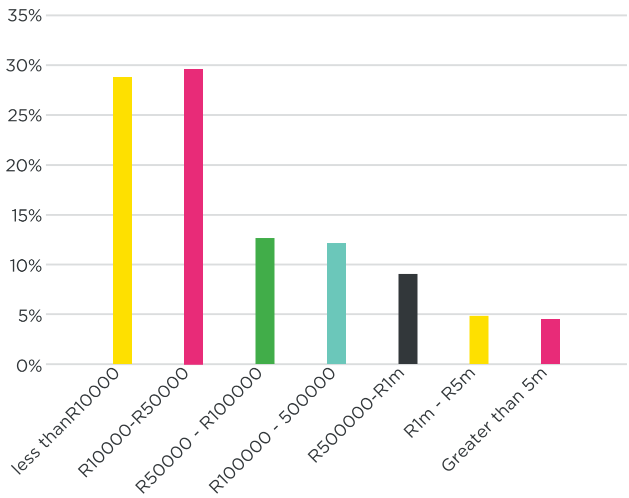
Access to funding remains the number one concern for business owners, followed closely by access to markets (this was conveyed as the ability to present an idea to an appropriate individual).

Despite the indication that access to funding is a critical concern to our respondents, a massive 84% reported that they have, to date, been self-funding their businesses. This is aligned to last year where we reported 74% of entrepreneurs were self-funded.

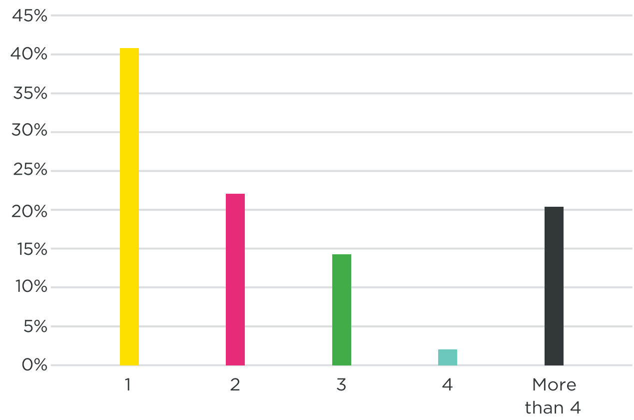
Funding Uses



How much money did it take to fund your business?



How many times applied for funding

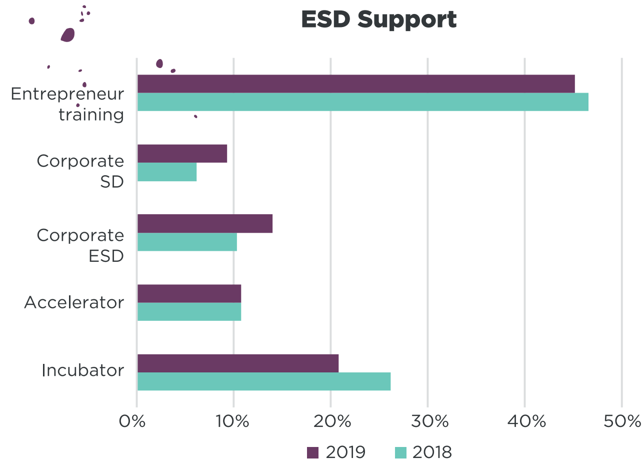


ESD SUPPORT

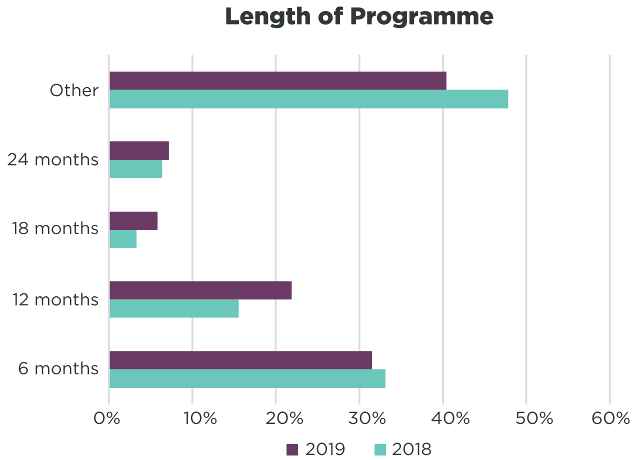
ESD support

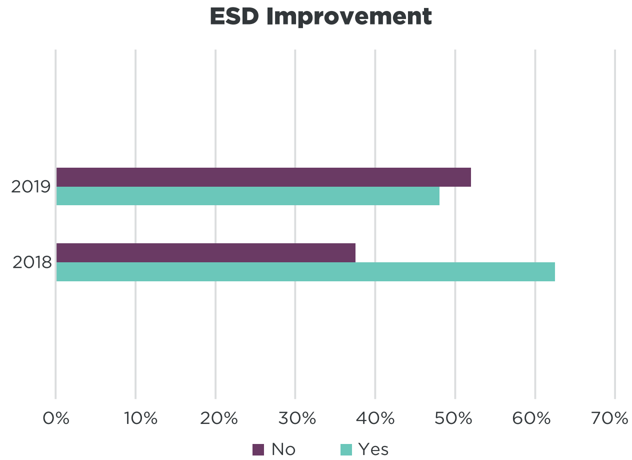
The picture with respect to ESD, much like last year, paints a picture of entrepreneurs hungry for support and access to corporate and government supply chains. The level of engagement, while high, does not necessarily translate into meaningful results for the entrepreneurs.

In 2019, 47% of entrepreneurs reported that they attended an ESD programme.



This year, as with last, over 40% of entrepreneurs indicated that they had been on multiple ESD programmes. The trend tends towards serial ESD programme attendance in the hope of a purchase order or other meaningful output for the business.





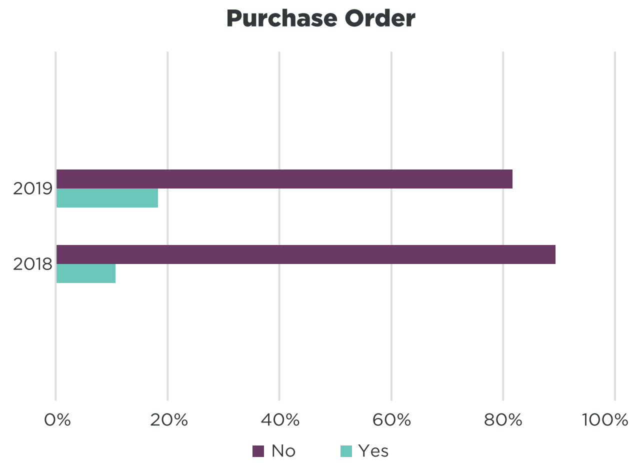
In response to the question 'Did you change or implement new business processes as a result of the ESD programme', 48% compared with 62% in 2018, answered yes. This would suggest that while the presence of a purchase order on completion and therefore graduation to a supplier was not achieved, business improvement was achieved through business process review. This was true irrespective of the length of time of the programme.

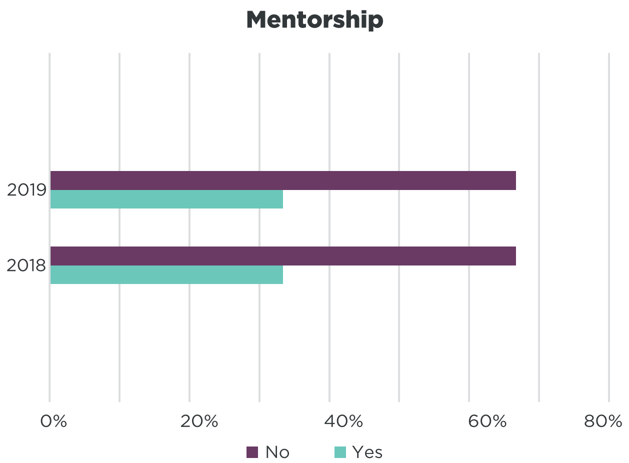
ESD support

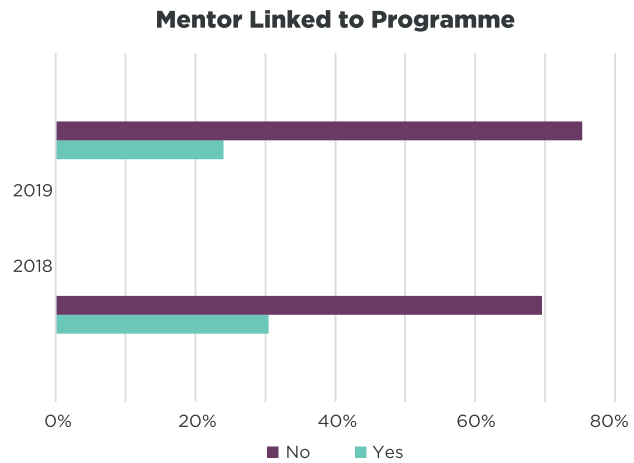
continued

Linked to this is the lack of a mentor for entrepreneurs offered as part of a programme.

66% of entrepreneurs identified that they did indeed have a mentor, but of these mentors less than 30% were linked to an ESD programme, in fact the majority were as a result of the entrepreneurs seeking out their own mentors.







SOCIETY IN TRANSITION

Society in transition

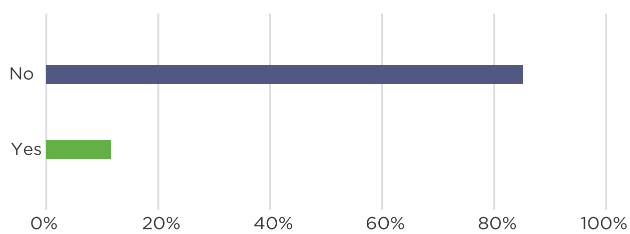
There is absolutely no doubt that South Africa is a society in transition.

Many may argue that South Africa is more than in transition but in crisis. It is against this back drop that, this year, we asked a new set of questions that take a look at the environment that entrepreneurs are operating in.

FOOD FOR THOUGHT

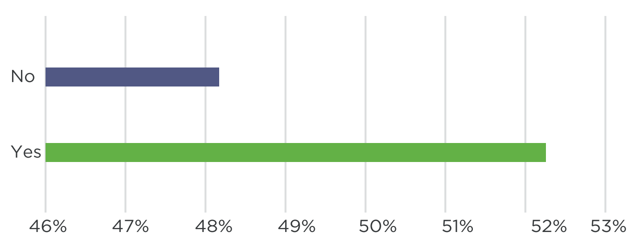
Political analyst Judith February said "As a country, South Africa clearly underestimated the apartheid legacy and the ability to create a 'developmental state'; too little emphasis was placed on mobilising citizens' energies for change and short-termism by the government compromised sustained transformation of society. There was an assumption that elected officials and public servants would be incorruptible, while the unintended consequences of policy choices were not adequately recognised and consensus was often 'imposed'.

Xenophobia



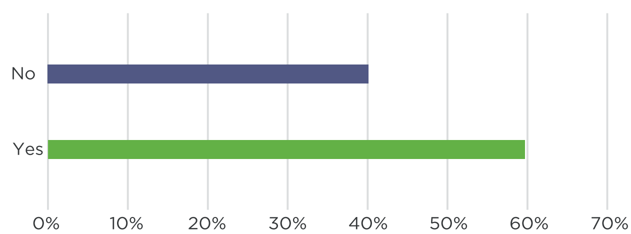
The nation remains stymied by difference. Violence – whether by state repression at Marikana, xenophobic attacks or from one citizen to the other (in Mahikeng or elsewhere) – becomes a means of problem solving. Yet, as we see time and time again, there is something at the heart of society; a resilience that has seen the nation create the impossible despite these differences. 12% of respondents said that their businesses had been impacted by xenophobia.

Loadshedding



51% of respondents felt the impact of load shedding.

Currency



59% of respondents said that the fluctuation of the currency had impacted their businesses. Respondents were further impacted by higher fuel costs and higher importation costs. Many entrepreneurs cannot afford real time technology that can assist with understanding the currency fluctuations and the cost of that to their business.

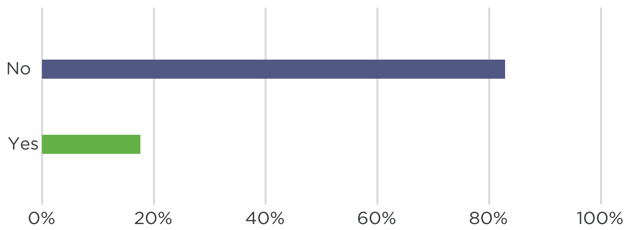
CLOSER LOOK

Western Cape Provincial Review and Economic Outlook (PERO) and Municipal Economic Review and Outlook (MERO), both tabled in October 2019, shows economic performance declined to just 0.2% last year from 1.2% in 2017. The slowdown in the Western Cape was largely due to the drought-related decline in output in the agriculture, forestry and fisheries sector, which also weighed on output in the related agri-processing manufacturing sector.

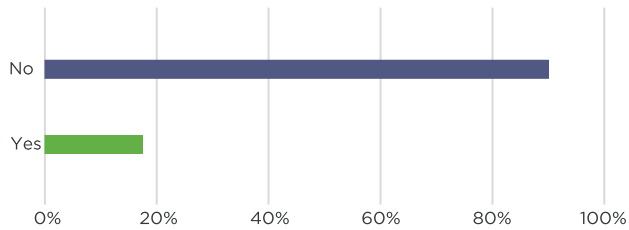
Society in transition

continued

Drought



Bribe Paying



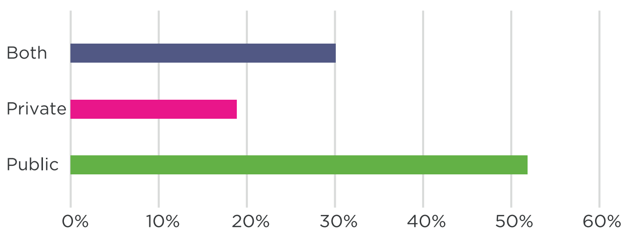
Entrepreneurs who responded were not immune to natures wrath as the drought, particularly in the Western Cape, resulted in 18% of respondents saying that they were impacted negatively by the drought.

In response to the question have you been asked to pay a bribe for a tender, a massive 1/3 of respondents declined to answer the question. Of those who did, 16% answered in the positive. When further asked if this was in the public sector, private sector or both the results show a telling story of procurement. 52% responded that they were asked to pay a bribe in the public sector, 17% responded that it was the private sector and 30% said that they were asked in both the public and private sector.

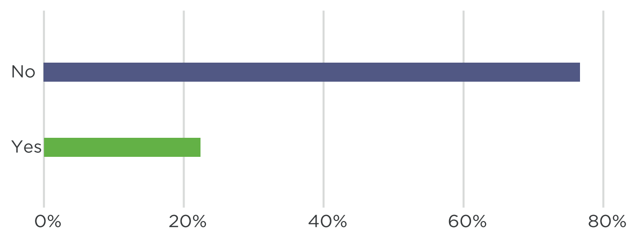
CLOSER LOOK

Political analyst Tove van Lennep from the Helen Suzman Foundation writes, “Corruption becomes systemic through group mentality, first theorised by 19th-century French social psychologists Tarde and Le Bon, and extended by Sigmund Freud. Group mentality describes people’s tendency to conform to group norms against their better judgment. The mindset that informs the “tragedy of the commons” applies — “everyone is doing it anyway, so if I don’t I’ll only be missing out”.

Bribe Sector



Civil Unrest



Civil unrest has also impacted entrepreneurs. In response to the question has your business been impacted by civil unrest, 24% responded that they had been impacted.

Delivering in tough conditions

When one considers the factors above, it then led us to ask entrepreneurs how they have been able to maintain businesses in these conditions and if their ability to deliver has been hampered in any way.

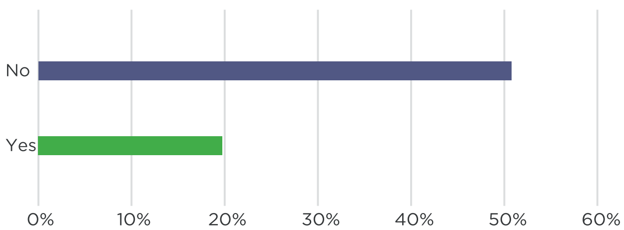
We asked three questions:

1. Has productivity been impacted
2. Has your ability to deliver against contracts been impacted
3. Has your turnover been impacted

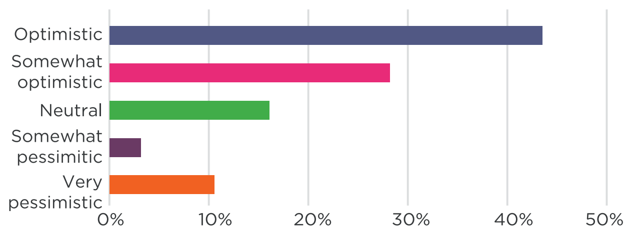
The results, as expected, display that entrepreneurs have indeed been impacted by the societal conditions in which we live.

There must be a truism in the suggestion that South Africans are resilient – despite the tough operating environment and challenges that entrepreneurs face. In response to the question what their outlook is, 42.6% said that they remain optimistic about doing business in South Africa.

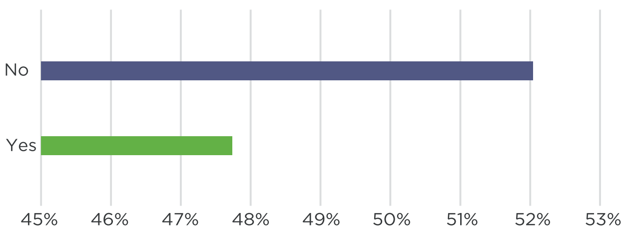
Productivity



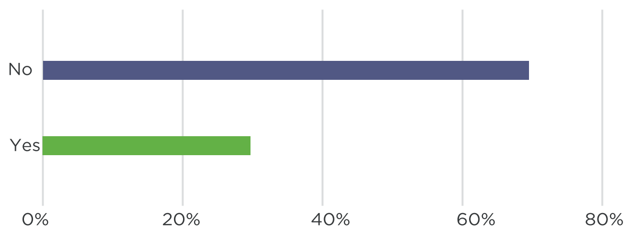
Outlook



Turnover due to Conditions



Contract Delivery



Conclusions

Seed Academy has been in the fortunate position of having five years of analysis to draw from and we hope to continue to have the power to give entrepreneurs a voice in this space. Over the five years we have seen how entrepreneurial behaviour has been dictated by the prevalence of more and more ESD programmes and opportunities that purport to support entrepreneurs. The competition amongst service providers has increased and the pricing of programmes has decreased to a minimum.

During the time that we have been engaging entrepreneurs we have also evolved as a business. Seed Academy now has a suite of tailor made offerings for women and youth through AccelerateHer as well as Enterprise and Supplier Development programmes. We have increased our reach in industrial sectors and through our interventions we have been able to identify and put forward many businesses to our Section 12J Venture Capital initiative – the WDB Growth Fund.

FINDINGS, INSIGHTS AND RECOMMENDATIONS

The state of entrepreneurship

1

Based on key findings of the State of Entrepreneurship Survey for 5 years, it is evident that **the entrepreneurial ecosystem is sluggish** i.e. we see incremental improvement on an annual basis but no dramatic shifts that will 'turn the dial' on the economy and achieve the ambitious objectives of job creation and economic growth. **The ecosystem still remains unforgiving with little real benefit to entrepreneurs in enterprise and supplier development programmes.** We are growing evidence-based knowledge on this and believe serious changes, while discussed in the highest offices, need implementation. **The changes to the support provided to entrepreneurs cannot be singular in its approach, it must be multifaceted.**

2

The ecosystem remains difficult for entrepreneurs to navigate with several entrepreneurs reporting that they don't know how to access available support. Aligned with our findings and those of GEMS and OECD, **the policy environment is not strong in enabling entrepreneurs to find the assistance they require.** South Africa ranks 31/54 nations in the GEMS study with respect to government support and 52/54 for barriers to entry or regulation burdens.

3

Entrepreneurs are not thriving (revenues are not increasing significantly; their challenges have remained the same over the period we have conducted the research with the added burden of blackouts, xenophobia and climate change) and **they are not growing at a level and pace that will significantly impact the economy.** Entrepreneurs are employing 2-4 individuals on average. This is supported by the GEM study of 2018 where South Africa is ranked 7 out of 54 nations with respect to job creation propensity.

4

Entrepreneurs are starting to mature with an enhanced understanding of the aspects that need to be addressed in their businesses as well as identifying the requirement for high impact business development support. While the majority of entrepreneurs are working from home, **there has been an increase in entrepreneurs working from shared spaces and understanding the value thereof.**

5

Entrepreneurs in South Africa are mostly educated; have prior work experience and are **driven to entrepreneurship through identifying and seizing opportunities** (as opposed to being necessity entrepreneurs).

6

Female representation is the same as last year (47%) and there has been a gradual increase in the number of over the years. **The number of women entrepreneurs continues to grow but the opportunities available in the market are mostly for male and youth owned businesses** where the GEMS study reports that the female/male opportunity favors men.

7

The **key challenges** our entrepreneurs face include: finding customers; inability to raise funds and wearing too many hats followed by lack of guidance; slow sales, customers paying late and unpredictability of business conditions.

Sector focus

The number of **for-profit social enterprises has increased consistently** by, 10% in 2017/2018 and by 3% in 2018/2019 demonstrating that **businesses that address social and community issues are on the rise.**

Our findings this year showed a strong shift in representation to services-oriented businesses more so than previous years. The reported barriers to entry in certain sectors remain high and exclude real meaningful work for SMEs.

Keys to success

1

Keys to success for entrepreneurs remain **strong personal networks; proper business planning; access to business support services** and the ability to **present for new market opportunities**.

2

Seed Academy's findings are aligned to the C4G report with regards to the areas of BDS programmes that are most desirable and have the most success with respect to entrepreneur interventions;

- **Business strategy**
- **Financial support**
- **People development and training**
- **Systems support or interventions**
- **Mentoring**

3

While there has been a gradual increase in the number of businesses we have surveyed over the years, this year the efforts required to gather responses was greater. **Entrepreneurs are showing signs of having fatigue of being asked what the eco-system lacks but not seeing any real changes.**

4

Our experience at Seed Academy highlights that **business focus is key to business success.** An interesting finding of the research is that 47% of businesses are engaged in B2B; B2C and B2G at the same time – thus making market focus difficult. This is highlighted in our segmentation section.

Enterprise and Supplier Development Programmes

1

Current enterprise and supplier development programmes, as they are executed, rarely add the necessary relevant inputs to entrepreneurs' businesses unless they are **niche, specific and tailor made.** This is the same finding as 2018 and it appears that little has changed to address this issue.

2

Corporate sponsored programmes may **not be adding as much value as anticipated** - rarely leading to increased productivity and head count.

3

The presence of a **mentor aligned to the entrepreneur's business is a key success factor.** The number of entrepreneurs who were surveyed and have mentors through their ESD programmes is low yet, overwhelmingly, those who had **mentors through programmes felt that the mentors added significant value to their businesses.**

4

If the ESD programmes reach the right kinds of entrepreneurs the success rate is higher – ESD programmes need to identify the correct entrepreneurs to prevent attrition.

Funding

1. **Accessing funding remains the biggest concern and challenge for entrepreneurs.** Entrepreneurs are largely self-funding or not applying for funding because they either don't know where to go or don't know how to access funding.
2. Like with 2018, it is evident that **the risk appetite for funding early stage and perceived 'risky' entrepreneurs is low in South Africa.** In addition, the **angel network and banks as funding options for entrepreneurs remains ineffective** and not seen as viable options.

Key recommendations

Society in transition

It is apparent that **businesses are being impacted by the transitions that are underway in our young democracy.** SMEs are being impacted by various **micro and macro-economic factors**, ranging from power shortages to climate change. Similarly, to the 2018 report, **public sector corruption has been flagged as a key risk factor** and appears to add cost to SMEs who tender for business. Procurement processes need to be monitored aggressively to ensure that corruption is curbed and **allow SMEs to operate in an environment that is free of corruption.**

Areas for future investigation:

01 The **types of entrepreneurs need to be disaggregated** so that we can understand the various entrepreneurs. Where we have identified part time entrepreneurs we have assumed they are entrepreneurs who are full time employed. A part time entrepreneur could, however, be defined as someone who runs multiple entities.

02 The **increase in social entrepreneurs** needs to be understood in a more granular fashion.

03 **Funding needs to be understood** and not incumber entrepreneurs but not all entrepreneurs need concessionary funding they just want to grow.

Considering all the above and the findings of our report, **we believe that the enthusiasm and optimism shown by our entrepreneurs to be phenomenal.** If we assume that the necessary changes are implemented to support entrepreneurs **we believe that there will be more new entrants to entrepreneurship as a job choice** and the **lines between full time and part time entrepreneurs will become increasingly blurred.** In addition, the **developments of 4IR** will provide the necessary shift to the gig economy. For all this to happen successfully **we need economic stability and an enabling environment.**

Recommendations

It is the view of Seed Academy that the following needs to be achieved:

1. A significant shift in the ecosystem both in terms of the policies guiding entrepreneurs and the offerings to entrepreneurs to sufficiently address needs. A multi-stakeholder consultative process could be undertaken to ensure the needs of the clients (in this case SMEs) is being met
2. Funders need to be more proactive and diversify the mix of funding responses, as the current funding does not seem to be meeting entrepreneurs needs. Recent IDC results highlight the lack of pipeline relevant to funding offerings. This is a finding and recommendation from previous years and is still a relevant problem
3. Entrepreneurs don't know how to access funding interventions. Both the DFIs and private sector funding need to engage in appropriate marketing and have accessible and online tools assist entrepreneurs
4. The potential exists for the pooling of ESD funding for use towards innovation and startups where there is a lack of funding currently
5. The risk profile of entrepreneurs are often not ideal and systems need to be designed that appropriately allow these entrepreneurs access to funding
6. The one stop shop approach has yet to be implemented effectively to address the needs of entrepreneurs. The solutions outlined in Minister Tito Mboweni's documents need to be implemented urgently to provide real and appropriate assistance to entrepreneurs
7. The enterprise and supplier development sector needs a base level. There needs to be rigor in the outcomes of the sector with the ability to cater to a variety of needs and entrepreneur types
8. Non-financial support is currently not aligned to the needs of entrepreneurs and this requires programmes to seriously relook the intake of entrepreneurs (i.e. just because you are black and own a business doesn't mean you need a blanket ESD programmes)
9. ESD interventions need to be tailor made with appropriate mentorship and a core focus on business and growth strategy
10. Sector based interventions need to be tailor made to address barriers to entry in key sectors of the economy to achieve real transformation and inclusion of SMEs
11. Women as entrepreneurs are once again a key focus as the number has grown steadily over the past 5 years, although not significantly. The mainstream of women in procurement needs to be prioritised. Seed Academy has seen this and has insight into the urgency required through the work undertaken for UN Women
12. Procurement needs a clear system to ensure corruption is addressed and eliminated; commissions currently need to identify and address corrective actions for those who have been identified as perpetrators of corrupt deeds in both the public and private sectors
13. Eskom has proved to be but one of a basket of societal issues that is impacting the effectiveness of entrepreneurs to deliver on contracts. This is an urgent issue that national government needs to address and we await the anticipated Eskom turnaround strategy; the impact of Eskom is clear in our findings
14. Xenophobia is a serious societal issue that is impacting entrepreneurs. Both through those running businesses but also in the diversity in our society where many foreign nationals are business owners and employers. We need some granular work to be done to understand the impacts of foreign owned businesses on our economy, most specifically how diversity in places such as the Johannesburg CBD has been positive for the growth of the city centre
15. Climate change is an issue that we identified this year and the severe drought in the country has an impact on entrepreneurs. Initiatives like the NBI climate change project need support from business chambers to understand how we can prepare for and mitigate risk

ABOUT SEED ENGINE

Seed Engine

Seed Engine believes in an economically inclusive South Africa and we are on a mission to make it happen!

We do this by **building the skills and capacity of entrepreneurs**, by **funding and supporting them to grow their businesses,** and by **working with Corporate SA** to take these businesses to scale.

We are a proud Level 2 B-BBEE contributor.

Currently 51% Black-women owned through Womens Development Bank (WDB).

Seed Engine incorporates Seed Academy and the WDB Growth Fund

seed engine

51% Black-women owned WDB

Seed Academy

WDB growth fund

Seed Academy provides high-impact business development support and access to markets to entrepreneurs at all stages, helping them to build successful, sustainable businesses. Seed Academy's systematic methodology moves entrepreneurs from build to grow and ultimately to scale.

Seed Academy partners with clients to deliver real ROI based on measured outcomes combined with high levels of transparency and accountability.

WDB Growth Fund is an impact investment Fund focused on increasing the participation of youth and women entrepreneurs in S.A.s economy.

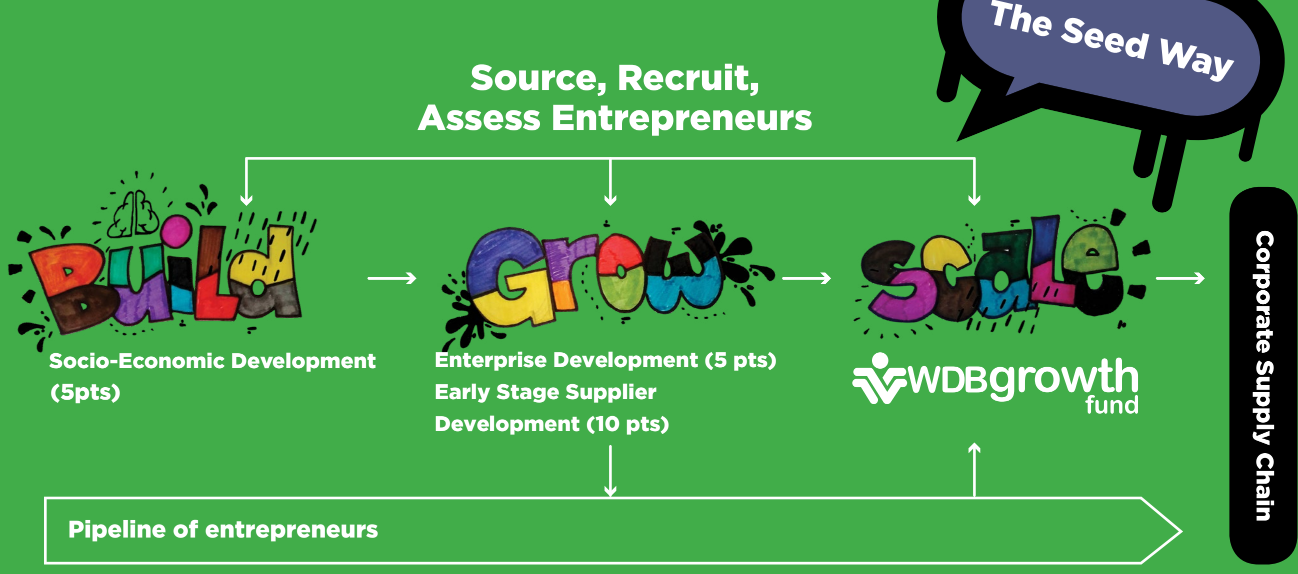
The Fund's mandate is to address the needs of growth-stage businesses while providing investors with Enterprise & Supplier Development points recognition and tax benefits.

The Fund is a Venture Capital Company registered with SARS in terms of Section 12J of the Income Tax Act and is a licensed Financial Services Provider.

Seed Academy

Seed Engine

We are committed to partnering with our entrepreneurs to get access to markets and funding opportunities whilst keeping our clients' transformation objectives and return on investment at heart !



Our Unfair Advantage

- Our key objective is to **help our clients enhance their impact on EMEs and QSEs.**
- We work closely with our clients to get a deep understanding of their needs across departments, how they work, their culture and values and **tailor our programmes** so the content speaks specifically to their 'way of working' thereby ensuring suppliers and potential suppliers not only have the skills and capacity to deliver but are also a **'culture and values' fit.**
- We provide the three aspects entrepreneurs need to succeed: **high-impact business development, access to markets and access to funding.**
- Our **robust model** moves entrepreneurs from **build** to **grow** and ultimately to **scale**, creating **pipeline** for the **WDB Seed Fund** and corporate **supply chains** in the process.
- Through **strong partnerships** and **networks** with clients, the ecosystem, **public and private sector** and **strategic partners** we are able to give entrepreneurs unrivalled **access to markets.**
- We have an **acceleration mindset** with a strong focus on **delivery, innovation** and robust attention to **impact measurement.**

THE REAL STATE OF ENTREPRENEURSHIP SURVEY 2019

IS PROUDLY SPONSORED BY

OLD MUTUAL FOUNDATION

OLDMUTUAL

The Old Mutual Foundation, part of the broader Old Mutual Limited Group, is an integral part of Old Mutual's responsible business ethos and commitment to caring for the communities we operate in.

Established in 1999 during the company's demutualisation process, the Foundation contributes to transformation in South Africa through effective socio-economic development initiatives in the following focus areas:

- Enterprise Development
- Skills Capacity Building
- Education
- Staff Volunteerism
- Vulnerable Communities

Through these initiatives, the Old Mutual Foundation aims to integrate marginalised South Africans into the mainstream economy, provide critical educational support to our next generation, and care for vulnerable communities. Our bias is towards rural and peri-urban communities where this need is often greatest.

The social development and transformation work of the Foundation is grounded in Old Mutual's heritage and history. Our desire is to develop the communities we serve, while also enabling and supporting millions of South Africans to save, invest and strengthen their financial future.

Old Mutual recognises the importance of Small, Medium and Micro Enterprises (SMMEs) and the role entrepreneurs play in creating jobs and contributing to economic growth and development. Furthermore, Old Mutual, through our Entrepreneurship Ecosystem, has first-hand experience of the challenges SMMEs face and the need for structured and targeted support to build sustainable businesses that facilitate job creation.

To enable better support of SMMEs, Old Mutual partnered with the Seed Academy and sponsored the 2019 Real State of Entrepreneurship survey.

The Real State of Entrepreneurship survey, now in its fifth year, remains South Africa's largest and most referenced entrepreneur survey. Building on the findings of the 2018 report, this year's survey addresses some of the difficulties of doing business in South Africa 'head on' and has taken the theme of 'South Africa: A Society in Transition and What This Means for Those Engaged in Entrepreneurial Ventures'. The 2019 survey further explores entrepreneurs' participation in Enterprise Supplier Development (ESD) programmes, and investigated their nature and impact.

The survey continues to highlight changes in the behaviours and perceptions of entrepreneurs from inception of the survey in 2015 and identifies key trends which can be used to build better support mechanisms for entrepreneurs.

THE REAL STATE OF ENTREPRENEURSHIP SURVEY 2019

IS PROUDLY SPONSORED BY

SMART PROCUREMENT

SmartProcurement

Smart Procurement was pleased to partner with this year's Real State of Entrepreneurship survey. Smart Procurement believes in supporting all initiatives that continue to support the growth and sustainability of SME's in South Africa. Specifically, with regards to reducing the divide in knowledge, understanding and best practice needed to support SME's into corporate and government supply chains.

Smart Procurement is a division of Commerce Edge South Africa (CESA). CESA has been providing SCM training and skills development for the last 15 years in collaboration with the Chartered Institute of Procurement and Supply (CIPS) Africa. We have hosted the Smart Procurement World Indaba for 13 years, and the Enterprise & Supplier Development Expo for eight years in Gauteng (3600 attendees), six years in Cape Town (1300 attendees) and three years in KZN (1000 attendees).

Smart Procurement World continues to play a major role in economic development in the country through linking SMMEs to buyers across South Africa. Smart Procurement engages the procurement community from across the country to over 19 000 professionals annually.

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