

SOUTH AFRICA



ENTREPRENEURSHIP STRATEGY REVIEW



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Contents

Introduction	1
1. Situation analysis	2
2. Explaining the low survival rate of MSMEs in South Africa.....	4
3. Strategic areas of entrepreneurship	5
3.1 Optimizing the regulatory environment	5
3.2 Improving access to finance.....	6
3.3 Entrepreneurship education and skills building	7
4. Policy options	9
5. Conclusion	14
Bibliography	15
Annex	17

LIST OF ACRONYMS

BDC	Business Development Centers
BDS	Business Development Services
CIPC	Company and Intellectual Property Commission
DDM	District Development Model
DSBD	Department of Small Business Development
EPF	Entrepreneurship Policy Framework
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IFC	International Financial Corporation
IP	Intellectual Property
ISPESE	Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprise
MSMEs	Micro, Small and Medium-Sized Enterprises (described as SMMEs in South Africa)
NISED	National Integrated Small Enterprise Development
NSEA	National Small Enterprise Act
TEA	Total Early-stage Entrepreneurial Activity
SAVCA	Southern African Venture Capital and Private Equity Association
SEDA	Small Enterprise Development Agency
SMEs	Small and Medium-Sized Enterprises
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VAT	Value-added Tax
VC	Venture capital

Introduction

Micro, small and medium enterprises (MSMEs) in South Africa account for over 2 million companies, represent over 98% of formal businesses, and have experienced two-digit growth in the last years.

However, they contribute to creating less than a third of all formal jobs, leaving job creation highly concentrated in a small number of large employers and in the government. In addition, most entrepreneurs enter the ecosystem driven by necessity and the high rates of unemployment. As a result, the majority stay in the informal sector, keeping low growth aspirations and showing a high rate of failure and a low contribution to the creation of formal jobs.

The latter is of particular importance as youth unemployment levels continue to remain very high due to the slowing down of the country's economic growth, especially when compounded with broader economic fall-out from the COVID-19 pandemic. South African youth entrepreneurs face similar challenges as their counterparts in the entire continent as they are hindered by a lack of access to sufficient capital, markets, poor marketing and branding skills, suitable infrastructure (including working space and ICT), as well as business management and educational skills.

The aftermath of the pandemic continues to have a devastating impact on MSMEs, youth and women-owned businesses. These weaknesses have been identified in the UNCTAD Diagnostic Assessment conducted in 2021 and by the stakeholders during the diverse workshops organized to better understand the barriers to MSMEs and entrepreneurship (Partner Dialogue I and Partners Dialogue II).

The country's policymakers have become increasingly aware of the need to support the cultivation and growth of resilient, innovative and agile entrepreneurs as can be seen in the National Integrated Small Enterprise Development (NISED) Masterplan. To support the Department of Small Business Development (DSBD) in complementing NISED and draft an entrepreneurship strategy (output 4.1. of the NISED program area), UNCTAD prepared a Diagnostic Report for discussion with the support of a local expert.

DSBD, UNCTAD and 22 On Sloane, among of the largest start-up campus in Africa, hosted the second Partner Dialogue in June 2022 with the objective of identifying the most urgent and relevant reforms South Africa could implement to boost entrepreneurship and strengthen the performance of its base of small business. It was held with over 30 stakeholders, including national government departments (Department of Social Development, Department of Women, Youth and People with Disabilities, Department of Science and Technology, Department of Fisheries, Forestry & Environment, Department of Basic Education), regulatory authorities, youth organizations, the private sector and other relevant parties. The dialogue discussions were aimed at providing a shared understanding of the strengths and weaknesses of the entrepreneurial ecosystem in South Africa. As part of the consultation process on which this document is based, UNCTAD also held a bilateral meeting with 10 start-ups active in different sectors (transport, digital economy, fintech, creative economy).

This report is based on the activities described above and identifies three areas of interest, namely.

1. Optimizing the regulatory environment
2. Improving access to finance and
3. Entrepreneurship education and skills building

The report was prepared in close cooperation with DSBD and offers a brief analysis of South Africa's entrepreneurial ecosystem using the UNCTAD Entrepreneurship Policy Framework

methodology.¹ It summarizes the latest research available, followed by a discussion of key challenges in the ecosystem upon which priority actions and activities could be designed. Policy options are then proposed in the form of an action plan, describing in detail the alignment of outputs of the NISED with proposed options and a conclusion.

An annex with literature on barriers to MSME growth in the country is available.

The report was prepared under the United Nations Development Account project “Global Initiative toward post-COVID-19 resurgence of the MSME sector”.

1. Situation analysis

The transformative power MSMEs can have – if properly supported – can be used by South Africa for the implementation of the sustainable development goals. The importance of MSMEs and entrepreneurship in South Africa cannot be understated due to their potential in addressing societal challenges, contributing to innovation, the energy transition and higher employment figures.

The importance of MSMEs has been widely recognized by policies and strategies. The National Development Plan 2030 clearly identifies MSMEs and entrepreneurship as instruments for the achievement of the socio-economic goals in South Africa, with significant efforts made by the government to promote entrepreneurial activity in the country since the mid-1990s.

The NISED Masterplan (2022) lays out several outputs to which this targeted entrepreneurship strategy contributes, in particular output 4.1 (National and Provincial Government Policy Developed for Growth of MSMEs). For instance, activities 4.1.1. of the Masterplan envisages having an “*Entrepreneurship Policy Strategy*”. The Action Plan at the end of the document complements targeted activities foreseen by NISED.

The continuous policy effort in support of MSMEs has produced mixed results. There are positive signs indicating that MSMEs and entrepreneurship have followed an upward trend in the country:

- From 2013 to 2019, the formal business sector increased turnover by 50 per cent, representing an average annual growth rate of 7 per cent.² Medium businesses increased turnover by 8 per cent per year, and large businesses by 5. Small businesses therefore seem to lead the pack, recording an increase of 12 per cent per year over the same period, according to the National Statistic Office of South Africa.
- Total Early-stage Entrepreneurial Activity (TEA) increased by an impressive 7 per cent (10 per cent in 2019 to 17 per cent in 2021).³
- There has also been a boom in the tech start-up scene, which is proof that the country has become a fertile soil for entrepreneurs by opportunity. South Africa came first in the inaugural “African Tech Ecosystems of the Future 2021/22” ranking that assessed the conditions for tech start-up growth in 17 African countries. In 2021, it was estimated that there were more than 700 tech start-ups in the country, corresponding to approximately \$241 million. Kenya and Egypt, respectively second and third in the ranking, had around 650 and 360 tech start-ups.

¹ UNCTAD developed the [Entrepreneurship Policy Framework](#) and its implementation guidance that aims to support developing country policymakers in the design of initiatives, measures and institutions to promote entrepreneurship. It is based on five pillars that together constitute a national entrepreneurship strategy.

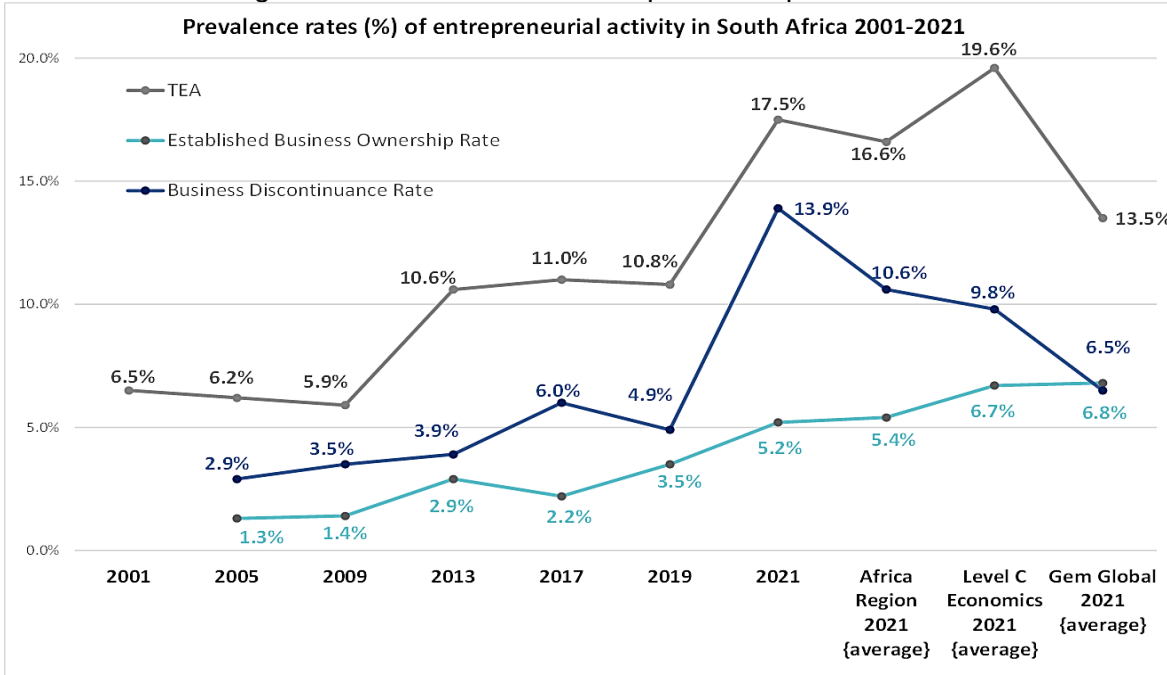
² Turnover grew from ZAR 7 trillion to ZAR 10,5 trillion between 2013 and 2019 in absolute number

³ TEA is one of the core indicators of the Global Entrepreneurship Monitor (GEM) See GEM 2021/2022. It measures the percentage of the adult population who have committed resources to start a business and are actively involved in setting up a business they will own or co-own or who have moved beyond the nascent stage and are currently owner-manager of a new business which has paid salaries or wages

Nigeria is the only country in the ranking that had a larger number of tech start-ups (over 750), however, they had a lower market value (\$61 million) compared with the South African ones.⁴

Figure 1 below describes the evolution of the different indicators of entrepreneurship activity in South Africa between 2001 and 2021.

Figure 1: GEM indicator of entrepreneurship in South Africa.



Source: GEM (2022)

While some positive development seems to have taken place, other structural impediments still remain:

- South Africa hosts over two million small businesses but few of these small businesses manage to create sustainable jobs, with only 15 per cent of South African small businesses growing into successful companies (Allen Grey Orbis Foundation, 2019). In fact, evidence suggests that MSMEs have not been able to fulfil their potential for job creation. Preliminary findings of a 2011-2016 longitudinal study conducted by the South Africa Small Business Institute showed that 56 per cent of all jobs in the country were created by 1,000 larger employers, including the government. The same study shows that formal MSMEs correspond to 98.5 percent of formal business in South Africa and are responsible for less than a third of all formal jobs. According to analysis of international trends by the South Africa Small Business Institute, their contribution should be around 60 to 70 per cent instead.⁵
- Most of these entrepreneurs participate in the informal sector as necessity entrepreneurs who are predominantly motivated by high unemployment and the waves of inequality that hurt many in South Africa (SEDA, 2018). Approximately 70 per cent of MSMEs in South Africa are found in the informal sector, and among them, many can be considered to be run by entrepreneurs driven by necessity. Throughout the 2017-2019 period, almost two thirds of the MSMEs in South Africa were consistently made of own-account workers, who had not been able to grow their businesses to the point of hiring other individuals. The last statistics before the COVID-19 pandemic indicate that approximately 83 per cent of own-account workers operate in the

⁴ African Tech Ecosystems of the Future 2021/22, fDi Markets (2021).

⁵ The Number of Micro, Small and Medium Businesses in South Africa – Preliminary Findings, Small Business Institute (2018).

informal sector.⁶ Most of these own-account workers in the informal sector are considered entrepreneurs by necessity who have no alternative income and turn to entrepreneurship as a last resort to provide for themselves and their families.

- According to Bushe (2019), over 70 per cent of MSMEs fail in their first 5 to 7 years of inception. According to the SME South Africa study conducted in 2018, the survival rate of South African MSMEs is low.⁷ In 2016, most small enterprises, including micro enterprises, did not survive beyond 5 years, with only less than 20 per cent of businesses surviving beyond the first five years.⁸ Over 70 per cent failed in less than two years of being in operation.⁹ These estimates support the argument that South African small enterprises are fundamentally nascent in nature. They are in the survivalist stages of development and thus unable to make meaningful contributions to the economy. South Africa's low ratio of early stage to established business activity indicates potential difficulties in replenishing the country's business base in the near future. This is an issue as value added self-employment and entrepreneurship are needed to absorb labour surplus, especially among the youth segment of the population, to spur innovation and to drive sustainable growth.

2. Explaining the low survival rate of MSMEs in South Africa

Bushe (2019) states that 40 per cent of new businesses in South Africa do not make it beyond their first year of business, 60 per cent fail within their second year and 90 per cent are forsaken within their first 10 years of establishment. The poor survival rate of new firms is corroborated by the 2012 and 2022 Global Entrepreneurship Monitor (GEM) reports, which highlighted that 'the survival rate for local start-up businesses in South Africa is low by global standards.' As can be seen in the survey conducted by GEM in 2022, the following reasons for business exit have been identified:

Reasons for business exit	Business exit rate in percentage ¹⁰
Coronavirus pandemic	27,4
Business not profitable	23,7
Problems getting financing	21,8
Opportunity to sell	6
Another job or business opportunity	5,9
Bureaucracy	5,4

Some of the reasons for business exit can be tackled by an entrepreneurship strategy such as the cumbersome regulatory environment and the insufficient access to finance.

The First Partner Dialogue (2021) organized by DBSD, the United Nations Development Programme (UNDP) and 22 On Sloane to create a platform for solution-seeking dialogue focused on the small business sector and start-ups and their importance in the creation of employment came to similar conclusions. MSMEs and start-ups continue to face barriers to entry into the

⁶ SMME Quarterly Updates, SEDA (2018, 2019, 2020).

⁷ SME South Africa. 2018. An Assessment of South Africa's SME Landscape: Challenges, Opportunities, Risks & Next Steps. <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/12/AssessmentOfSAsSMELandscape.pdf>

⁸ Friedrich, C. 2016. Why do 70% to 80 % of small businesses fail within five years?. <https://www.moneyweb.co.za/mybusiness/why-do-70-to-80-of-small-businesses-fail-within-five-years/>

⁹Vuba, S. 2019. The missed opportunity: SMMEs in the South African economy. <https://mg.co.za/article/2019-04-12-00-the-missed-opportunity-smmes-in-the-south-african-economy/>

¹⁰ According to GEM: Business Exit Rate is the percentage of the adult population who have exited a business in the past 12 months, either by selling, shutting down or otherwise discontinuing an owner-management relationship with that business.

mainstream economy due to lack of access to finance¹¹ and markets, as well as poor operational soundness. The dialogue was designed to focus on four areas, namely (a) reduction of bureaucracy that affects small businesses and start-ups, (b) improving access to markets by start-ups, (c) enhancing access to finance by small businesses and start-ups, and (d) strengthening implementation of capacity development programmes for small businesses and start-ups (government support).

A review of the literature (see table in section 4) on the barriers to MSMEs and entrepreneurship - based on surveys, confirms that one of the most cited barriers are cumbersome regulations, insufficient access to finance, and inadequate/ineffective government support.

These three weaknesses have also been identified in UNCTAD's Diagnostic Assessment conducted in 2021 and have therefore been the focus of a multistakeholder workshop organized by UNCTAD, DBSD and 22 on Sloane in June 2022. The dialogue was held with over 30 stakeholders, including national government departments (Department of Social Development, Department of Women, Youth and People with Disabilities, Department of Science and Technology, Department of Fisheries, Forestry & Environment, Department of Basic Education), regulatory authorities, youth organizations, the private sector and other relevant parties.

3. Strategic areas of entrepreneurship

3.1 Optimizing the regulatory environment

Despite the efforts made by the government to improve the regulatory environment for small businesses - reducing bureaucracy and easing the process to start a business, policy uncertainty and weak policy implementation remain a significant barrier to entrepreneurship and investment.

South Africa ranks 82 in the Ease of Doing Business, characterized by considerable bureaucracy that is not conducive to a dynamic business environment. As pointed out in an International Financial Corporation (IFC) report on South African MSMEs, there are several studies showing that the regulatory environment is singled out as one of the most challenging aspects for opening and growing a business according to local entrepreneurs.¹² Academic literature has also identified substantial tax increases paid by MSMEs,¹³ strict labor legislation,¹⁴ and ineffective bureaucratic practices¹⁵ as some of the more specific aspects of regulation deterring MSME development.

The degree of informality across the MSME sector also attests to the challenges of complying with regulations, and many registration procedures are costly and cumbersome, particularly for entrepreneurs by necessity.

Participants to the workshop discussion and entrepreneurs interviewed in June 2022 detailed their concerns about the regulatory environment as follows:

- There is a one size fits all and inflexible approach to regulation biased toward larger businesses. Similarly, they noted that usually a blanket approach is applied when developing policy interventions to reduce the regulatory burden on MSMEs without considering how each category of entrepreneurs is affected by regulation.

¹¹ According to IFC (2018) the value of MSME credit gap in South Africa is at \$6 billion in the formal sector and \$24 billion in the informal sector

¹² *The Unseen Sector – A Report on the MSME Opportunity in South Africa*, IFC (2018).

¹³ *Barriers to Startup and Sustainable Growth of SMMEs: A Comparative Study Between South Africa and Lesotho*, in "African Journal of Business and Economic Research", Vol. 15 No. 2, Khoase. R.G., Derera, E., McArthur, B., and Ndayizigamiye, P. (2020).

¹⁴ *Challenges facing small business development in South Africa*, in "International Journal of Economic Perspectives", Vol. 11 No. 2, Zondi, W.B. (2017).

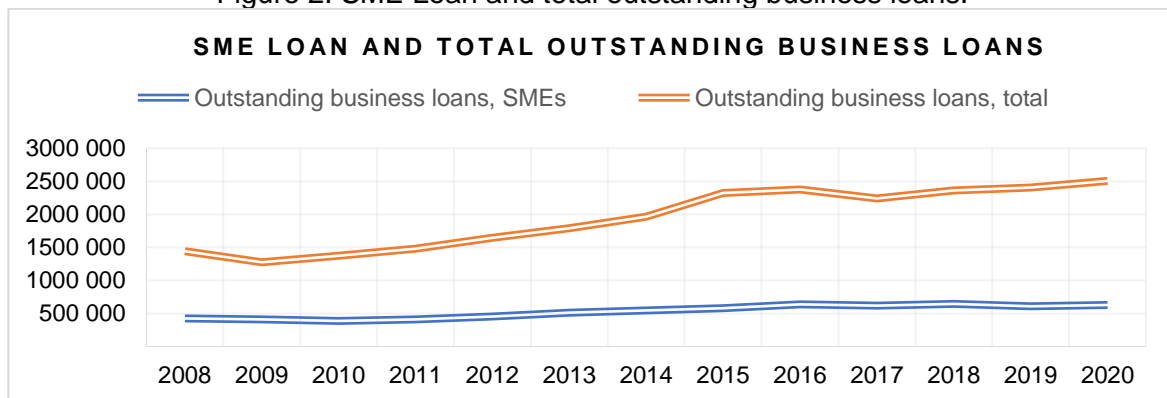
¹⁵ *The Challenges/Barriers Preventing the South African Youth in Becoming Entrepreneurs: South African Overview*, in "Journal of Economics and Behavioural Studies", Vol.11 No. 4, Radebe, T. (2019)

- Policy implementation suffers from a lack of coordination and non-aligned priorities between government departments. In addition, there are slightly different regulatory hurdles depending on which cities or areas businesses run their operations due to varying efficiency levels of public agencies and discrepancies in the interpretation of national legislation.¹⁶
- Even if recently the Company and Intellectual Property Commission (CIPC) launched an online single window for business registration and an information portal, there are still many issues with regards to accessibility and transparency of the requirements for small businesses as the access, interpretation and application of these regulations were considered as challenges: (a) the lack of portals for digital services means entrepreneurs have to visit different departments for registrations and other similar services, and (b) the non-consolidation of various departments' knowledge on entrepreneurship regulations presents potential misunderstandings and/or biased dissemination of information among enterprises. According to UNCTAD's *Global Enterprise Registration* assessment, South Africa's CIPC online single window ranks 8th, along with Rwanda, among the 19 Sub-Saharan African countries that have this type of service, and its information portal ranks 23rd among 44 Sub-Saharan Africa countries.¹⁷
- Finally, stakeholders noted that government services were too slow in delivery and costly, in particular for quality standard approval and intellectual property registration.

3.2 Improving access to finance

Access to finance is often cited as one of the main barriers to entry and sustained business growth in South Africa (Enterprise Survey, 2020). The gap between supply and demand for MSMEs funding accounts for 10 per cent of the country's GDP. Banks control a large portion of the funding market for MSMEs but as they are by nature risk conservative and apply tight underwriting standards before giving credit to MSMEs, it is challenging for business owners to obtain funding through this channel. Banks would generally refrain from funding small business, as being at a higher risk than larger businesses. As shown in figure 2 below, SMEs lending constitute a small proportion of total business loans. Moreover, one can see that since 2008, total loans to businesses have increased proportionally more than SMEs loans.

Figure 2: SME Loan and total outstanding business loans.



Source: OECD, Financing SME and Entrepreneurs, South Africa (2022)

As a result, the majority of bank credit is targeted towards larger and more established enterprises rather than the small and micro business segment, which has difficulty meeting

¹⁶ *Doing Business in South Africa 2018 – Subnational Report*, World Bank (2018)

¹⁷ The *Global Enterprise Registration* assesses whether a country's online registration process is clear and complete. Assessments can be found on <https://ger.co/>.

bank lending requirements (OECD, 2022). Indeed, the lack of access to finance is mostly due the result of high levels of poverty of the majority of new entrepreneurs who do not have sufficient, if any, collateral to secure finance (Khoase et al. 2020; Nxazonke et al., 2020; Bushe, 2019; Zondi, 2017). In 2020, 4.4 per cent of all firms in South Africa had access to a loan or a line of credit, compared to 20 per cent in Sub-Saharan Africa (Enterprise Survey 2020). The structural historical inequalities of skewed assets ownership and limited good-quality financial records exacerbate further the barriers to access to finance.

Venture capital (VC) investment is another way for entrepreneurs to finance the development of their enterprise. The value of VC in South Africa rose from approximately \$70 million in 2019 to \$82 million in 2020, according to the Southern African Venture Capital and Private Equity Association (SAVCA). One hundred twenty-two entities benefitted from investments and 74 per cent of the investment fell into the category of new transactions. The top industries by investment value were software, fintech-specific products and services, and business goods and services. According to the deals' investment value contributions, growth capital accounted for 38 per cent of the total, start-up capital for 34 per cent, later stage funding for 20 per cent, seed capital for 4 per cent, rescue/turnaround funding for 3 per cent, buyout funding for 2 per cent, and replacement capital for less than 1 per cent of the total (OECD 2022).

3.3 Entrepreneurship education and skills building

The literature review conducted as part of this consultation process underlines the critical importance of skills for both labour supply and demand. Skills raise the productivity of workers and entrepreneurs - and their ability to access finance, help firms innovate, and expand production at competitive prices. This in turn raises demand in the economy for more goods and services, which requires hiring more low and high-skilled workers. Insufficient skilled staff is frequently cited as a barrier to MSMEs growth. The legacy of “Bantu education” continues to deprive South Africa of the skills it urgently needs, resulting in low competitiveness, high unemployment, and wage inequality.

The skills and capacity of entrepreneurs can be raised through two channels:

- a. Improving government support programmes and business development services will increase entrepreneurs' skills and capacity with effects in the short-term.

The NISED does not clearly acknowledge that entrepreneurs by necessity and by opportunity can have different needs, and that these should be addressed through appropriate tailor-made interventions. The Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprise (ISPESE) only mentions the existence of entrepreneurs by necessity – referred to as survivalist enterprises, while stressing the importance of formalization for them. However, besides the fact that formalization can also be an issue for entrepreneurs by opportunity, the difference in needs of these two groups of entrepreneurs are also present in other dimensions of the entrepreneurial ecosystem. The various needs of the different categories of entrepreneurs should be recognized.

Government support programmes generally provide generic business plans. The mission of the Small Enterprise Development Agency (SEDA) is to “*develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in coordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs.*” However, sustainability could involve increased hands-on support and mentoring programmes (Khoase et al., 2020). Indeed, a lot of capacity development programmes are designed without consultation and dialogue with start-ups to clearly understand their capacity development needs (Partner Dialogue I). There is also a lack of capacity building available in different

languages. The use of infographics and audio in different languages was suggested as a possible solution.

Another weakness of government support programmes in the country is that they follow a decentralized approach and lack implementation guidelines, coordination structures, and rigorous monitoring and evaluation mechanisms. An official evaluation of the ISPESE finalized in 2018 concluded that MSME development in South Africa ended up not meeting some of the expected results because of these weaknesses. Furthermore, the majority of recipients stated that the government's programmes and policies to help MSMEs were not implemented consistently at all three levels of government (including national government agencies). Similarly, coordination with local government received the lowest rating across all reactions, as well as across government and business responses separately. Government support varies extensively between the different regions of South Africa, reaching a level where location impacts the rate of survival of MSMEs. Participants to the DBSD-UNCTAD workshop confirmed this weakness and noted that unplanned and uncoordinated training for entrepreneurs by different government units were inefficient.

To ensure a levelled playing field and reduce rural–urban migration of SMEs, government financing aid from organizations¹⁸ should be reviewed and coordinated so that their services improve the performance of SMEs in South Africa regardless of location (Ogujiuba et al. 2021).

Finally, there is lack of awareness about government support programmes and Business Development Support (BDS) services¹⁹ among entrepreneurs. In a study conducted by McKinsey & Company in 2020 on the impact of COVID-19 on formal MSMEs, 36 per cent of the respondents said that they were not receiving any kind of assistance from the government, mainly as they were not aware of the existence of support programmes they could benefit from.²⁰ During the one-day DBSD-UNCTAD workshop, the challenge of stunted communication was identified as critical where the non-summarization of policies as well as language barriers were posed as major hurdles for the MSMEs. Hence, what one typically does not understand, one tends to ignore without attempting to inquire more information for clarification purposes. Thus, participants suggested that “*strategic documentation ought to be clearly summarized in the respective languages, making use of much simpler terminology and through the use of audios and graphics for easier comprehension*”.

- b. Improving the quality of entrepreneurship education is a policy whose effects will be felt in the longer term.

It was highlighted that there is a lack of incorporation of entrepreneurship subjects within school's curricula in the country. The responsibility therefore lies with the Department of Education to instill a business mindset among young people through entrepreneurship literacy. It is important to understand how entrepreneurship is taught, transmitted in an experiential setting and not in an abstract manner.

- Participants highlighted that there should be a strong focus on entrepreneurship training from a younger age and the need to use project-based learning and pilots in all schools with the intention of changing mindsets, inspire confidence and integrate entrepreneurship curricula across all vocational studies. Furthermore, decision makers were advised to possibly review the curriculum in schools to include entrepreneurship development programs and teacher training.

¹⁸ Such as Small Entrepreneurship Development Agency (SEDA), the Export Marketing and Investment Assistance Scheme (EMIAS), the Agric-Processing Support Scheme (APSS), and the Township Rural Entrepreneurs Program (TREP)

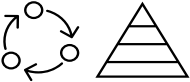

¹⁹ The [UNCTAD Empretec programme](#) and its Empretec Centre under SEDA is one of South Africa's entrepreneurship capacity building initiatives.

²⁰ *How South African SMEs Can Survive and Thrive Post Covid-19*, McKinsey & Company (2020).

- Enterprise literacy could therefore be introduced and incorporated at all levels of education. This concerns vocational schools too as there is a mismatch between the skills of vocational school graduates and market demand.

4. Policy options

The overview presented below summarizes the three areas of interest:

<p>Optimizing the regulatory environment</p> 	<ul style="list-style-type: none"> • Stakeholders highlighted the need for a different regulation system for different sizes of enterprises, such as micro, small and large firms. Excessive and inefficient regulation is hampering businesses. Hence, participants highlighted the importance of reducing bureaucracy significantly and supporting start-up and micro enterprises separately from medium and large firms. The need for incentives for MSMEs such as tax breaks was deemed a necessity. • Regulatory sandboxes could be introduced to allow innovative inventions to be tested in a controlled environment with little or no regulation. • Digital skill-building and exchange programmes between provinces and municipalities in order to improve and increase the digitalization of the government services are also suggested as possible solutions. • Several administrative procedures for business can be streamlined without changing laws, which can significantly reduce regulatory-related administrative hurdles for entrepreneurs.²¹ Currently, South Africa does not have a network of physical national one-stop shops, or an online one-stop shop solution that could centralize all registration procedures, for example.
<p>Improving access to finance</p> 	<ul style="list-style-type: none"> • There is scope to advance targeted support to improve the efficiency of MSME focused Development Finance Institutions (DFIs). Such technical assistance can address the possible competition for the same clients in the upper ranges of the DFI offer and the lower ranges of the commercial offer as well as the possible gap at the seed financing stage. • Moreover, decision makers were advised to “<i>use a more structured and selected approach in facilitating access to funding</i>”. Upon receiving funding, entrepreneurs are expected to obtain support through their entrepreneurship journey with calls for the funding organizations to monitor and evaluate targeted achievements. Multiple programmes with similar goals and methods that can be merged to increase efficiency and efficacy. Demand analysis and a consistent approach to evaluation of public support to entrepreneurship and MSMEs finance can be implemented (OECD, 2022). • The government could guide entrepreneurs through all finance support agencies while possibly considering partnerships with Fintech start-ups. Furthermore, the government could attempt to incentivize banks to assist MSMEs through efforts such as the creation of tax incentives, non-payment of bank charges by start-ups, start-up mentorship (upon receiving funding) and compelling large corporations to create partnerships with small businesses in order to receive incentives.

²¹ UNCTAD’s [eRegulations](#) is a web-based tool that helps governments work towards business facilitation through transparency, simplification and automation of rules and procedures relating to enterprise creation and operation. The tool shows which administrative steps are not driven by law, hence can be improved without legislative reform.

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- The private sector could play a greater role in the early stages of planning capacity development programmes. This could also improve small businesses' access to finance and markets.
- Government information and communication on policies and support programmes could be vulgarized and simplified.
- To improve the quality of data and research on government support programmes and BDS, outcomes-based reporting instead of a tick-box approach can be implemented.

Table - ACTION PLAN BASED ON THE FRAMEWORK GIVEN BY NISED

Outcome to programme areas	Output to programme areas Project activities to achieve outputs		Strategic recommendations to support entrepreneurship development
Bureaucracy reduction and better service delivery to MSMEs	3.4. E-government practices to streamline government proactive	Review administrative procedures (by sector and competent authority) to result in affordable and digitally led compliance	Ensure inclusivity by consulting with MSMEs, informal sector, youth and women entrepreneurs
		Establish and regularly convene bureaucracy reduction business and Govt working groups (Local, District, Province & National)	
		Develop bureaucracy reduction methodology and run capacity building for public servants and Govt stakeholder	Implement UNCTAD's Business facilitation programme
Excessive bureaucracy – Regulatory reform for better business environment for MSMEs	5.2. Effective use by all government of Section 18 (3) of the NSEA (consultation and impact assessment of laws and regulations to minimise administrative inefficiencies and unintended effects)	Review and reform/amend the National Small Enterprise Act (NSEA) to provide for institutional reform that minimise compliance for MSMEs and improves service delivery	Draw inspiration from Start-up Act models
		In conjunction with bureaucracy business and government task team (see 4.2.1.3) determine priority regulatory and legislative reforms for MSMEs.	Input from DBSD-UNCTAD workshop: <ul style="list-style-type: none"> • Undertake a systemic review of regulatory requirement that are biased toward large enterprises • Implement a one-stop shop for business registration and other regulatory requirements • Reduce cost and time for compliance with quality standard, certification, and IP registration • Reduce the differences in regulatory requirement between provinces

	Setup sandboxes regulations for innovative start-ups and MSMEs.	Based on bureaucracy reduction task team, establish regulatory sandbox in pilot project	Based on DBSD-UNCTAD workshop and UNCTAD consultation, digital entrepreneurs and fintech entrepreneurs would benefit the most from sandbox regulations in their respective sector
Fair and equitable opportunities for growth to MSMEs.	6.1. Extend social benefits and incentives to enterprise (entrepreneurship) activity in the formal and informal marketplace	Setup a mechanism where sole traders and self-employed entrepreneurs can register their activities/enterprise with the CIPC	Implement UNCTAD's business facilitation (e-registration) programme
	6.3. Design and develop a programme of action to help facilitate practical steps to encourage greater participation in the formal economic structures e.g., local authority administrative compliance, employment administrative compliance, tax administration and business registry	Identify and develop institutional and policy reforms to incentivise informal enterprises to participate in the formal economy	Implement UNCTAD's e-accounting tool for MSMEs
Build and promote expanded supply of support to MSMEs.	7.1. In alignment with DDM and IBDS policy publish online directory to showcase supply of support to MSMEs.	Develop a technology platform which can be easily accessed digitally and Public and Private role-players (including MSMEs) to register and map support programmes for MSMEs.	Increase the role and impact of private sector in the design and delivery of capacity-building programme and BDS (as per first Partner Dialogue).
Encourage entrepreneurship	8.2. Working with business and service providers using the technology platform, identify gaps of services and support offered to MSMEs.	Setup a national team to coordinate and publicise programmes that are aimed at MSMEs and entrepreneurs (National and Provincial across different departments)	Summarize, vulgarize, simplify information on capacity-building programme and BDS.
			Harmonize support programmes offered to entrepreneurs across the different departments
		Conduct regular needs assessments with MSMEs and cooperatives to ensure that the support services offered meet their needs	Implement an outcome-based approach instead of a "ticking the box" approach to improve alignment with the needs of

			MSMEs and increase the quality of data on BDS and capacity-building programmes.
	8.5. Entrepreneurship and business skills enhanced encourages lifelong learning vocational training and education	Setup task team to enable ecosystem actors to develop appropriate skills development courses and pedagogy for better entrepreneurship development, targeting skills deficit for better entrepreneurship development	Partner with Empretec Centre to develop the appropriate skills development courses and pedagogy
		Develop and deliver curricula in partnership with business to support new technology advancement (4IR) for artisanal and vocational upskilling	Use the framework provided by the BEAR II ²² to establish ICT-based learning in TVET programme
			Partner with international or regional organizations with expertise on the development of entrepreneurship curricula and promote experiential and learning-by-doing methodologies ²³
Delivery of cost-effective support to MSMEs	Update and deliver MSME Support Plan and Game-Changer Programmes in accordance with NISED and publicise yearly in the Annual Review for Small Business	<p>New Agency Updates of programmes based on performance and impact tracking of the MSME support Plan/Game-changer programmes</p> <p>Among the current programmes are the:</p> <ul style="list-style-type: none"> • Empretec training Workshop • She Trades programme • Youth Challenge Fund • Township and Rural Enterprise Programme • Incubation and Digital Hubs Programme 	Integrate the Empretec programme in to the MSME Support Plan and Game-Changer Programme

²² Better Education for Africa's Rise II (BEAR II): promoting and transforming TVET in Eastern Africa. <https://en.unesco.org/themes/skills-work-and-life/bear> and https://unesdoc.unesco.org/ark:/48223/pf0000260719_eng

²³ Organizations such as The Center for Entrepreneurial Leadership Centre for Entrepreneurial Leadership - Anzisha Prize and the Mastercard Foundation <https://mastercardfdn.org/uganda/have-such-expertise>

5. Conclusion

Entrepreneurs are needed, not only as their businesses are the backbone of an economy, but also because they help solve societal problems. Having a conducive entrepreneurship ecosystem in South Africa can stimulate innovation which is crucial following the impact of the COVID-19 pandemic, the high rate of youth unemployment, inequality and the need to deal with the energy transition.

A regulatory environment should take into account the needs of MSMEs, their scale and capabilities. MSMEs need to have a future perspective that allows for long term business planning and investment possibilities. Unclear governmental goals and expectations can block this. While entrepreneurship entails risk-taking, norms that are clear and provide a long-term vision of the future are key for entrepreneurs to scale and invest in innovation. Among the measures that can be taken to increase the survival rate of MSMEs are the reduction of bureaucracy, country-wide streamlining of regulations and their easy access online, simplified economic and fiscal regimes and the creation of differential support programmes including temporary tax exemptions or tax credits at the initial stages of entrepreneurship.

Incentives to facilitate access to finance for MSMEs are key. They can be both traditional, fiscal-based and less traditional. For instance, MSMEs can be better informed on the diverse set of financing that exists, from traditional banks to Fintech, micro credit and more. Also, support can be provided to financial institutions to better segment the MSME market and cater to the different types of entrepreneurs and different stages of entrepreneurship in a more appropriate way. Furthermore, follow-up programmes can be set in place that accompany MSMEs in their financing journey such as finance-based advisory and mentoring programmes and partnership programmes between large corporations and MSME suppliers.

The quality of human capital is crucial in entrepreneurship and requires **investments in building an entrepreneurial mindset** through education and skills development. This can be done at an early stage at schools, but also by developing capacity building programmes on entrepreneurship, including topics such as talent management, technical skills, preparation of a business plan, finance, networking and more so as to build a resilient and agile competitive local MSME sector that will help to drive the country towards the future, with equitable growth and sustainable development. Measures may include, among others, the inclusion of entrepreneurship-related subjects in school curricula at all educational levels, training the teachers to improve educational quality, the introduction of an approach of skills development and learning by doing through apprenticeships and dual vocational training systems to bridge the gap of skills required in the market. Linking incubators and accelerators with universities and other educational institutions can also contribute to a conducive entrepreneurial ecosystem.

Public support programmes to MSMEs and entrepreneurship should be well communicated to all audiences and information should be made easily accessible. Awareness raising and networking campaigns should be deployed to create inclusive multistakeholder communication channels to strengthen the health of the business ecosystem and at the same time align all public and private efforts with broader national development policies.

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Annex

Literature on barriers to MSME growth in South Africa

Authors	Barriers to growth identified	Characteristics	Characteristics
Chandra, Moorty, Nganou, Rajaratnam & Schaefer (2001)	Lack of skilled staff Lack of access to finance Insufficient government support	Independent Survey	792 observations of registered firms employing 1-49 employees Location: Johannesburg Sectors included: 1. Manufacturing: Clothing, metals, furniture, food products. 2. Services: Tourism, construction, retail, information technology.
Berry & Al (2002)	Lack of skilled staff Lack of access to finance Labour regulations. High wage requirements High interest rate	None.	Drew on 78 pieces of literature to establish arguments as to what the paper believes the greatest barriers to growth are.
Brink & Cant (2003)	High inflation and high interest rates Increasing competition Crime. Technological change Burdensome debt.	Independent Survey	301 observations. Used firms considered "sophisticated". * 1-50 employees. Data was collected provincially. No further detail is offered.
Robinson (2004)	Overcoming the legacies of Apartheid Containing crime Fostering an acceptable business ethic Dealing with diversity Facilitating reconciliation between ethnic-groups	Interview based	Interviews with 7 entrepreneurs in established service-orientated venture
FinMark Trust (2006)	Lack of skilled staff Little awareness of MSME support initiatives Regulations and red tape Lack of access to finance	FinScope dataset (2006)	2000 observations. Less than 200 employees. Firms are mostly micro in nature.
SQLF Survey of Employers and the self-employed (2009)	Lack of access to finance Lack of marketing skills Lack of access to alternative sites for business operation	Quarterly Labour Force Survey	Firms are not VAT registered. Micro enterprises
Abor & Quartey (2010)	Lack of access to finance Lack of skilled staff	None.	Drew on 49 pieces of literature to establish arguments as to what the paper believes the greatest barriers to growth are.

	Regulations and red tape Lack of access to international market	(Critical literature review).	
FinMark Trust (2010)	Lack of access to finance Space to operate Increasing competition Crime	FinScope dataset (2010)	1075 observations. Less than 200 employees.
Olawale & Garwe (2010)	Lack of access to finance Lack of collateral Insufficient government support Insufficient owners' equity contribution Crime	Independent Survey	361 observations Newly registered firms. Locations covering East London, King Williams Town and Queenstown.
Small Business Project (2011)	Regulations and excessive bureaucracy Lack of skilled staff Lack of access to finance Labour regulations Poor global economic conditions	SME Growth Index (2011)	500 observations. 10-49 employees (not strictly adhered to) Sectors included: -Manufacturing Business Services Tourism Firm must have been in existence for over 2 years
Friedrich and Isaacs (2010)	Low educational qualifications Lack of knowledge of government selected support organisations Lack of access to finance below R50 000 Inability to meet stringent government regulations Lack of transport, premises, and water Lack of innovation Lack of previous experience in managing a business Starting business due to necessity Inability of the informal sector to become part of the mainstream Lack of risk-taking Poor perception and service delivery of Business support organisations	Independent survey	Survey emailed to SMME owners and managers, and CEOs from business support organisations 106 observations Profile of business owners: Rural - 9 of which services - 9 Urban 97 of which services - 71 and manufactures -26
Zondi (2017)	Lack of access to finance Lack of operational education Accessing legislated bureaucracy Foreign markets are not obtainable SMMEs limit their operations to traditional marketplaces Technological skills barrier	Independent Survey	320 SMMEs registered with Seda within the eThekweni Metropolitan Municipality in KwaZulu-Natal

Lose et al. (2017)	Enhance entrepreneurial education Better access to funding Identified barriers that entrepreneurs attempt to overcome by entering incubation hubs: Acquire entrepreneurial skills Access to business networks Access to technology Identified a gap in the market Employment creation.	Independent Survey	Sampled 65 entrepreneurs active in an incubation program in the Western Cape and Gauteng
Williams and Kedir (2018)	Firm Performance is associated with: <ul style="list-style-type: none"> - Access to finance - Human capital level - Firm size, smaller firms perform worse than larger more established firms - Ownership structure - Level of technological innovation - Owner experience - Level of professionalism - Existence of numerical flexibility Female barriers to Entrepreneurship: <ul style="list-style-type: none"> - Financial exclusion - Gender discrimination in bank loans - Poorer education 	WBES (2007)	Cross-sectional data from the 2007 World Bank Enterprises Survey (WBES) consisting of 937 South African Enterprises Non-agricultural formal private sector businesses
Bushe (2019)	Entrepreneur incapacity Environmental inauspiciousness Enterprise incompetence	None (Systematic literature review)	Drew on 82 pieces of literature to identify the main reasons of business failure in SA
Radebe (2019)	Excessive bureaucracy Lack of access to finance Labour regulations Lack of education society's attitude towards youth entrepreneurship and a poor entrepreneurship culture.	None (Systematic literature review)	None given

Urban and Ndou (2019)	Lack of access to finance Inability to access market information Lack of access to institutional and infrastructural support Low levels of entrepreneurial skills and competency development	Independent survey	Cross-sectional survey in Gauteng in the following municipalities: Ekurhuleni, Johannesburg and Tshwane Township entrepreneurs with operational township based businesses in accordance with South Africa's SMME definition Ekurhuleni - 41 respondents Johannesburg - 74 respondents Tshwane - 39 respondents Sample total – 154
Khoase et al. (2020)	Barriers to accessing finance from supporting institutions: - High interest rates. - Collateral requirements. - Not having a lease agreement. Impediments to starting a business: - High interest rates. - High rental charges - Licensing procedures - and wages of skilled staff Hindrances to the sustainable growth of SMMEs: - Access to finance - Income tax. - High rental charges. - Licensing procedures and wages of staff	Independent Survey	Sampled 379 SMMEs across all sectors in Maseru (Lesotho) and 384 SMMEs across all sectors in Pietermaritzburg (South Africa) Collected from April to June 2015
Nxazonke et al. (2020)	Foreign direct investment (FDI) has a positive short-run and long-run influence on domestic entrepreneurship.	SARB and GEM (2000-18)	Stock data from SARB and GEM database from 2000-2018
Ogujiuba et al. (2020)	Access to start-up capital Labour relations Level of education Age of business	Independent Survey	Survey conducted with owner-managers, entrepreneurs, and experts actively involved in SMEs in Mpumalanga. All participating SMEs have less than 250 employees, with a total of 501 respondents.
Cao & Shi (2021)	Main Barriers for Emerging Economies are: Institutional void; Resource scarcities; and structural constraints	None (critical literature review)	Extensive literature review where 68 articles on advanced economies and 18 articles on emerging economies were reviewed

Source: UNCTAD and extrapolation based on Flowerday (2013)