

South Africa's entrepreneurial sector suffers post-pandemic, report finds

South Africa's early-stage entrepreneurial activity (Tea) has declined to below pre-pandemic levels, and regarding entrepreneurial intentions, fewer people than ever before are considering starting new businesses, according to the latest [2023 Global Entrepreneurship Monitor South Africa](#) (Gem SA) report released on 1 February.



Source: [Unsplash](#)

Perhaps more concerning is that the highest motive among South Africans to become entrepreneurs is out of necessity and to earn a living as jobs are scarce, particularly among men. Other motives include making a difference in the world, building wealth and continuing a family tradition.

These key findings of the report raise concerns that the country's weak economy and an insufficient enabling environment for business are hampering the potential of entrepreneurship to contribute to economic growth, job creation, innovation and technology advancement, and social cohesion.

Although South Africa effectively rose five places (46/50 countries in 2021 to 40/51 countries in 2022) on the [Gem Nation: Entrepreneurial Context Index \(NECI\)](#), a measure of the favourability of the environment for entrepreneurship and starting new business, it was one of only three countries where all 13 of the enabling conditions for entrepreneurship were rated as insufficient.

Gem SA lead author Angus Bowmaker-Falconer, a research fellow at Stellenbosch Business School, said South Africa lagged both global and African levels of entrepreneurial activity and the effectiveness of its support for entrepreneurial ecosystem development.

"Overall, we are not seeing resilience and recovery of entrepreneurial activity to pre-pandemic levels in South Africa compared to global and African perceptions, although these also are not optimistic.

"This is reflective of our poorly performing economy, the impact of the energy crisis and deteriorating transport, logistics and other public infrastructure and service delivery, and the lack of a favourable enabling environment to support business start-up, growth and sustainability," he said.

Natanya Meyer, associate professor in the SARCHI Chair for Entrepreneurship Education at the University of Johannesburg and co-author of the report, said, “A particular concern is the low intentions to start a new business, ownership of new businesses (in existence between three months and 3.5 years) and established businesses (more than 3.5 years) seen as South Africa emerged from the Covid-19 pandemic. All had declined to pre-pandemic levels, and below, in the latest survey.”

“The percentage of adults aged 16-64 intending to start a new business in the next three years declined to 10% in 2023, the lowest in 20 years, after reaching an all-time high of 20% in 2021/22.”

Total Entrepreneurial Activity (Tea), consisting of active businesses less than three months old and new businesses up to three and a half years old, declined from a pandemic high of 17.5% to 8.5% in 2022/23, below the 2019 level of 11%.

Established business ownership (more than three and a half years) almost halved, from 3.5% in 2019 to 1.8% in 2022/23, after an encouraging peak of 5.2% in the pandemic years.



HOW TO START UP

SA startups need to play a longer game to succeed

Reitumetse Kholumo, Hasso Plattner d-school Afrika 28 Sep 2023

Bowmaker-Falconer says, “The extent to which the Covid-19 pandemic influenced entrepreneurship levels remains complex. Lockdowns and related restrictions seriously disrupted how people worked and negatively impacted trade and markets, putting pressure on economies worldwide.”

“At the same time, this crisis presented ‘problems to be solved’, and many new and established businesses pursued these opportunities.”

“In lower-income economies such as South Africa, there was generally less financial support from governments, as well as possibly fewer available jobs and income alternatives, which may have pushed more people into starting their businesses in 2020 and 2021.”

Despite increased entrepreneurial rates during the pandemic, Bowmaker-Falconer says not all of these new businesses were successful or sustainable.

“Many faced significant challenges, and the long-term consequences of this surge in entrepreneurship will be determined as the world adjusts to the post-pandemic landscape.”

A positive signal was that the business exit rate, the percentage of people exiting their business over the past 12 months due to selling or shutting down, recovered to the 2019 level of 5% after an all-time high of 13.9% in 2020/21 when, as expected, the impact of the pandemic was the leading reason for business owners exiting.

The report also found that entrepreneurs had low, and declining, expectations of their businesses being able to create jobs.

In 2019, 3 in 10 new business owners expected to employ an additional six people or more in the next five years, but this fell to just 2 in 10 in 2022 – reflecting the generally weak economic conditions and enabling environment, Bowmaker-Falconer said.

The Gem report tracks 13 enabling framework conditions for entrepreneurship, including availability and ease of access to funding for startups, supportive government policies and programmes, taxes and red-tape burdens, levels of entrepreneurial education, infrastructure and services, market dynamics and regulations, and a culture that encourages and celebrates entrepreneurship.

South Africa showed year-on-year improvement in 10 of the 13 framework conditions, including those directly dependent on government as well as the levels of and access to finance, leading to the country improving its global ranking by five places.

For more, visit: <https://www.bizcommunity.com>