SOUTH AFRICA

STARTUP ACT

PROGRESS REPORT

2022/23

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FOREWORD

Matsi Modise
Startup Act Steering Committee Chairperson

THE ROAD TO PROGRESSIVE POLICY REFORM FOR SA STARTUPS

Since its inception in 2020, the SA Startup Act Movement's mandate was the introduction of a Startup Act that calls for increased support for qualifying high-growth startups in South Africa.

Over the last two years, the Movement has engaged with strategic government agencies and private sector stakeholders on how a Startup Act would benefit South Africa's startups and ultimately the economy. In 2021, the Movement released the SA Startup Act Position Paper, stating the policy challenges that would be addressed by introducing a Startup Act in South Africa and outlined recommendations the Act should include. These include the following:

1. Provide tax breaks and incentives to encourage investment in Qualifying Startups,
2. Remove barriers that inhibit access to skilled talent in the form of employment flexibility and special skills visas,
3. Address Exchange Control Limitations: Remove inhibiting regulatory barriers that hamper globalisation and investment into qualifying startups, and

2022 was a productive year for the SA Startup Act Movement. The recommendations outlined in the 2021 SA Startup Act Position Paper were presented to His Excellency, President Cyril Ramaphosa who welcomed these recommendations. Following this initial meeting, the Movement was invited into a smaller Presidential Task Team that will work closely with the office of the President and National Treasury to give guidance on short, medium and long-term interventions that can be proposed to the President. The Movement had further successful engagements with the South African Reserve Bank; National Treasury and the Deputy Finance Minister, David Masondo.

Perhaps the biggest highlight of 2022 was the announcements by President Ramaphosa during his 2022 SONA on recommended proposals on business visas & red tape reduction. This milestone indicated the impact of our ongoing advocacy.

Announcements at the 2022 State of the Nation Address

- Review the current Business Visa – for automatic, fast-tracked and flexible immigration and introduce a Startup Visa for access to skills, investments and business opportunities.
- Remove the red tape around businesses such as the existing policies that are currently preventing businesses from global market access.
- There will be a review of the current labour laws that restrict SMEs from hiring more people

In addition to introducing new members to the Movement's Steering Committee, we also launched the SA Policy Library, which is

SA STARTUP ACT MOVEMENT IN NUMBERS

650+ NUMBER OF ORGANISATIONS SUPPORTING THE MOVEMENT

76 TOTAL PIECES OF MEDIA COVERAGE

43 912 233 MEDIA REACH

- Unlock the potential of entrepreneurial skills of South Africans through policy alterations or additions
- Promote the growth of new innovative enterprises via supportive incentives
- Create a fair and accessible framework that can identify growing and promising enterprises
- Clarify the responsibilities of the Ministry charged with administering the requirements of the act

SA STARTUP ACT MOVEMENT STEERCO

Matsi Modise
SiMODiSA

Alison Collier
Endeavor SA

Aurelia Albert
Innovate Durban

Dr Audrey Verhaeghe
SA Innovation Summit

Christophe Viarnaud
AfricArena

Shelley Lotz
SAVCA

Saberi Marais
UCT

Anton Ressel
Fetola

Adrian Dommisse
Dommisse Attorneys

Ingrid Osborne
Saryx Engineering Grp

Zimkhitha Peter
Allan & Gill Gray Philanthropies

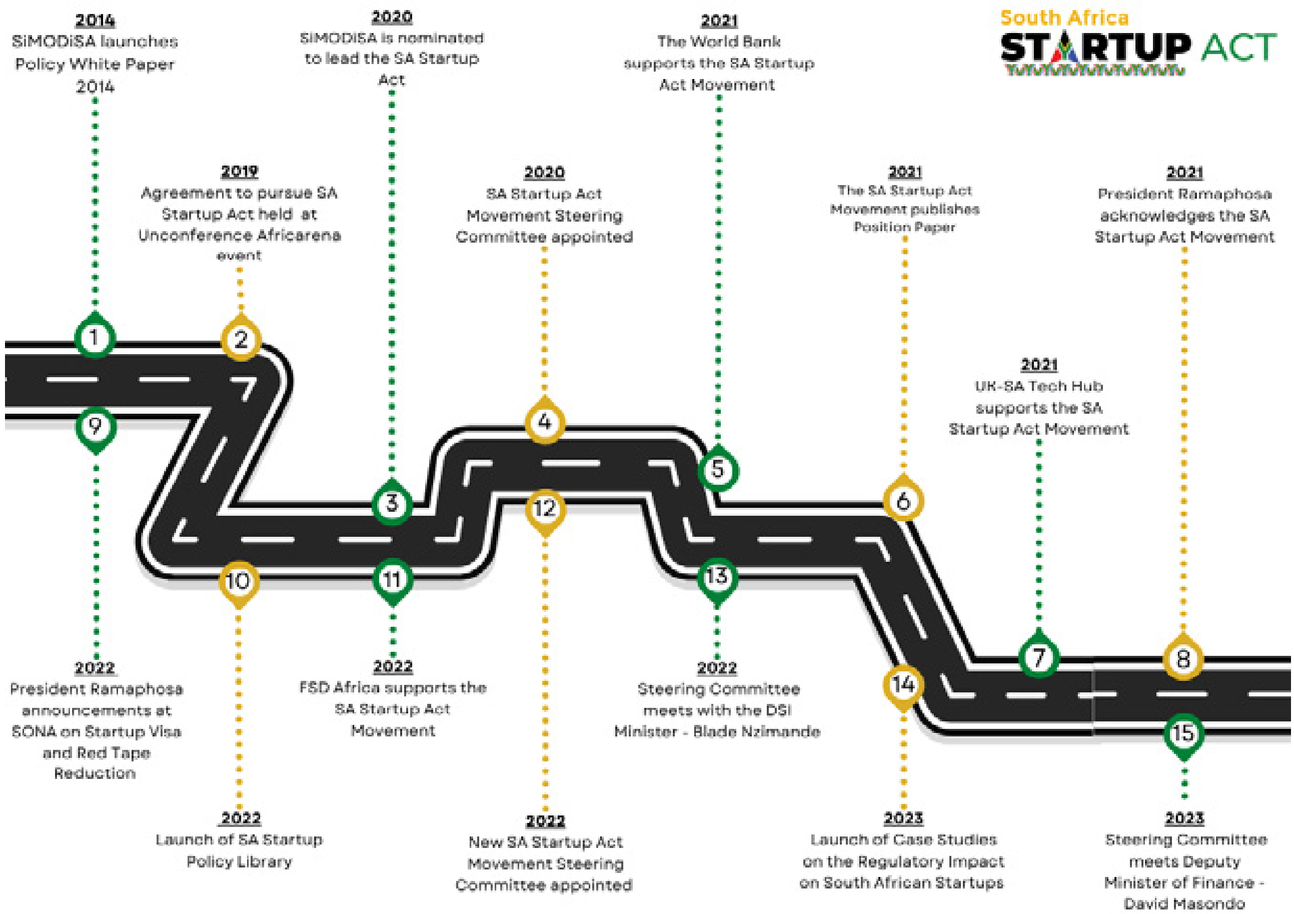
Andrew Murray
Advisor to Minister of Small Business Dev.

an online central directory for policies and regulations. Anyone can go onto the Policy Library to search and learn about various policies that affect startups in South Africa; as well as engage the Movement and other ecosystem members regarding these policies.

We started 2023 on a successful foot, with the launch of the SA Startup Act Movement Case Studies on the Regulatory Impact on South African Startup Growth in partnership with FSD Africa. The Case Studies highlight real-life experiences of South African startups raising foreign investments and will assist the Movement to further make the case for policy reform.

We also welcome the following announcements by the President in his 2023 SONA:

- The introduction of a more flexible Work Visa System
- The implementation of a Remote Worker Visa
- Amendment of the Business Act to reduce regulatory impediments.



We are looking forward to a successful year ahead and would like to thank our partners and sponsors for their continued support. We also encourage everyone to learn more about the SA Startup Act Movement and #JoinTheMovement by visiting www.startupact.co.za.

Modise...

Matsi Modise, Chairperson

South Africa
STARTUP ACT

JOIN THE SA STARTUP ACT MOVEMENT

Visit www.startupact.co.za for more information

OUR STEERING COMMITTEE

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02

HIGH GROWTH STARTUP POLICY LANDSCAPE

THE IMPACT OF STARTUP ACTS IN DEVELOPING NATIONS

TUNISIA

A Growing Tunisian Startup Ecosystem

By Nao Fuwa, Japan International Coorporation Agency

Tunisia, the first country in Africa to establish a startup act, is a relatively small country with a population of 12.26 million, slightly less than Rwanda (13.46 million), but with a GDP per capita of $3,807 (in 2021), it is one of the top countries in Africa, and its startup ecosystem has recently It is one of the fastest growing startup ecosystem in the region.

Since the enactment of the Startup Act in 2018, a very transparent certification process through public-private partnerships and an appropriate preferential system have worked effectively and have already certified over 800 startups for preferential treatment. Investment in Tunisia has increased by 255% from $33 million in 2021 (10th overall in Africa) to $170 million in 2022 (7th overall in Africa).

Khaled Ben Jilani, a senior partner at AfricInvest, a Tunisian private equity and venture capital fund that contributed to the launch of Tunisia's startup act, attributes the success of Tunisia's startup ecosystem to "(1) the government's efforts to raise the level of education, (2) the fostering of an entrepreneurial mindset after the Arab Spring of 2011, and (3) access to diverse markets in Europe, the Middle East, and Africa," he said.

According to the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (2020), 43.3% of Tunisians have STEM (Science, Technology, Engineering, and Mathematics) education, the highest percentage in the world. The country has also opened Africa's first university specializing in AI (Pristini AI University) and is actively inviting international students from other countries in Africa and elsewhere to further strengthen its human resources.

Before democratization, it was difficult to start a business because it was necessary to obtain government approval for business ideas, and the process was bureaucratic and took a lot of time to get approval. After democratization, however, it became relatively easy to start a business. "Before the Arab Spring, the goal was to get a lifetime job after college, but now the goal is to take control of your own life (i.e., start your own business)," Khaled notes.

Tunisia's economy itself is not large, and it is essential for startups/companies to expand to other countries for further growth. In addition to this abundance of tech talent, Tunisia's strength lies in its geographical proximity to European, Middle Eastern, and African markets, as well as its access to a variety of markets. Looking at recent Tunisian startups, many startups used to aim to expand into Europe, but my impression is that an increasing number of startups are now aiming for sub-Saharan Africa, where competition is less intense and potential is higher, rather than the highly competitive European and Middle Eastern markets.

Key Points of the Tunisian Startup Act

The Tunisian Startup Act also encourages the development of the startup ecosystem. In addition to various tax breaks, the government pays for social security and other expenses, and provides other support needed by entrepreneurs.

I visited Tunisia in September 2022 and January 2023 and found three major secrets to the success of the country's startup act. (1) the delegation of much authority to the private sector, (2) a highly transparent and easy-to-understand selection system, and (3) the organic collaboration of public and private stakeholders.

The legal system, including the startup selection process, operation of a public fund for startups, and coordination with ministries and private organizations, is managed by Smart Capital, in which government agencies also hold shares. The Tunisian government is not involved in any detail, and basically only submits reports on investment performance to government agencies. The key point is that there is no detailed involvement from the government side. Furthermore, in order to secure talented personnel for Smart Capital, salaries are not at the level of civil servants, but at about the same level as those at private financial institutions.

Another key point is that six of the nine committee members who select startups are representatives of the Tunisian ecosystem, and the majority of the committee members are from the private sector, thus ensuring that the voices of the private sector are heard. Having a majority of private-sector members on the selection committee may seem simple, but it is difficult. There is an impression that government agencies are generally reluctant to transfer authority to the private sector. In fact, when we spoke with government officials from several countries, the response was, "This is a great point, but it would be difficult in our country.

Second, the selection system is transparent and easy to understand. Companies wishing to receive support under the Startup Act may apply at the beginning of each month, and the application process closes when the number of applicants reaches 40. The results are then announced by the end of the month. The details of each company's evaluation are disclosed, so that companies can re-apply after understanding areas for improvement and receive advice from the evaluators. Companies that were not selected once can reapply six months later.

The third is the organic collaboration of public and private stakeholders. This is probably possible because the country has a population of about 12 million and a small land area, but almost all the major stakeholders in the startup ecosystem are connected. The ecosystem is characterized by close collaboration not only among government officials, investors, and others in the same industry, but also among stakeholders in a wide range of industries. If I ask one key person to introduce others, I can be connected with almost everyone. This organic network and collaboration to support each other is also a unique feature.

NIGERIA

The NSA And Its Potential Impact On Early-Stage Startups

Written by Tolu Oluwadare from the NSA Content Team

In his 2018 TED talk, Kola Aina spoke about the consistent growth of startups in Africa and asked, "Who will own our future Unicorns?". From that time till now, Nigeria's startup ecosystem has seen the famous Paystack exit and birthed three unicorns.

The years of techies clustering in Yaba have fast become history as startups are emerging in Akure, Jos, Ibadan, Abuja, Ife and many other cities. It is a pointer to the possibilities that the future holds for the Nigerian technology sector. But, this growth in startup count is despite numerous challenges that they have to encounter.

As Kola pointed out in his talk, funding is a problem for founders. Today, this problem still persists. Forbes highlights it as a challenge facing founders alongside talent availability and government regulation. The good news is the Nigeria Startup Act (NSA), signed into law in October 2022, addresses these challenges that startups face.

Funding

The NSA addresses startup funding in two ways. It has provisions to encourage investors to fund startups and establishes a fund to finance early-stage labelled startups. Investors in a labelled startup get a tax credit corresponding to 30% of their investment. They are also not subject to capital gains tax on the disposal of assets with respect to a labelled startup.

The act provides the establishment of the Startup Seed Investment Fund to be managed by the Nigeria Sovereign Investment Fund (NSIA). The fund will enable innovators to build and launch MVPs without seeking funding from investors. Accelerators, tech labs, hubs and incubators also get relief from the fund. The council would ensure access to government grants and loans and work with SEC to facilitate crowdfunding for startups.

Talent

The act makes provisions for training, and capacity development to ensure the training of talents in the ecosystem including entrepreneurs. Startup founders and employees can access training facilitated by the Industrial Training Fund (ITF) and partner organizations. Across all six geopolitical zones, it establishes a digital technology acquisition centre to nurture competency in digital technology.

Universities and research institutes providing research facilities for startups, developing human resource and research capacity in science, technology and innovation, and promoting commercialization of local research via startup incubation, will also be supported by the secretariat established by the council. The secretariat would also work with the regulatory bodies for tertiary institutions to create programmes, workshops and modules to provide knowledge on the establishment and operation of a startup.

Regulation

The NSA provides the necessary regulatory cover for startups operating in Nigeria. These include startup labelling, the creation of technology zones, the establishment of a startup engagement portal and consultative forum, license acquisition, tax waivers and support on listing on the NGX. It also ensures there is no conflict with existing regulations. A regulation covering startups gives them more legitimacy with the public, improving confidence in their products and services.

Implementation of the act is already underway. The Nigerian startup ecosystem must be prepared to play its part in facilitating state-level adoption and ensuring the Act accomplishes its objectives.

KENYA

Kenya's Startup Bill: Impact on high-growth tech startups in Kenya

Victor Otieno is Managing Director Viffa Consult a Start-up and SME Research based in Nairobi Kenya

The Kenyan innovation ecosystem comprising various stakeholders including, but not limited to government, CSOs, multilaterals, corporates, incubators, academia, investors, entrepreneurs and innovators has matured evidenced by; 85th globally and 3rd in Africa in the 2021 Global Innovation Index , top 3 in Africa in the Global Startup Ecosystem Index (GSEI), 4th in attracting venture capital funding in Africa (Partech 2021) and 5th globally on 2021 crypto adoption index.

Further, several global tech giants have set up in Kenya such as Google (Africa Product Development Centre (ADC)), Microsoft and Amazon (cloud service), VISA (Visa opened an innovation studio in Nairobi aimed at co-developing digital payments and commerce solutions), and Swiss non-profit, NEAR (partnership with local blockchain community, Sankore to launch a regional hub in Kenya dedicated to blockchain innovation, education, and talent development in Africa) among others.

Kenya lacks a coherent policy and legal framework for recognising and supporting startups with redundant government support. Startups in Kenya are captured in four key government domains; ministry of industrialization, trade and enterprise development (MSME Policy 2020; promoting startups), Ministry of ICT (National ICT policy 2019, data Protection Act, Kenya Digital Economy Blueprint 2019, National Broadband Strategy 2018 – 2023, Kenya National ICT Master Plan 2013/14 – 2017/18, Ministry of ICT Strategic Plan 2013 – 2017 and cyber Security Strategy) and vision 2030 (Science, Technology and Innovation Programmes and Projects for 2018 – 2022), Ministry of Education (science, technology and innovation act no. 28 of 2013).

The most recent is Kenya Kwanza's Bottom Up Economic Transformation Agenda 2022 – 2027, pillar 5 - Digital Superhighway and Creative Economy, that seeks to lay 10,000 fibre optic backbone serving 60% of the population, last mile connection by 100,000 km on electric grid backbone that is existence and connects 24,000 markets to the internet

The case supporting startups is premised on two factors; the need for new avenues for significant job creation other than SMEs as well as economic resuscitation following systemic shocks of COVID 19 as well as the economic slowdown due to the 2022 electioneering period.

Kenyan SMEs are the backbone of the economy providing jobs to over 15 million Kenyans, contributing 33 percent to GDP (KNBS 2016) and are supported through Recognition in law (MSME Act 2012), allocation of resources through various funds such as youth fund, women fund, credit (Biashara Fund) credit guarantee scheme among others, market support through the Kenya export promotion and brand agency as well as access to government procurement opportunities among others.

Significant incremental contribution of SMEs to the economy is curtailed by the fact that; over 90 percent of SMEs are micro and folding at a very high rate, top SME sub sectors are wholesale-retail which don't have the ability to capture significant value and is exposed to external shocks as witnessed by disruption due to covid 19 pandemic.

Kenya's labour market is expected to have an additional 9 million people by 2025 (World Bank 2012) meaning between 2015-2025, the country should be creating on average 900,000 jobs annually holding all factors constant.

The impact of innovation linked to startups in Kenya has been felt socio economically, both locally and globally with the most successful and recognized innovation being Mpesa which is present apart from Kenya in nine other countries namely Albania, the Democratic Republic of Congo, Egypt, Ghana, India, Lesotho, Mozambique, Romania and Tanzania. Mpesa has contributed to financial inclusion in Kenya with an estimated 70 per cent of the adult Kenyan population using M-Pesa compared to 31 percent using banks.

Other notable startups in Kenya that have had an impact in various industries are; Cellulant, Twiga Foods, Market force, M-Kopa who also were among startups that took a lion's share (17 percent) of funding to Africa in 2019 only second to Nigeria.

Kenya's Startup Bill 2021 (successfully passed in Senate and being processed in the National assembly - 1st reading) seeks to significantly harness the potential of startups for socio economic development of Kenya, through establishment of a conducive legislative framework that enables startups to thrive through legal recognition of startups (this will enable mainstreaming to national data collection architecture led by Kenya National Bureau of Statistics hence sharpening future policy and legislative intervention), catalyse stakeholder collaboration (quadruple helix) and offer fiscal and non-fiscal startup incentives.

The Startup Bill development process has been a collaborative process that brought together various players including startups, national and county government, Kenya Private Sector Alliance, Association of Countrywide Innovation Hubs, association of SME and startup enablers of Kenya, Strathmore Centre for IP and IT law (CIPT) and Kenya Diaspora Association among others

The startup bill seeks to mainstream and decentralize innovation through startups at both national and county levels of government, through establishment of a conducive policy environment, allocation of resources through budgetary allocation as well as fiscal support.

The Startup Bill provides a foundational framework for achieving an attractor state or ideal entrepreneurship and innovation environment, through adoption of the quadruple helix model that emphasizes active collaboration between government, academia, civil society and private sector.

COUNTY LEVEL COLLABORATION

Counties can establish a startup incubator and either physically run it within county owned office space or collaborate with independent incubators located in the county to run such a program.

Similarly, the county government can rope in institutions of higher learning within the county for research support to startups, as well as other private sector players who may provide markets to startups, through commercial contracts or seed funding to startups. Similarly, counties will be required to allocate startup activities in their budget.

TANZANIA

Tanzania gears up for startup policy

Written by Zahoro Muhaji

Tanzania's Startup Ecosystem is excited with the prospect of having a specially dedicated policy for Startup businesses and ecosystem enablers. Tanzania's startup ecosystem is a nascent but fast-growing ecosystem in Africa, currently ranking as the 2nd tier ecosystem behind the big four ecosystems in the continent.

Startups in Tanzania have experienced steady growth over the years. Notably, investment funding increased from mere single-digit millions to $ 96 million and $ 80 million in 2021 and 2022, respectively. This is more than what Tanzania earns from exporting one of its significant and traditional cash crops like Tea, with exports at $ 31 million in 2021. On job creation, a Commission for Science & Technology in Tanzania(COSTECH) study showed 225 Startups created 30,000 jobs. A small number compared to traditional SMEs, which produced 2.7 million jobs. However, they are 3.1 million SMEs in Tanzania, meaning per every SME, there are 1.1 jobs created, while the average employment created by Startups stood at 133 jobs per startup. However, Startups in Tanzania still need to overcome many regulatory challenges due to the lack of a defined policy to incentive and nurture this yet nascent but fast-growing sub-sector.

In the last three years, players in the Startup Ecosystem in Tanzania formed an Association, Tanzania Startup Association(TSA) and tasked it to address these regulatory challenges by engaging Government and other key stakeholders. TSA, borrowing a leaf from other African countries, thought of introducing A specific policy for Startups, and it has spent the last three years advocating and lobbying for the Startup Policy in Tanzania. A special policy will outline incentives and guidelines around sensitive issues like Taxes, registration, access to finance, IP etc.

Good news came early this February 2023, when the Government, through the Ministry of Information, Communication and Information Technology, signed an MoU with TSA to finally co-create and establish a Startup Policy.

The road ahead looks exciting. TSA will be responsible for organising the ecosystem to participate in formulating and drafting the policy. Ideally, this must be a democratic process as possible to make sure as many as possible voices are heard. In the following months, TSA will launch, coordinate and campaign for this exercise together with Government. We hope 2023 is the year the Tanzanian ecosystem will be on the map with its piece of legislation.

BRAZIL

The Brazilian Startup Act: Stepping Forward

Written by The Embassy of Brazil in Pretoria

EMBASSY OF BRAZIL PRETORIA

As the result of a joint effort between the Executive and Legislative branches, with the engagement of civil society, the Legal Framework for Startups and Innovative Entrepreneurship of Brazil was established by Complementary Law n. 182, on June 1, 2021. Over four years of debate, more than 70 public and private actors engaged in discussions before this project was approved. Ultimately, the Framework recognizes innovative entrepreneurship as an important vector of economic, social and environmental development, and reinforces the governmental commitment to encourage it as a tool for promoting the productivity and the competitiveness of the Brazilian economy.

Among the several normative rearrangements brought by the norm, a few can be highlighted such as rules that define objective parameters for classifying companies as startups and that facilitate fundraising for these companies. According to the new legislation, startups are “business or corporate organizations, newly formed or in recent operation, whose performance is characterized by innovation applied to the business model or the products or services offered”. In this regard, only companies that: (i) have annual gross revenues of up to BRL $16 million (around ZAR $51 million), (ii) were formally established up to 10 years, and (iii) that formally declare, in their articles of incorporation, the use of an innovative business model in its economic activity, can be classified as a startup.

In addition to defining these qualifying criteria, the Framework provides for a series of measurements aimed to facilitate fund gathering by startups. The approved regulation, for instance, provides greater legal certainty to investors, removing responsibility for any liability of the company from those who do not enter the shared capital of the startup. Another example is the creation of conditions for companies that have investment obligations in R&D, resulting from grants signed by regulatory agencies, to fulfill such commitments through financial contribution in funds or programs dedicated to the promotion of startups and innovative businesses. Additionally, companies with revenues of up to BRL $78 million (around ZAR $249 million) got specific conditions for adopting the corporate form of limited liability, along with other rules that facilitate the access of smaller companies to the capital market.

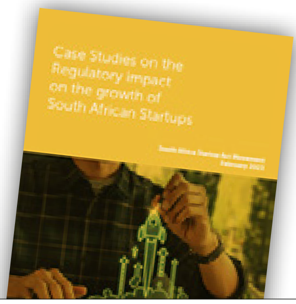
Furthermore, innovations brought by the Legal Framework also include the possibility of creating programs for an experimental regulatory environment, the so-called “regulatory sandbox”. In this case, the institutions responsible for sectorial regulation, individually or jointly, can suspend the application of certain norms within their competence, in order to allow innovative companies to experiment new business models and try experimental techniques and technologies, under the regulator`s monitoring.

Adjustments were also undertaken by the legislation to establish a special bidding modality that authorizes governmental institutions to hire innovative solutions, with or without technological risks, with the purpose of overcoming technological challenges faced by public entities. Differently from common biddings, in these cases the scope of the contract can be restricted to the indication of the problem to be solved and the results expected by the purchaser. That means the governmental institutions are not required to describe any previously mapped technical solution or its technical specifications, being up to the bidders to propose different ways to solve the problem raised.

This new bidding modality created the Public Contract for Innovative Solutions (CPSI, in Portuguese), through which governmental institutions can finance the development and/ or testing of the selected solution, up to BRL $1.6 million (around ZAR $5 million). If the response resulting from the CPSI is acceptable, the governmental buyer may sign a contract for its supply or integration into the technological infrastructure or its own work processes, with the maximum amount of BRL $8 million (around ZAR $25 million), without a new bidding process.

Since its inception, this instrument has already been used in different governmental levels. For instance, PETROBRAS S.A. (a joint capital company, mostly owned by the Brazilian federal government) conducted a public notice intending to celebrate up to 12 CPSIs, in a total investment of BRL $12.9 million (around ZAR $41 million). Additionally, four municipalities have already made use of the new instrument as well.

Overall, the Framework brought advances that translate into more freedom, less bureaucracy and greater legal security for entrepreneurs and investors in the startup segment. Even though the legislation is still quite recent, it is expected that it will have relevant impacts on the Brazilian ecosystem in the medium and long term. As pointed out by the Brazilian Association of Startups (ABStartups), the very existence of the Framework is already important, as it shows the subject has entered the national agenda and, at the same time, it provides the base for and stimulates the creation of additional regional legislation.



SOUTH AFRICA

Case Studies on the Regulatory impact on the growth of South African Startups

Written by SA Startup Act Movement

The SA Startup Act Movement, in partnership with FSD Africa commissioned real-life case studies to showcase high-growth startups experiences with South Africa's policy landscape. The purpose of the case studies is to advocate for policy reform, including special tax dispensation for qualifying startups, employment flexibility and special skills visas for high-skilled talent, and addressing exchange control limitations.

It is evident from case studies that several stakeholders find value in the proposed reforms for South African current policies. The case studies report identifies the following key challenges that South African startups face.

Special tax dispensation for qualifying startups will allow startups to spend more resources on expanding their business. It will also make it easier for them to hire more employees and invest in new technologies. This will help to stimulate the economy and create more jobs. Startup businesses in South Africa face several challenges due to the absence of special tax dispensations, particularly when it comes to accessing capital.

Some of the key challenges include:

1. **Limited access to funding:** Without tax incentives for Venture Capital Companies, investors may be less inclined to invest in early-stage startups, as the potential risks vs returns on their investments is further reduced by taxes. This makes it more difficult for startups to secure the necessary VC funding to grow and expand their operations.
2. **Reduced cash flow:** Startups often face cash flow challenges in their early stages, as they work to establish a customer base and generate revenue. The lack of tax breaks can exacerbate these cash flow issues, as startups may need to allocate a larger portion of their limited resources to tax payments.
3. **Difficulty attracting talent:** Special tax dispensations can help startups attract top talent by offering competitive compensation packages, including equity-based incentives. Without these tax breaks, startups may struggle to attract and retain skilled employees, which can hinder their growth and success.
4. **Slower growth:** The lack of tax incentives can slow down the growth of startups, as they may need to divert resources away from research and development, marketing, and other growth-oriented activities to cover their tax obligations. This can make it more difficult for startups to compete with established businesses and to scale their operations.
5. **Increased risk of failure:** The financial challenges associated with a lack of tax breaks can increase the risk of failure for startups. Without access to sufficient capital, startups may struggle to overcome the various obstacles they face in their early stages, which can ultimately lead to business failure.
6. **Reduced innovation:** Tax incentives can

help foster innovation by encouraging investment in startups and by providing these businesses with the resources they need to develop new products and services. Without these incentives, the overall level of innovation in the South African economy may be negatively impacted.

7. **Hindered economic growth:** Startups play a crucial role in driving economic growth and job creation. By not offering special tax dispensations, South Africa may be missing out on the potential benefits that these businesses can bring to the economy, including increased productivity, innovation, and employment opportunities.

To address these challenges, the South African government could consider implementing tax incentives for qualifying startups, such as reduced tax rates, tax credits, or tax exemptions. These measures could help to increase the availability of financial capital for startups, support their growth and success, and ultimately contribute to the overall health of the South African economy.

Employment flexibility and special skills visas for high-skilled talent This can help businesses access highly skilled professionals from around the world to fill gaps in their workforce. Startups can also use this approach to identify and tap into global talent pools to ensure they are hiring the best possible candidates for their organization. South African startups face several challenges when it comes to employment flexibility and special skills visas.

Some of the key challenges include:

1. **Limited access to skilled talent:** Startups often require specialized skills and expertise to develop and grow their businesses. However, South Africa's education system may not always produce enough graduates with the necessary skills, and startups may struggle to attract and retain skilled employees due to competition from larger, more established companies.
2. **Difficulty obtaining special skills visas:** South African startups may need to hire foreign workers with specialized skills that are not readily available in the local labour market. However, the process of obtaining special skills visas can be complex and time-consuming, which can hinder startups' ability to quickly bring in the talent they need.
3. **High costs of hiring:** South African labour laws can make it expensive for startups to hire and retain employees. For example, startups may be required to provide benefits such as medical aid and pension contributions, which can add to their labour costs.
4. **Limited employment flexibility:** South African labour laws can also limit startups' ability to offer flexible employment arrangements, such as part-time or remote work. This can make it more difficult for startups to attract and retain employees who value flexibility and work-life balance.
5. **Limited access to funding:** Startups may struggle to secure funding if they are unable to demonstrate that they have the necessary talent and expertise to execute their business plans. This can create a vicious cycle, as startups may be unable to attract skilled employees without funding, but may be unable to secure funding without skilled employees.

To address these challenges, the South African government could consider implementing policies that support startups' ability to attract and retain skilled talent. For example, the SA Startup Act Movement position paper outlines specific interventions that are needed to support qualifying startups with the potential to become high-growth firms. These interventions could potentially include measures to attract and retain skilled talents, such as tax incentives, access to training and development programs, and streamlined visa processes for foreign talent. Additionally, the document suggests that standardised accounting policies and pre-approved corporate structures could be non-policy interventions that could benefit the startup ecosystem.

Addressing exchange control limitations are regulations that restrict the outflow of capital in South Africa. These regulations hinder startups from internationalizing and this limits economic growth. To address these limitations, governments should develop policies supporting international trade. Exchange Controls pose significant challenges for South African tech startups directly and indirectly.

These challenges include:

1. Prohibition of offshore holding company structures, limiting startups' global growth potential.
2. The requirement for Exchange Control approval when transferring South African intellectual property abroad, creates bureaucratic hurdles.
3. Financial and administrative burdens on daily business operations, as receiving payments from foreign customers and making payments to foreign entities are regulated by Exchange Controls.
4. Investors perceive exchange controls as contradictory to global open market policies and as a risk to their potential earnings and profits from South African startups.

These restrictions hinder the competitiveness of South African tech startups in the global market and may deter potential investors.

The case studies demonstrate that these challenges hinder the growth and success of startups, limit their access to funding, and reduce their ability to attract and retain skilled talent. To address these challenges, the South African government could consider implementing policies that support startups' ability to access financial capital, attract and retain skilled talent, and internationalize their businesses. These policies could include tax incentives, streamlined visa processes, and policies supporting international trade. By addressing these challenges, South Africa can create a more supportive environment for startups, stimulate economic growth, and create more job opportunities.

South Africa needs to introduce special tax dispensations for qualifying startups, empowering them to focus on expanding their businesses.

This game-changing move will enable startups to hire more talent, invest in cutting-edge technologies, and ultimately contribute to a thriving economy.

Together, let's overcome the challenges faced by startups in accessing capital and create a brighter future with more job opportunities for all.

The Case Studies on the Regulatory Impact on South African Startups can be accessed here:

View Case Study

CHALLENGING TIMES DEMAND THAT WE TAKE ADVANTAGE OF NEW OPPORTUNITIES

Andrew Murray
Special Advisor to the Minister of Small Business Development

The last few years have been incredibly difficult times for entrepreneurs and MSMEs in South Africa. COVID-19 exposed our structural weaknesses and came as we were busy with the project of rebuilding state capacity which had been eroded by state capture.

Some 2 million jobs were lost during the pandemic, and hundreds of thousands of small and micro enterprises closed shop. Millions of livelihoods were destroyed. 2021 gave some hope for a strong and sustained recovery with 5% plus growth recorded that year. Unfortunately, 2022 saw a new wave of supply chain disruptions and global volatility associated with the war in Ukraine. The world economy entered a high inflation cycle driven by rising fuel and food prices, and federal banks everywhere responded by tightening monetary policy, including in South Africa. The Chinese economy slowed with a new wave of COVID restrictions, which also dampened global commodities and consumption demand. Back home in South Africa, loadshedding escalated to new highs, placing small business under more pressure. Tepid growth is forecast for the short to medium term: 0.4% for 2023, and below 2% going through to 2025.

This demands that we do things differently. The Economic Reconstruction and Recovery Plan aimed at addressing core structural weaknesses – logistics constraints, energy insecurity, skills shortages, market concentration, and structural inequality – must be executed with more urgency and deliberation across the state, and in active partnership with other social partners who bring capacity, know-how and resources.

The times also demand that we take advantage of new opportunities that present themselves. As much as COVID- 19 decimated our economy, it also rapidly accelerated processes of digitalization and the transition to 4IR. These can bring significant growth and development opportunities if constraints which perpetuate the digital divide can be addressed, and if we can create a more enabling environment for our tech startups.

Fintech has brought tens of millions of entrepreneurs across the continent into credit and development finance markets for the first time, and e-commerce and retail-tech has expanded access to new markets and supply chain opportunities for underserved MSMEs. Digitalization and 4IR provides significant opportunities for MSMEs to grow productivity and competitiveness by connecting innovators and entrepreneurs to the full ambit of financial and non-financial business support, including access to intellectual property registration, business and tax registration, access to venture capital and impact investment, access to concessional finance, access to incubation and accelerator programmes, and access to markets, among others. Open data portals play an important role in connecting eco-system role-players and providing access to entrepreneurs. Currently, the Department of Small Business development is partnering with the Department of Science and Innovation, the CSIR, and the World Bank to connect the innovation and entrepreneurship eco-systems through the Innovation Bridge Portal.

As we do these things, we need to address red-tape and effect regulatory reforms that enable tech start-ups. The constraints are well known and speak to exchange control restrictions that impede Venture Capital flows into the country, onerous intellectual property laws, the need for a more enabling long stay visa regime, and the absence of real incentives in our tax regime. Failure to effect these and other reforms will see us continue to lose top innovators and start-ups to tech hubs abroad.

Numerous other African countries are taking decisive action to enable startups and have put startup legislation and the necessary reforms in place. The Startup Act Movement steering committee plays a very strategic role in benchmarking our startup eco-system against comparative peers and advocating for the necessary reforms to keep us competitive as a startup nation.

THE NATIONAL INTEGRATED SMALL ENTERPRISE DEVELOPMENT (NISED) STRATEGIC FRAMEWORK

Brendon Darryl
Ecosystems Development for Small Enterprises Programme (EDSE)

In November 2022 the national cabinet approved the NISED strategic framework for Micro, small and medium-sized enterprises (MSME) development, which provides an integrated strategy to strengthen and support entrepreneurship. It provides a structured coordination framework for all key ecosystem players in developing micro to medium enterprises and it presents the third iteration of a national MSME development and coordination strategy.

In essence, the NISED represents the high-level policy preferences that government intends to implement over the next ten years. Once gazetted, the NISED signifies the National Support Strategy for Small Business prescribed by the National Small Enterprise Act 1996 (NSEA). This has implications for the mandate and support services offered by state-run development agents/agencies and provides the policy framework for their support delivery.

The NISED recognises the importance of segmenting and targeting development support to different categories and sizes of our smaller enterprises. It thus refers to "MSMEs" to address the misconception that all small, micro, and medium enterprises are homogonous ("SMMEs"), rationalising the use of terminology with international norms.

The strategic framework introduces four key pillars to provide a more integrated and coordinated approach to MSME development. These pillars signal the critical factors required for better outcomes in developing services and products for support.

The first pillar emphasises the need for better, published information on MSMEs to provide more detailed and meaningful information to the ecosystem on shifts and trends impacting growth. To standardise the collection and measurement of data that informs policy, a fundamental action is updating the MSME definitions to counter the complexity of different definitions used by many of the statistical and policy actors. Importantly, measures also contained in pillar one signal policy intent through the publication of the Annual Review of Small Enterprises as prescribed by the Act.

Pillar two stresses the need for regulatory and policy reform to boost the growth of MSMEs. A systematic approach is introduced for regulatory reform and red tape reduction, but it does not contain a clear methodology on how this is to be implemented. There is, therefore, an essential role for the ecosystem to actively engage to ensure that the regulatory reform measures stipulated in the NISED are achieved, and proactively trigger critical regulatory and policy challenges that require review.

The third pillar introduces the reorganisation of support services to MSMEs and signals the importance of implementing e-governance practices for more effective outreach and delivery. Explicit measures are introduced to ensure sector masterplans are linked with the NISED goals and objectives. Measures are introduced to incentivise new public-private partnerships, including user-based support incentives to expand outreach of business development services, especially in underserved areas.

Pillar four establishes biennial events at the local and national levels to encourage meaningful partnership coordination amongst all involved in MSME development. The objective of these platforms is to inject an investment perspective into achieving the outcomes of the NISED and to reduce the siloed mentality that has fragmented quality service delivery to MSMEs.

In summary, the NISED presents a strategic framework predicated on ensuring a well-informed South Africa on MSMEs will lead to better policy laws and regulations. This will enable better services and service delivery that strengthens partnerships to achieve the goal of more MSMEs productively contributing to GDP, with more people employed and contributing to an equitable and growing economy.

The NISED Strategic Framework can be accessed here:

View Framework

03

INNOVATION AND ENTREPRENEURSHIP IN SA

THE STATE OF TECH IN AFRICA

Written by AfricArena

What are the innovations and investment trends that defined the tech African ecosystem in 2022 and what does it look like going into 2023? Operating at the intersection of tech startups, major corporations and investors, AfricArena draws on the insights from experts, researchers, venture capital investors and ecosystem partners on trends that define the state of tech in Africa for 2022. The State of Tech in Africa report delves into the state of tech innovation in Africa, the most dynamic sectors, the main challenges and opportunities for startup founders, how corporations utilize open innovation approaches, the investment landscape, and much more.

In a gloomy global economy impacted by the Ukraine War, high oil prices, and the energy crisis, Africa continues to glow brightly as a continent with investable tech startups to invest in. While venture capital investments into tech startups may have slowed down across the world, funding into the African tech startups, "grew +8% to US$6.5B, through 764 rounds, with debt funding doubling in the year (+102% to US$1.5B in 71 rounds) to compensate for a slight decline in equity rounds (-6% to US$4.9B in 693 rounds)", according to Partech (2023). This hybrid framework of accessing funding by African startups using both venture capital and debt funding is what has kept the tech market growing within Africa during a period of economic and VC investment slowdown. In addition, African startups set deal records with startups like InstaDeep securing a record-breaking acquisition of $685 million.

Although Africa grew in funding secured by African startups in 2022, it did not escape some bumps along the way. During the first quarter of the year, we saw a slowdown of investment in the African market due to the impact of the war between Ukraine and Russia and the instability of the global economy at the time. But the African market bounced back in the second quarter of the year with record deals. These record deals gave rise to the growth of the tech sector in Africa when again investment slowed in the 3rd and 4th quarters with only deals above $5 million being secured. Maxine from the Big Deal report states there was a 30% drop year on year in 2022 compared to the previous year (2021) on the smaller deals. Smaller deals consist of less than $5 million. While there was an increase of deals above $5 million compared to the previous year with a 14% increase.

This slowdown of investment into African startups trying to secure funding below $5 million will continue into the first and second quarters of 2023, but from data reported by market analysis like Partech and the Big Deal, there will be a gradual increase of deals being made going into the fourth quarter of the year and into 2024. Thus, for the start of 2023, venture capital investors are in a state of dry powder where they will hold onto their funds, grow them and then venture into the African market in the last half of this year and in 2024.

In 2022, the top 5 Investors in Africa were led by Launch Africa securing (50+ deals in 16 African markets), Y Combinator (38+ deals in 7 African markets), LoftInc (29+ deals in 8 African markets), and Flat6Labs (18+ deals in 2 African markets), and Techstarts (18+ deals in 4 African Markets). Like the last decade, fintech dominated the deals with an average of +-39% in 2022 and +-4% decrease from last year. However, 2022 was also a good year for startups in the emerging sectors of climate-tech, health-tech, clean-tech, deep-tech, bio-tech, agri-tech and e-logistics, with cleantech taking roughly 25-38% of deals in 2022. The success of these deals and the growth in many of the different tech sectors in Africa can be attributed to the building of bridges between successful and innovative startups and venture capital firms in Africa and abroad that meet and engage at tech events, summits and conferences across the African continent.

Recently several African countries, including the Big 4 (Nigeria, Egypt, Kenya and South Africa), have followed on from the successes of Tunisia's Startup Act that provided policy and legislation that opened the markets for startups and venture capital investors and allowed for supportive resources to be directed at growing innovative Tunisian startups. Since the induction of the Startup Act in 2018, Tunisia has grown rapidly as a startup investment destination for VC investors from $5 million in 2017 to $23 million in 2022, making it one of the top ten tech startup ecosystems in Africa. Senegal has followed suit by implementing their Startup Act in 2020, while 3 of the Big 4, Nigeria, Kenya and Egypt are busy drafting their development of policy and legislation to launch their own Startup Acts into implementation. Only South Africa lags behind due to their government's slowed engagement of policy put forward by a range of tech think tanks, venture capital firms, incubators, startups, businesses and ecosystem institutions under the umbrella of the Digital Collective. Is this lack of response on implementing supportive policies for startups, venture capital investors and tech markets affecting South Africa as one of the more favorable tech ecosystems in Africa and is South Africa at risk of falling out of the Big 4 ecosystems?

With the impacts of climate change making the world stage since the 2016 Paris Agreement and the ever-increasing focus on lowering carbon emissions at the annual COP Summits, climate-tech has emerged as a popular tech sector in which venture capital firms and investors are investing on a global scale. Although climate-tech startups in North America, Europe, Asia and the Middle East dominate the investment deals globally, Africa is being viewed as an emerging market in the sector with VC investors investing $1 billion into African climate-tech startups in 2022. The Big Deal reports that there was an increase of 25% for African climate-tech startups securing funding deals since 2021, while Partech put that percentage even higher at 37%. Both reports stated that 2022 was a big year for the tech sector against the domination of the Fintech, logistics and retail tech sectors with the climate-tech emerging as a rising star in deals being made, startups launching their products with large uptake from consumers and the impact the sector makes in creating a cleaner, greener and low carbon continent. However, why the differences in increased deals from 2021? Is this because of loosely and interchangeably defined terms for technologies that have a positive impact on the environment and lowering our carbon emissions where the Big Deal has just focused on clean-tech while Partech views climate-tech as the dominant umbrella definition for a number of green, climate and clean based technologies? In addition to these questions, why has climate-tech become such a popular sector with both startups and investors across Africa? All of these questions are in AfricArena's State of Tech in Africa report.

The State of Tech in Africa Report 2023 can be accessed here:

View Report

UNLEASHING DIGITAL SKILLS, TOGETHER.

Written by The Collective X

The Collective X is a private sector led initiative, bringing together leaders of industry to address the critical shortage of digital skills in South Africa. We believe that digital skills can unlock the potential of South Africa's youth and promote economic growth, global competitiveness, and job creation for all.

We **help empower a new generation with digital skills** by coordinating and delivering a well-planned digital skills blueprint for South Africa.

WHY NOW?

» WE MUST INSPIRE HOPE.

It is estimated that there are over 60,000 available jobs in the country's digital sector but less than 70% of graduates have the skills to get them.

» WE MUST SOLVE FOR FUTURE.

Businesses spend billions of rand annually to offshore these opportunities, increasing costs and undermining growth and competitiveness.

» **WE MUST COLLABORATE.**
Scaling how we are currently running the digital skills pipeline is complex, expensive, and too slow to achieve as independent organisations.

WHAT IS OUR PLAN?

Our goal is to build South Africa into a globally competitive digital powerhouse – a nation of future-skilled youth and a network of innovative businesses leveraging technology to drive economic growth.

IT STARTS WITH...

- 100+ private & public entities collaborating
- 10-year mission
- 1 world-class plan

HOW WILL WE 10X DIGITAL SKILLS IN 10 YEARS?

1. Consolidate the ecosystem.
2. Align supply and demand.
3. Attract critical skills into the market.
4. Build, improve and standardise local training capacity.
5. Create opportunities for practical hands-on training.
6. Address systemic barriers to innovation and co-creation.
7. Unlock sustainable funding to ensure longevity.
8. Bring offshore jobs back home.

WHERE DO YOU FIT IN?

Like-minded industry leaders can support The Collective X by adding your voice to our platform, committing resources to our cause, and by working with us to build a talent pipeline for all.

Are you a digital skills company?

Join as a Skills Partner to help us train talent.

Are you looking to scale your staff?

Engage as a Hiring Partner to provide practical opportunities to talent.

Are you a funder of skills development programmes?

Pledge resources to help support our efforts.

Are you interested in learning more?

Contact us to find how you can get involved.

Mail us **hello@thecollective.org**
Visit us **www.thecollectivex.org**

INNOVATION AND ENTREPRENEURSHIP SKILLS TO LAUNCH ECONOMIC GROWTH

University of Cape Town
Saberi Marais (left) and Dikatso Sephoti (right)

The report of the Presidential Commission on the Fourth Industrial Revolution (2020) highlights the significance of a distributed network, where all connections have equal power to grow the economic growth and for us to remain competitive Globally. The world is coming to terms with the use cases of generative artificial intelligence software and models, and as people are trialling Claude, Dall-E, GPT4, LaMDA, Bard and other equally accelerative software tools; we can't help but wonder how their use and that of the next wave of disruptive innovations in health, fin tech, social technology, education and so many other industries will aid South Africa's equitable economic growth.

According to the World Intellectual Property Organisation's Global Innovation Index 2022, South Africa ranks 61st out of 138 economies in terms of the innovation ecosystem performance, with a score of 29.8 out of 100. The report cites contributing factors such as weak entrepreneurship culture and policies, government effectiveness, low graduate participation in science and engineering, and a dwindling number of firms offering formal training as reasons for this low score. According to the Digital Skills Gap Index, South Africa also has a digital skills gap of 4.4 out of 10, ranking it at number 88 out of 134 economies around the world. The report further indicates that South Africa's overall skills readiness to overcome the gap is hampered by a lack of government support, digital responsiveness, and insufficient digital skills institutions.

South Africans are famously known for their inventive flair and resilience in the face of challenges across social lines. We have a lengthy list of businesspeople, inventions and innovations that serve as a testimony to our creative ability to solve critical challenges and commercialise those. A few examples include the CAT scan, the speed gun, the first heart transplant, automatic pool cleaning, computerised ticketing, Cyber Tracker, and a long list of companies who lead the charge in their own industries. Yet we are a society that is continually polarised with high unemployment rates, low early-stage entrepreneurial activity at 17.5% (Global Entrepreneurship Monitor South Africa, 2021) and economic growth that is stagnant.

In order to remain competitive and stay ahead of the curve in many respects, our graduates and school leavers are going to need a number of skills and experience sets that aid growth. Digital literacy skills will enable us to have a good understanding of digital tools, platforms and technologies that are in constant development and evolution. Innovation management skills will enable the use of ideation, development and commercialization of new products and services. We need the skills to evaluate the feasibility of ideas and how to innovate around new business models and facilitate the prototype's development through the innovation process. Project management skills are vital because they allow people to plan, organise and control resources to achieve specific goals. We need to inculcate an entrepreneurial mindset among our graduates and in society which will enable people to identify opportunities, take calculated risks, and create value for customers. Being able to think creatively and critically are traits that reinforce an entrepreneurial mindset, together with being able to experiment, trial their ideas and to learn from their failures as well. Communication skills are becoming more important than ever as to communicate complex idea succinctly, especially to enable teamwork and collaborate with others. Finally, our success is further enabled when we have a growth mindset and if we are committed to continuous learning.

Tertiary education institutions can offer environments of learning, development and where students, staff and researchers can grow their understanding of the world and use new tools in the development of solutions that pose a challenge to society and industry. They play a key role in skills development and nurturing the exploration of inventions and products created as an outcome of their education and the research conducted in consultation with industry and civil society or through the collaborations with others locally or internationally.

Tertiary Education Institutions are also positioned to bridge the gap between the research, innovation, and entrepreneurship divide. While our universities play a key role in the education and personal development of school leavers; we also play a vital role in the research, development, and training of postgraduate students - using research outputs for societal benefit. Key to their role in society is the interaction with industry and government at several levels: from understanding which problems to focus on for research to employing our graduates and participating in education training and research programmes. How we enable our graduates in overcoming the skills gap in the translation of ideas and their creativity at universities. How we enable and support their aspirations in entrepreneurship through education, public-private partnerships, funding along the different pathways, and harnessing a culture where innovation and entrepreneurship is celebrated.

Through the Department of Higher Education and Training's Entrepreneurship Development in Higher Education Programme, Universities are supplementing their researcher and student support by asking how they can improve their own positioning within the entrepreneurship support ecosystem. We are collaborating and establishing best practices in Communities of Practice where lecturers, researchers and staff are sharing their initiatives with one another to build ecosystems that further the entrepreneurship support. The annual Intervarsity Entrepreneurship Competition provides a platform for students and graduates to peg their commercial ideas and business models against their peers across.

The University of Cape Town helps their students through the process by sourcing mentors and shortlisted students are guided with constructive feedback from staff and researchers across the University. The University has encouraged these and other efforts to further entrepreneurship support through funding from the Vice Chancellor's special projects fund and hosting by the Careers Services Department; and an inter-university entrepreneurship committee has led the debate and collation of inputs across the University to overcome historic silos and better coordinate teaching, training and support of students and graduates. Furthermore, the technology transfer office Research Contracts and Innovation launched a programme called Ideas 2 Impact that focused on supplementing postgraduates' innovation, entrepreneurship and fundraising knowledge.

In summary, the skills gap in South Africa requires urgent attention and systemic solutions and interventions, as innovation and entrepreneurship is critical to economic growth and development. The government, private sector, and academia need to work together to develop a skilled workforce that can drive solutions to how we address this challenge. By investing in clearly designed entrepreneurship support and training programmes, our youth will be able to unlock innovation and entrepreneurship competencies that can help South Africa harness the power of technology to drive economic growth and create new opportunities for its citizens.

THE STATE OF BUSINESS DEVELOPMENT PRACTICES IN SOUTH AFRICA

Keitumetse Lekaba
I AM AN ENTREPRENEUR

The South African government introduced the Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 to address the inequalities suffered by black South African citizens as a result of the apartheid regime. The domination of business activities by white businesses and the exclusion of black people and women from the mainstream of economic activity were and are still causes for great concern for the entrepreneurship reconstruction and development process.

As part of the address, companies are required to spend a percentage of their Net Profit after Tax (NPAT) on Enterprise and Supplier Development ("ESD") but are these invested funds resulting in the expected changes? The potential benefits of ESD are clear, however, since the inception of B-BBEE in 2003, the question remains; what impact has the continuous spend had on the success and growth of black owned Small, Micro and Medium Enterprises ("SMMEs") in the country? Has the spending shifted the needle regarding the number of sustainable businesses developed since 2003? What has been the impact of the spending on the economy? Have more jobs been created and have sustainable communities been created because of increased economic activities?

There are too many box-ticking ESD initiatives and programmes that add no value in the growth and survival of the small businesses. The corporates that sponsor these initiatives typically get the BBBEE points although some of the SMMEs on these programmes end up failing. The only way to measure the state of development practices in South Africa is through impact measurement. There is a need for a structural shift towards measuring the outcomes of development initiatives (impact) rather than the spend on the initiatives themselves. and evaluation that measures impact during and after many of the initiatives in the market. Research from the Small Business Institute (SBI), Global Entrepreneurship Monitor (GEM), and The World Bank shows that because there is no actual review of the programmes, impact on the SMMEs is therefore not monitored.

We need to start investigating and auditing the types of initiatives that ESD practitioners and companies are concentrating on. We need to look at what is working, which interventions have produced more successful black owned businesses and do more of that. A flourishing small business sector would make a significant impact on the unemployment rate.
Aspiring and existing entrepreneurs in South Africa have multiple challenges that they need to overcome before launching, maintaining, and growing a business. Some of these challenges include compliance, solid business models, locating customers, access to funding, research and development infrastructure and business education and training.

From industry observation, most initiatives available in the market have a pre-determined implementation plan for SMMEs. The initiatives are not tailor-made to meet the individual needs of each SMME. The “one-size-fits-all” approach does not produce the results and impact required in ensuring SMMEs remain sustainable. We therefore see SMEs moving from one ESD programme to another- seeking for the next best solution for their businesses.

The most common initiatives in the industry are training, mentorship, grant funding, low-cost & interest free loans, asset donations, discounts on products, early payment terms for existing suppliers to improve suppliers cash flows and Equity funding.

There is no single approach to ESD. Companies therefore select the most appropriate approach to suit their needs and their relationship with the beneficiaries that they select for development. It therefore becomes the implementors responsibility to integrate proper monitoring and evaluation activities to measure impact. Whatever approach is employed to ESD, companies should ensure quantifiable and measurable results that lead to achieving ESD objectives.

Addressing these gaps is essential because the development support required is essential to building sustainable black owned businesses in South Africa.

04

SA FUNDING LANDSCAPE

WHERE TO NEXT FOR THE SOUTH AFRICAN VENTURE CAPITAL INDUSTRY?

Shelley Lotz
The Southern African Venture Capital and Private Equity Association

South African venture capital investors have increased investment in local startups, reaching R1.31bn in 2021, down slightly from the record R1.39 billion the previous year. South African investors are traditionally risk adverse, resulting in a lack of risk capital available to address the access to funding challenge facing local high growth startups. Owing to their ability to scale up and consequently generate growth and job creation, high growth startups represent a critical intervention area to address prevalent unemployment and inequality. Many of the high growth startups typically innovate to further solve some of SA's critical challenges.

The SA VC industry has evolved over the past few years and is now poised for a stepped change in the amount of capital being invested in the asset class. For this stepped change to occur, the asset class needs to attract not only investment from high-net-worth individuals and angel investors, as it has done historically, but also from institutional investors. Institutional investors in this context are retirement funds, insurers and other large asset allocators.

There is a serious lack of local institutional capital investing in venture capital and private equity in South Africa. According to the 2017 Registrar of Pension Funds Report, South African Pension funds have an allocation of only 0.03% of funds under management to private equity (which is exceptionally low by developed and developing market standards), and no allocation to venture capital.

With R8.13 billion invested in 1021 active deals, the Venture Capital industry in South Africa has started to mature thus creating opportunities for increased institutional capital to flow into the asset class, and by extension support for more high growth startups.

Some of the key trends and the leading indicators pointing to positive changes ahead include the following:

- The asset class has proven that it can outperform the listed market from a return perspective;
- SA fund managers have a demonstrable track record throughout the full lifecycle of the fund including the ability to successfully repay investors and generate healthy returns;
- The impact thesis and outcomes of the asset class can clearly be demonstrated; and
- There are sufficient quality fund managers to absorb and invest the increased capital allocations.

Recent changes to Regulation 28 of the Pension Funds Act, which governs how retirement funds may invest, includes a separation of Private Equity from “Other Assets”, effective from January 2023. The maximum percentage of investment in Private Equity as an asset class has been set at 15%, which whilst a welcome improvement on the previous threshold, is still significantly more than the 0.03% reported by the regulator in 2017. Whilst the change was largely to encourage investment in infrastructure, the increased allocation also allows for an allocation to Private Equity and Venture Capital where appropriate. It is too early to tell if the change in regulation has started to have the desired effect, but the legal and regulatory landscape has been enabled.

Institutional investors in South Africa manage in excess of $500bn, and thus represent the catalytic capital needed to channel funds into impactful businesses and SME growth, whilst simultaneously diversifying their portfolios. However, their fiduciary to retirement beneficiaries cannot be ignored. The ecosystem also needs to collaborate, bringing together private sector and public sector participants to devise ways to share risk and play a meaningful role in supporting the asset class fulfil its potential. It is time to act now, in the words of Eleanor Roosevelt, “The future belongs to those who believe in the beauty of their dreams”

THE UGLY, THE BAD AND THE GOOD: SOUTH AFRICA'S 2022 VENTURE FINANCE AND INVESTMENT LANDSCAPE

Briter Bridges
David Saunders (left) and Mariam Adebola (right)

The year 2021 was a record year for funding into South Africa's ecosystem. Startups raised more than $1bn. There were several deals into Fintechs above $100m. However, 2022 was a different story. After rising to second in Africa in terms of total funding to startups in 2021, it fell to fourth behind Nigeria, Kenya and Egypt. Late and early stage was particularly hard hit in the second half of the year, but several new sectors and products saw startups with their first $10m raise. Further, the gender gap actually saw signs of decreasing.

Below we draw on data from the Briter Intelligence platform to explore and make sense of the 2022 venture financing and investment landscape in 6 charts.

Chart 1: Funding to South African startups fell to 4th in the region in 2022

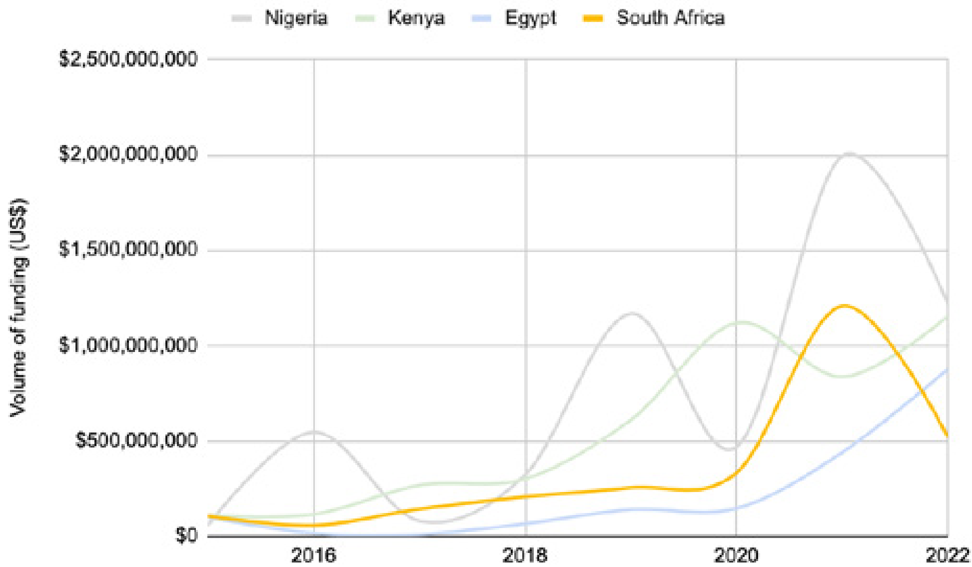


Chart 1 shows that in 2022, startups in South Africa received just over $500 million. This accounted for 11% of the share of venture financing and investments into startups in Africa. This is down from 23% in 2021. Further, South Africa fell behind Egypt, Kenya and Nigeria in terms of total funding.

Chart 2: The second half of 2022 was particularly tough for startups in South Africa

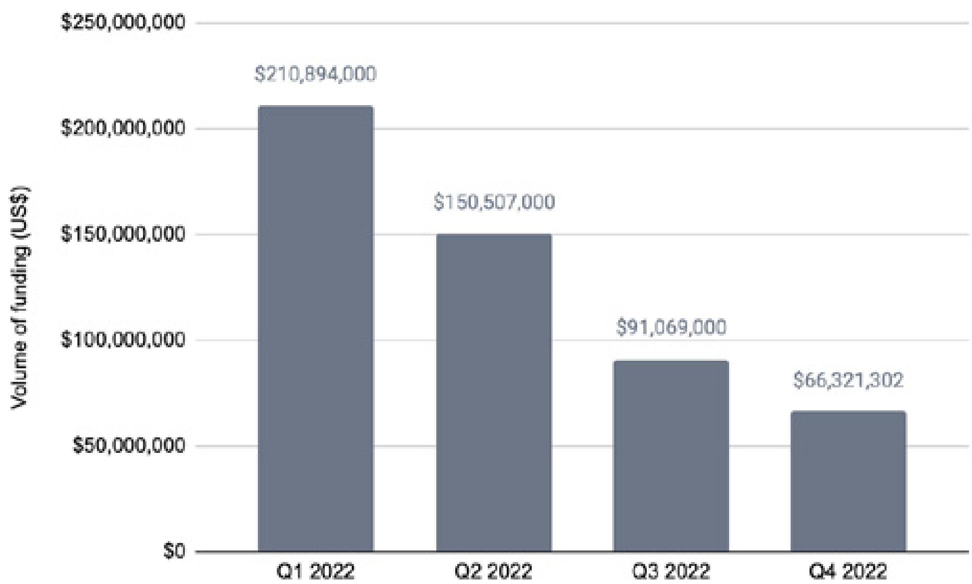


Chart 2 shows that funding to startups in South Africa peaked from Q3 2021 to Q1 2022. The second half of 2022 saw funding to startups more than halve. But this trend is similar to what we saw in other ecosystems in Africa as the change in global liquidity resulted in a big pullback in venture financing and investment.

Chart 3: Late stage and early stage funding fell, but growth stage grew

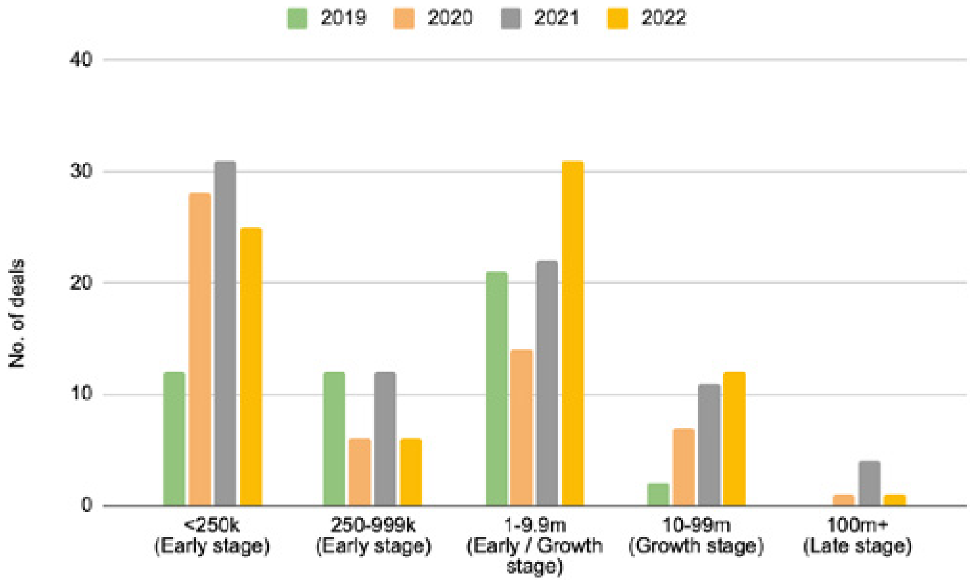


Chart 3 shows while deal activity remained robust, South Africa saw a slow down in mega deals over $100m and increase in deals between between $1m to $50m. This is similar to what we saw in other markets in Africa and aligned with the general trend in the resetting of valuations from their highs in 2021. However, unlike other markets in Africa, South Africa did not see an increase in early stage deals. Deals below $1m actually decreased in 2022 in South Africa.

Chart 4: Fintech remains the top sector, but many new sectors saw startups with their first $10m raises

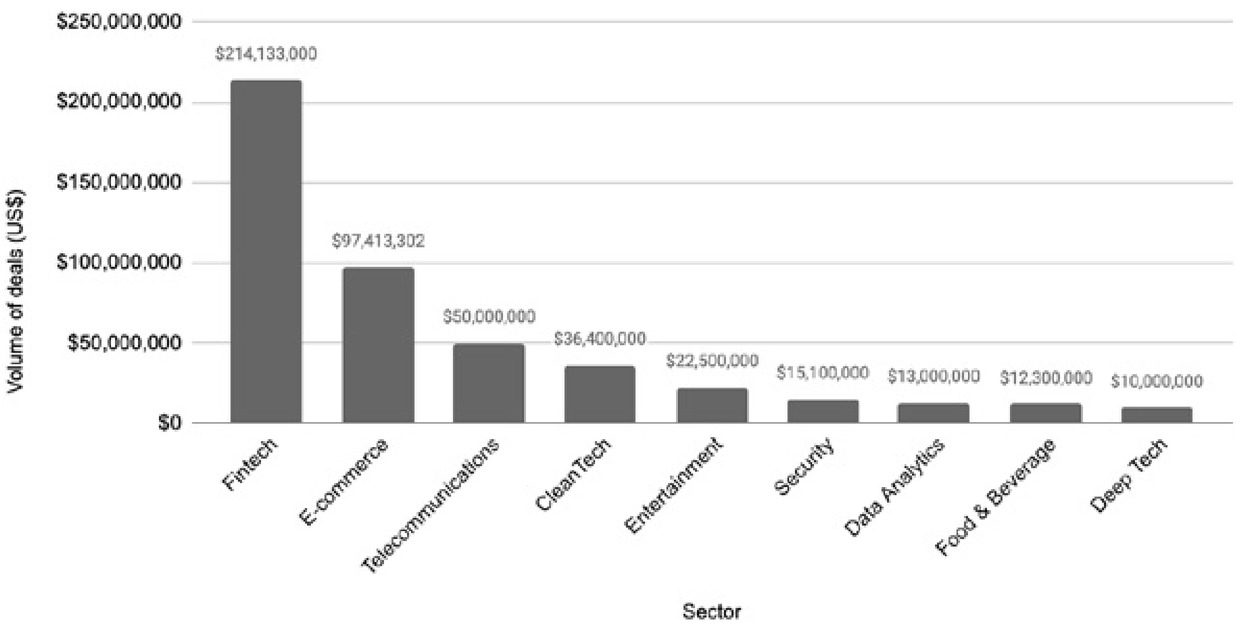
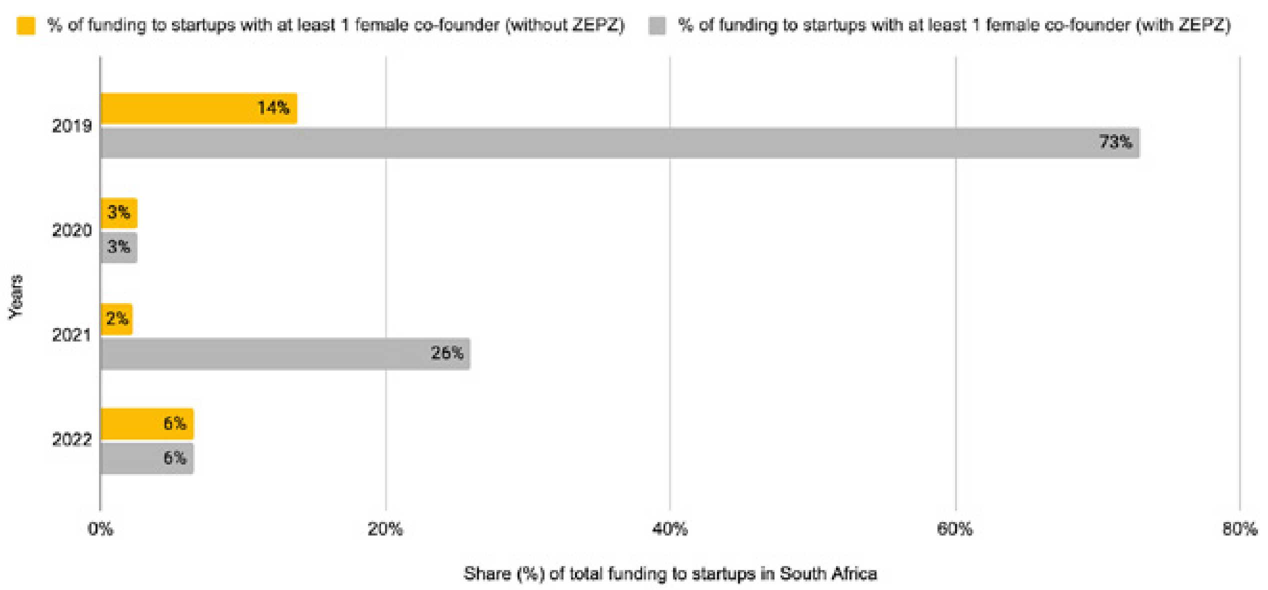


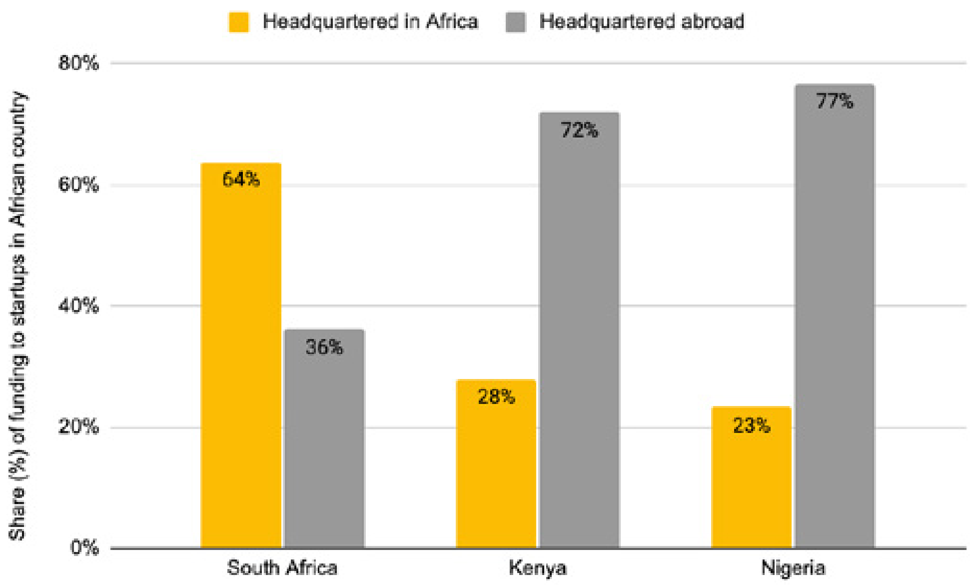
Chart 4 shows that Fintech still accounted for more than 40% of the share of funding to startups in South Africa. But this is significantly down from the 80% in 2021. Further there are a number of other sectors that had breakthroughs in 2022. 10 sectors received more than $10m. Products ranging from solar energy, gaming, digital infrastructure, identity technology, deep tech, data analytics all had their first startup publicly announce their first multi-million dollar deals.

Chart 5: The gender gap got more interesting



The gender gap has come under scrutiny globally and South Africa has been no exception. **Chart 5** below shows the change in the percentage of funding to startups with at least one female co-founder from 2019 to 2022. It shows that two late stage deals to one startup, ZEPZ, accounted for the majority of funding into startups with at least one female founder in South Africa over this period. If we remove this from the analysis we actually see a slightly different story with an increase in the percentage of funding into startups with at least 1 female in 2022 when compared to 2020 and 2021. It still remains low, especially when compared to markets like Zambia and Kenya where funding to startups with at least one female startups is above 40%. But it is higher than the average across Africa of 5%.

Chart 6: Funding to South African startups remained in South Africa



Startup funding in Africa has come under scrutiny over the last few years as more and more startups register outside of Africa to access global funding. **Chart 6** shows that South Africa is to some extent an outlier amongst the big 4 in this regard. More than 50% of funding to startups in South Africa have their global and Africa headquarters in the country. This is more than twice Nigeria and Kenya.

SO WHAT?

For the most part South Africa followed its regional peers in terms of a slowdown in funding, particularly at the later stage and to Fintechs. However, unlike its regional counterparts it saw a drop in deals below $1m, typically associated with early stage investing. This is often where the majority of startups with female founders are. While South Africa has made some progress here, there is still a long way to go.

The bigger concern facing South Africa's ecosystem is the fall in total funding compared to regional peers like Egypt, Kenya and Nigeria. The data shows that the more funding available, the more likely it is to reach early stage startups. If you take into account the broader context of South Africa, this is alarming. South Africa's stock market capitalisation is more than 200% of its GDP. The next closest country is Mauritius at 69%. Nigeria is only at 8%. Pension funds combinated assets under management are more than $300 billion. The next closest country is Nigeria with $30 billion. Further, it is home to the most private wealth on the continent with $651 billion. The next closest country is Egypt with $307 billion .

A big question for South Africa going forward will be how it unlocks this capital. Institutional capital for the most part has stayed out of venture capital and private equity. A report from FSD Africa shows that less than 1% of pension funds has been allocated to private equity in South Africa even though regulation allows for 10% . Outside of South Africa, development financial institutions and foreign investors perceive South Africa as both too rich and too risky. A major driver of their for foreign investors is the current restrictions of exchange controls and IP. Lastly, many of the angels that drove the early days of the ecosystem no longer have the same tax incentives.

While increasing the amount of capital available to startups in South Africa will not guarantee that funding is more evenly distributed, it is a critical starting point for the ecosystem to contribute to the type of socio-economic outcomes that the government wants to see from venture capital. This is likely to become more important in an environment where capital is more scarce globally. The opportunity for the local ecosystem to step up is there. How do government, venture capital, angels, private equity work together to step up to it?

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BREAKING THE BOYS CLUB

If investing in women yields good returns then why are we still fighting for their inclusion?

Sekai Chiwandamira
Regional Head: Southern Africa, Aspen Network of Development Entrepreneurs

According to research by Statistics South Africa, nearly half (47%) of South African women are unemployedi. This comes as would-be female employees have a tougher time finding work than men, thanks to the inequalities they face, including unequal pay and fewer leadership positions among others, while at the same time struggling to maintain a matriarchal role in society and family.

It is for reasons like these that African women often turn to self-employment by starting their own businesses. According to the World Economic Forum, women make up 58% of Africa's self-employed population and contribute around 13% of the continent's Gross domestic product GDP, with Sub-Saharan Africa, in particular, having the world's highest rate of women involved in entrepreneurial activity at 26%ii.

Despite this, women continue to earn lower profits than men as a result of the imbalances between opportunities to scale, access to funding, and training between men and women-led businesses on the continent.

The irony is that if women-led Small Growing Businesses (SGBs) provide great investment opportunities, why do we not see more investors including female investors actively working towards closing the gender-lens investment gap?

To accelerate these gains and ensure that gender-lens investing becomes more than just a ‘nice-to-have’, it is critical that the ecosystem collaborates with policymakers who hold the regulatory power to unlock further gains for women entrepreneurs, as well as their communities who benefit tremendously from gender-lens investing. One way to alleviate poverty is to empower women economically, especially through entrepreneurial projects and financing that encourage women to engage themselves in entrepreneurial income-generating activitiesv.

Sub-Saharan Africa has the highest rate of entrepreneurship in the world, with approximately 42 percent of the non-agricultural labor force classifieds as self-employed or employers. Yet most SGBs are unable to grow their businesses beyond small-scale subsistence operations, impeding their contribution to poverty reduction and shared prosperity. This is particularly so for womenvi.

This depends on us supporting the success of women entrepreneurs, through global network organizations such as the Aspen Network of Development Entrepreneurs South Africa (ANDE SA) established the Gender Equality Initiative (AGEI), with the support of USAID and the Visa Foundation, to support women as leaders, employees, and consumers in the SGB sector. This global effort is aimed at bringing experts together to move the needle on gender equality in entrepreneurship, providing funding to pilot projects which address the gender finance gap, helping build know-how among investors to incorporate gender into their business models.

ANDE SA’s Chapter Head Sekai Chiwandamira says: “We must be cognisant of the fact that the battle of closing the gender gap is not as simple as it is made out to be. It is quite complex and governed by the ecosystem. If the ecosystem is conducive, and provides an enabling environment, then it becomes possible to address the gender gap. However, if the ecosystem is highly fragmented, acting in silos and not embodying the principle of gender-lens investing, it becomes even more challenging to close the gap.”

For Africa to achieve financial inclusion for women in the SGB sector, it requires a collective effort. By reaching this goal, not only do we encourage economic growth, but we move South Africa a step closer to achieving the U.N. Sustainable Development Goals—especially Goal 5, ‘Achieve gender equality and empower all women and girls’.

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