UNICORNS, GAZELLES & LEAPFROGS

Fast-tracking our ecosystem

A 2017 discussion paper
on accelerating the South African startup ecosystem towards world class

ELEVATION

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Elevation Holdings is a boutique angel investing, business development services (BDS) & advisory firm headed up by Jason Levin. Elevation is forever curious about what can be achieved by ecosystems, entrepreneurs and South Africa. www.elevation-holdings.co.za

GEN SOUTH AFRICA

Global Entrepreneurship Network South Africa was recently instrumental in hosting the Global Entrepreneurship Congress 2017 in Joburg. They have supported, and vetted, the findings of this paper.

SiMODiSA START-UP

This startup 'industry' body plays a cohesion, promotion and policy role in the ecosystem, and is an endorser and supporter of this paper.

Gordon Institute of Business Science
Enterprise Development Academy

GSB
UNIVERSITY OF CAPE TOWN

GIBS's Academy is doing impressive work in entrepreneurial development. As is UCT's Graduate School of Business. Several members of both teams have been instrumental in assisting with the launch and activation of the report and its findings.

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This focused business and financial writing practice contributed words, hours and several edits in pursuit of what makes the ecosystem tick.

1. INTRODUCTION

and purpose

I started this mission looking for a unicorn.

Or at least why South Africa has never produced a true unicorn.

We almost did in Mark Shuttleworth's Thawte (its 1999 price tag of USD575m equates to about USD850m in modern money), and Nigeria has one in Africa Internet Group's ecommerce marketplace, Jumia, which was reportedly worth USD1,1bn by mid-2016. Mimecast, founded by South Africans Peter Bauer and Neil Murray, is a unicorn with a current market cap of USD1,2bn – but was created in 2003, a year after the pair left the country.

This journey, however, has dispelled my initial obsession with the elusive unicorn. The local ecosystem hasn't produced a startup of that scale, and the trail scent suggests we're not likely to produce anything north of a USD1bn valuation soon. In fact, while we are making progress, we're aren't creating (and retaining) many new businesses valued at a quarter of that.

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This isn't necessarily cause for self-flagellation, but it is hopefully a catalyst for bold and decisive action. Based on over 30 executive interviews with startup ecosystem players that form the basis of this report, it seems it's not unicorns we need, it's gazelles, maybe rockstars...and possibly leapfrogs.

Leapfrogs are actions that – if undertaken in parallel to the linear, structural improvements to the underlying system – will catapult the startup space towards success. But only certain parts of it and not with 100% certainty. We think such leapfrogs are pivotal, and options for some are outlined in this paper.

To use startup lingo on the ecosystem itself, we need to scale it more rapidly. And we need to disrupt the status quo, to either do much better in the race or to change it.

Then a proviso, I've had a lot of exposure to research in my 22-year career, but I am not a researcher, nor do I hold myself out to be one.

I have produced this paper as an intended ecosystem asset, and put it forward as a catalyst for conversation and action. From my perspective, after many hours of discussing it with ecosystem participants, a shift is required, and I'd like the thoughts in here to play a role in possibly achieving that. Also, note, that because the study is qualitative not quantitative, there are not many graphs, pies and charts of respondents' inputs, but there is a lot of direct coverage of their views.

Local state of play

There is activity in the system: people do care; people do care; we are seemingly advancing at a rate now of three steps forward (and only one back); policy is easing up; more capital is being released; and we're doing some globally significant stuff.

I put this paper forward as a catalyst for conversation

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Between November 2016 and May 2017, 30-plus executive interviews were undertaken: founders, venture capitalists (VCs), angels, incubator chiefs and others gave their views (see Addendum for the full list). The team and I also scoured the publicly available, current, secondary research relating to the South African ecosystem (and other reports that analyse it and similar systems). Between these sources, it's pretty much agreed: we probably don't need a unicorn. But we do need something.

We may need more gazelles (high potential businesses that are ready to scale dramatically). We possibly need more capital. We surely need more skill and ideas. And we don't need more incubators. But what we need most is a strong will to move the ecosystem forward more rapidly, a quantum shift that hastens the current pace of advancement.

Of course, there are other priorities vying for public and private sector attention. Nationally, we desperately need to kick start broad economic growth; improve investor confidence; correct the Gini coefficient; create literally millions of jobs and secure greater socio-political stability. And startups aren't front and centre of those battles.

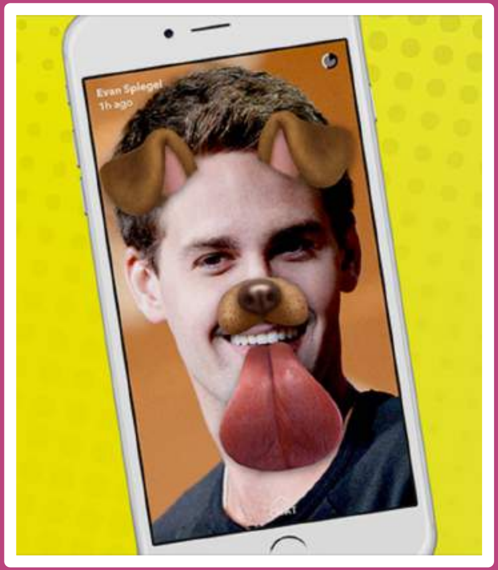
Each interview more or less followed this discussion guide:

- What has driven your own personal entrepreneurial journey?
- What do you see as the two to three most important mistakes in the space? What would you do differently?
- Do we have what it takes, in SA, to have a hugely successful startup industry (tech or non-tech businesses)?
- Where in the lifecycle of startups (and the attendant funding machine) are we in SA?
- Why do you think the concentration of the embryonic startup (and venture capital) activity in SA is in the Western Cape? (Is it?)
- What do you think the balance of tech startups vs. more traditional/physical world businesses will be in SA in the next five to 10 years?
- What SA startups or entrepreneurship ideas do you think have exported well? Or ideas that you have come across in SA that you think would work better in a larger (maybe more 'sophisticated') market?
- What do see as the key ingredients of breaking into the (global and/or local) startup space?
- What role do you think incubators and/or accelerators (can) play in this sphere?
- And government?
- What do you think the future of the BitCoin market is (if you have a view)?

But I see those things bulked together as a need for leadership and inspiration.
And I can't help thinking that one, or two, or three iconic breakthroughs in the business space (and I propose the startup space), would serve as a bold beacon for a surge of entrepreneurial spirit in what are fairly troubled times.
That could help build a deeper culture of entrepreneurship in all tiers of society, and help drive all of those imperatives forward in the medium term.

Make a billion dollars!

I have also worked extensively with South African millennials and know the fascination (admittedly among mostly urban youth) with 'techpreneurs' and the promise of becoming very rich very young.
Snapchat's Evan Spiegel is its latest poster boy. Teens and 20-somethings all over the world, South Africa included, are buying the dream that the right game, app, idea or startup can change their lives forever. And for good or ill, that dream isn't necessarily philanthropy or job creation, it's more likely making a billion dollars. But that dream creates ambition, idea generation and hunger, and that is great for societies.



Source: Caroline Matthews, CNN Money

Snapchat's Evan Spiegel

Clear improvement areas

We're not saying that continuing to build the structure methodically should be abandoned. And the World Economic Forum, (WEF) Startup Genome Global Ecosystems Report 2016/17 ('Startup Genome'), and the recent 2017 GEDI Strategy for Global Entrepreneurial Leadership 2017 ('GEDI') report both give us fairly clear policy and implementation areas for constructing a better ecosystem over time, foremostly:

- **Skills improvement** (at a macro level in secondary and tertiary institutions particularly, but also entrepreneurial skills, and job training like basic coding)
- Banking and greater **financial inclusion**
- **Connecting** with each other in this ecosystem, information sharing and community building
- **Technology** infrastructure and absorption
- Driving a **culture of entrepreneurship**
- Making **risk capital,** especially early stage, available
- And very importantly for early stage ecosystems, lots of **international inward and outward** exposure and knowledge sharing.

But these are tough, multi-faceted challenges, with myriad government and private sector cogs that have to get turning – quickly and simultaneously – in the same direction. And one thing that came up again and again in this study is the trust gap between government and business and vice versa.
It’s a hard ask.

The only theme mentioned more than the trust dilemma was the quality of mainstream South African education and the need to fix it. But that is at least a 10-year task, and it could hold everything
back if we don't find a work-around in parallel.

So, I propose, a tandem lane. A faster lane. One that produces some quick wins and some leapfrogs that give us a shot at a more developed, faster-paced ecosystem that gets more support, more international attention and more foreign direct investment (FDI).

This is a discussion paper. So who agrees?

Because the danger, of course, is that our ecosystem, like every global startup ecosystem, is on a runway. And if we don’t get there quickly enough someone else will beat us to take off, and the aviators will start abandoning the craft.

Some facets of this risk include:

Facets of risk

- **Entrepreneurial players:** We are losing, and will continue to lose good players to ecosystems which are larger, more advanced and more dynamic. And the rub-off effect of rockstars, and the loss of high potential startups, is well-documented as significant.
- **Market size:** The economically viable, total addressable market in South Africa is small, certainly too small for most B2C tech offerings which require higher monthly household incomes than we have. The real prize is to create products and services that can serve both our market and others (be they emerging or developed). Yet we won't make that leap if we don't scale the system.
- **SME impact:** South Africa SMEs contribute about 35-45% to the national GDP. At one point it was more like 50% (in the USA it's 54%, Indonesia's sits at 57%, but in Chile it's 20%) and in order to have a greater proportional effect on the overall economy, the SME sector (and the startup sub-sector in particular) have to reverse attrition and grow fast.
- **Halo effect:** The business value of startups is not purely economic. Many interviewees say it's not even mainly economic, the real value is in driving innovation and competition in the broader economy. Their "transformative effect" which is their ability to make things seem like they're going faster than they are, and thereby actually make things go faster, is key.

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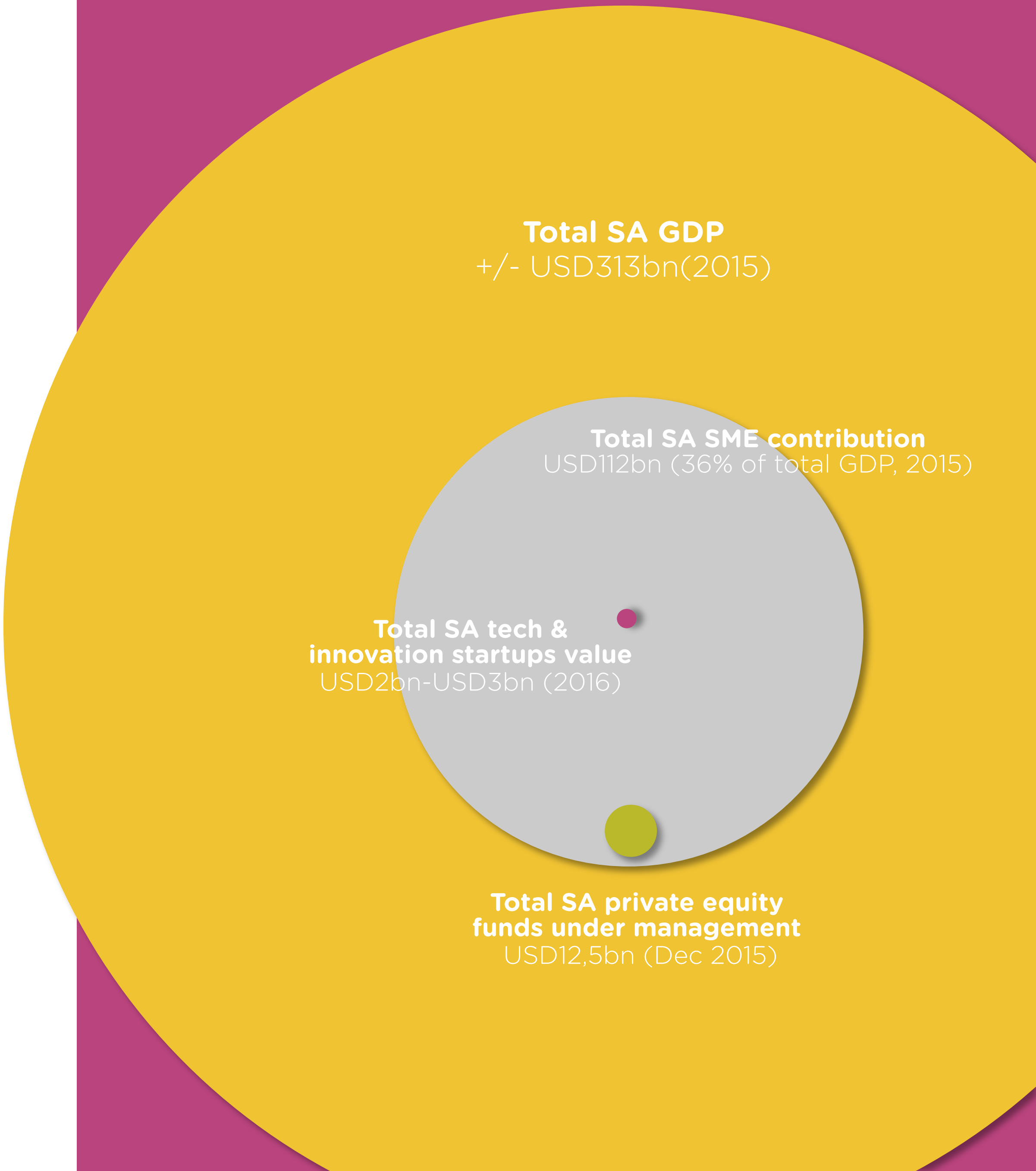
- **Slow downstream flow:** At the moment, the total tech and innovation startup ecosystem value is estimated at under USD2bn-3bn (by Startup Genome's measure). That's less than 1,5% of national GDP. And apart from maybe 10 000 or so jobs, and under 1 000 startup founders who have either cashed out, or are doing well, who is benefiting? Maybe big corporates? Think of Standard Bank's SnapScan benefit, Garmin's iKubu one, Old Mutual's 22Seven. And the reason is the system as it stands isn't advanced enough to facilitate listings or real M&A activity, so founders let corporates acquire them – often prematurely – in deals that aren't always very successful. I think more benefit should flow to entrepreneurs, their employees, and the ecosystem itself.
- **Not a one horse race:** The landscape is not static, we are not just racing against ourselves. There are many other young ecosystems in emerging markets that want to attract international capital, build their infrastructure, their fame and their global growth ambitions. Eastern Europe, Brazil, Chile, Rwanda, Kenya and Nigeria amongst them. Competition is fierce.



So, there are challenges. Every early stage ecosystem has them, and they needn't be a bad thing, unless we become experts at nothing but polishing them as problems.

One study participant spoke about South Africa being a slow cooker, and highlighted the fact that rapid change and progress either happens in a pressure cooker or when you're out of the pot.

We're not going to be out of the pot for a while, so why not turn up the heat, pick up the pace, and leapfrog our way to success?

Jason Levin
Discussion paper author
Director, Elevation Holdings, June 2017

"South Africa is a slow cooker, and rapid change happens in a pressure cooker."

The definition of a startup and startup ecosystem for this paper

Startups:

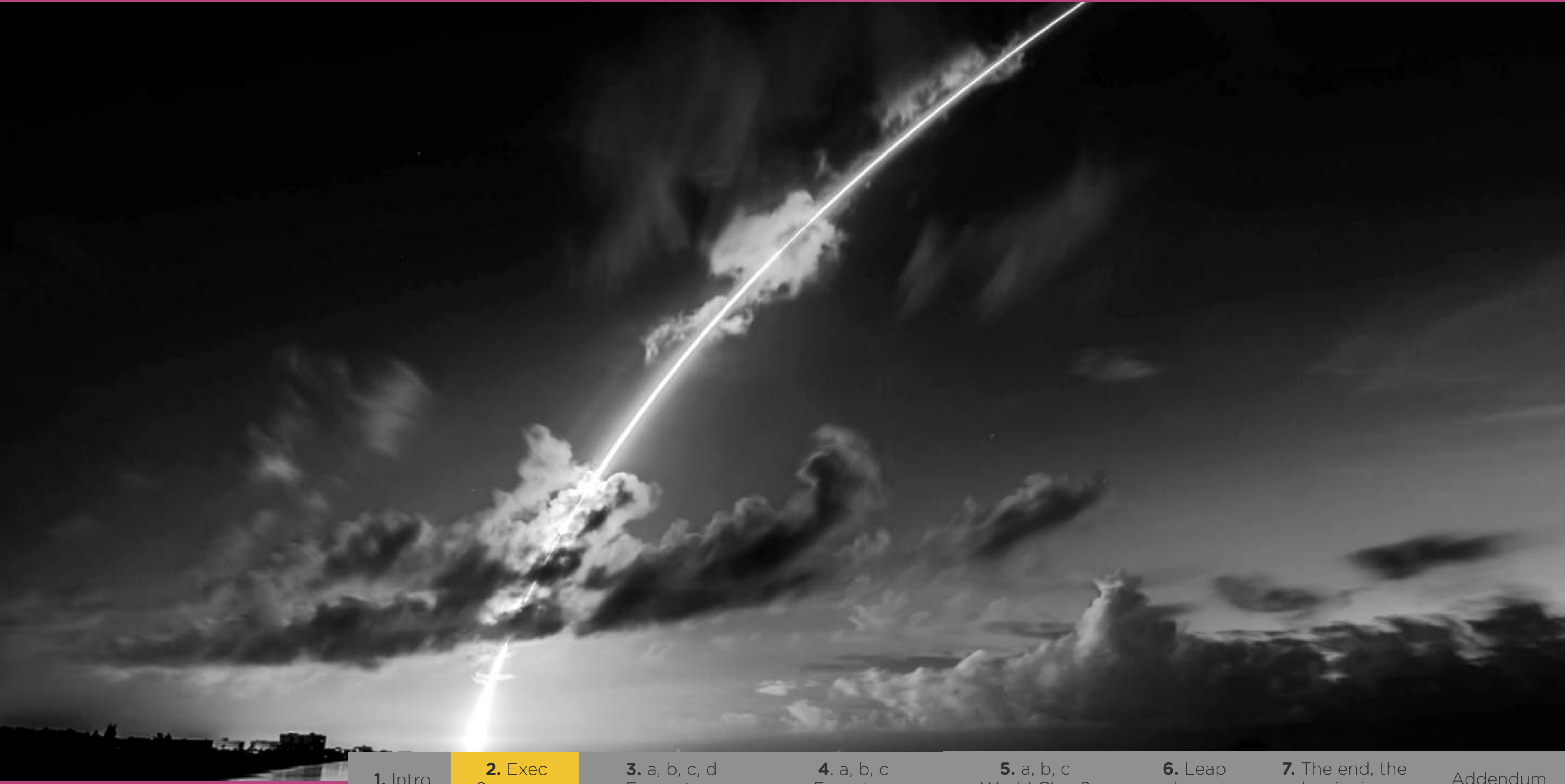
High-growth, high-impact businesses that are scalable. Normally boot-strapped and/or venture-backed. And for the purposes of this study, under 10 years old. (Although much of the literature (international especially) refers directly, or by inference, to startups being tech- or innovation-specific, this isn't the case here *per sé,* but neither are ordinary small businesses that are not imminently scalable).

Ecosystem:

The financial and intellectual capital support systems (incubators, accelerators, training and policy machine) that fuel and cocoon startup creation and growth.

2. EXEC SUMMARY

The story in brief



**Over 30 face-to-face executive interviews cross-tabbed against troves of secondary research
to propose some leaps forward for the ecosystem**

THE SUPER SUMMARY

1. The Status Quo

An early stage ecosystem, roughly 10 years old, with 10-15 years until maturity. Huge incubator & support services base (300+ entities). About 1 300 tech & innovation startups (+/- 900 in Cape Town, tend to be small). Some rockstar businesses and founders with global traction, but no unicorns (or close-to-unicorns). Total ecosystem value under USD2bn-3bn (much smaller than private equity in SA) and about half the size of Sao Paolo's. Strong Eastern European (and increasingly African) competition might curb global prospects. Along with local constraints:

- Skills & education quality
- Too little early stage capital
- Unenlightened government intervention & government/business trust issues
- Market size (and low global ambition)
- Rockstar founders tempted to leave
- Small international footprint & too few scaled businesses

2. The Opportunity. Why?

- **To be a world class ecosystem** that attracts resources, FDI and talent (rather than loses it)
- Improve SA's economic growth rate & help create employment
- Fast-paced startups have a transformative effect on even big business
- SMEs (incl. startups) represent a sizeable portion of overall national GDP (35%-45%)
- Defend: To be the gateway to Africa, and not be dwarfed by Eastern European and other emerging market contenders

Startup Genome

GEDI

3. 'Conventional wisdom'

Progress the ecosystem at 'natural' pace & systematically improve known key drivers:

- Promote entrepreneurship, improve tolerance of risk & failure
- Greater local cohesion & community-building in ecosystem/s
- Improve Series A funding availability
- Global connectedness & know-how (inward & outward)
- Education & entrepreneurial skills development
- Progressive policies & government lubrication
- Technology absorption & banking

4. Leapfrogs: a faster way?

Try move the ecosystem more rapidly towards world class. Such lateral thought and 'quantum leap' approaches may include paths like:

1. **SA as a resource hub:** Redeploy capacity from several of the incubators to educate and upskill talent as startup team members, rather than underequipped, soon-to-be-disillusioned entrepreneurs. Market SA (Cape Town esp.) as a destination for quality, lower cost startup-specific skill and resource.

2. **Impact investor haven:** Focus on social entrepreneurship, specialise in emerging market problem solving. Build robust, transferable solutions and export to other African and emerging markets. Attract the increasing local and global funding in the impact space.
3. **Access public investment funds:** Direct public sector pension funds to release 0.5% of their funds as startup venture capital. PIC's share alone = +/-R10bn. Vigorously stimulate startups to meet capital supply.
4. **Vertical, sector specialisation:** Place primary attention on two verticals (maybe fintech, healthtech and/or renewables), and heavily market those nationally and internationally.

A series of executive interviews

In what was an initial search for a local unicorn (or the formula for one), and over a six month-period, **36 players in the South African startup ecosystem talked with Jason Levin**. The discussions covered entrepreneurship, funding, incubators and if-how-possibly SA might produce a mega global startup success story, or stories.

The views of these founders, venture capitalists (VCs), angel investors, incubator heads and others, form the backbone of this report. Mingled in among their personal and anecdotal insights is research from other studies of the local and global startup system. Putting them together answers some questions, throws up many others and highlights areas where SA is excelling and also where improvement is needed. But, importantly, it seeks to find an accelerated path for that improvement.

Not everyone had a view on every subject, some spoke at length about the state of the current ecosystem (outlined in Section 3a), others were either passionately for, or against, incubators (see section 3c) and pro- or anti-government efforts (see Section 3d).






All provided insights into the mindsets and motivations of startup founders, which we explore in depth in Section 4, before leading into the big question around whether (or not) **SA has what it takes to be a world-class ecosystem capable of creating 'rockstars'** (high potential founders), **gazelles** (scalable post-commercialisation-ready-for-serious-expansion businesses) **and unicorns** (USD1-billion+ valued high-growth high-impact businesses). The relatively small size of the market will be a key concern foreseeably. So will the fact that many of the frustrations of the founders we chatted to, who have global aspirations, don't see those being significantly addressed by the South African system. The progress that has been made must be celebrated, but it is fraught and slow, and there are calls for decisive action. SA's legacy of entrepreneurial strength deserves it, and the sluggish economy needs it.





The upshot of the research and some of the interviews is that we should not delay in disrupting our own startup ecosystem. It is our view that, despite the fact that the startup landscape represents a very small proportion of the overall economy, it simply has to get bigger, better, and faster in order to be competitive. For a few reasons:

- Because of **the transformative effect** that innovative, fast-paced startups have on all business (including big business from an innovation perspective)
- Because SMEs (overall) form a **significant part of the overall national GDP (35%-45%)**
- This is the only way we can **retain our existing rockstars**, and quickly develop and nurture new ones
- To assist in **alleviating unemployment**, noting that the debate about whether high-growth high-impact small businesses can job create is contentious (and arguably shouldn't be the key driver in decisions).

Tech- and innovation-led businesses are growing at 4,5% globally versus overall economic growth of only 2,6%. Of the world's 10 largest companies, six or seven (if you include GE) are in tech and/or innovation; while only one or two (maybe three, if you count Sasol) of SA's top 10 have a tech/innovation bent: namely Naspers and MTN.

According to the **World Economic Forum's (WEF's) 2014 report:** Entrepreneurial Ecosystems Around the Globe and Early-Stage Company Growth Dynamics, eight pillars are required for a healthy entrepreneurial ecosystem, see them listed alongside.

World Economic Forum 8 Entrepreneurship Pillars

1. Access to markets
2. Human capital/workforce
3. Funding and finance
4. Support systems/mentors
5. Government and regulatory framework
6. Education and training
7. Using major universities as catalysts
8. Cultural support

WORLD ECONOMIC FORUM

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Not dissimilarly, **Startup Genome** identifies the following key attributes and actions for early-stage ecosystems:

1. Presence and development of entrepreneurship, (English), education, and a culture that promotes entrepreneurship
2. Local connectedness and community-building
3. Series A funding availability
4. Global know-how (inward, outward programmes)
5. Other (local-specific) issues (which may be required to a greater or lesser degree by certain systems): adequate skills, progressive policies, access to capital, overcoming private-public disconnects/mistrust and reversing low tolerance of risk and failure being the applicable SA ones.

These are **globally accepted 'success recipes'** for advancing ecosystems, and role-players are aware of them and are trying to mobilise the key drivers.

Equally, it is clear that drawing inferences from Silicon Valley is not going to be very helpful in the short-term. But there are lessons to be had from Portugal, Malaysia, Poland and other emerging market and early-stage ecosystems, that some interviewees felt aren't being taken to heart.

From the horse's mouth

The qualitative insights, however, in this report are 'from the horse's mouth', and highlight where SA is falling short of the mark and where we can pat ourselves on the back for good progress. Regrettably the hard work, and bold decisions, that lie ahead, probably outflank the good progress to date, particularly in contrast to other ecosystems: **Joburg and Cape Town together, for instance, are about the size of Melbourne, smaller than Lagos, and half the size of Sao Paolo**. But make no mistake, there is progress and seemingly a will to succeed.

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Key widely-held (although not unanimous) views include:

- The need to strengthen and glorify **entrepreneurial spirit** (and to do it from a young age right through the fabric of society).
- Too many of our startups **lack bold ambition** (and several who have it get sold internationally, and/or move to other markets).
- That said, our **ratios of success** are not far off international standards, but there is a lot of (too much?) mimicry of international triumphs.
- **The person, the team and their out-and-out passion** to solve the problem as identified are what capital providers see as the key criteria for selection, and founders see as at the heart of startup success.
- The fact that we are trying to support and fund high-end **rockstar founders and low-end subsistence entrepreneurs using the same system** is a problematic dynamic.
- There are too many (more than India and Israel put together), and too many poor quality (and unmonitored) **incubators.**
- General **education** overall, and entrepreneurial skills specifically, are dire, and are a burning issue for improvement.
- But we do **have good university and academic outputs**, seemingly pairing their rising stars with hotshot entrepreneurs could make magic.
- Even given that most of our past entrepreneurial mega-successes have come from **non-tech** sectors, the view is the future ones will be tech- or innovation-based.
- **Fintech, healthtech and maybe innovation in renewables** are seen as the most likely areas for world class activity out of SA.

The founder and his/her passion are at the heart of the success that startups, and VCs, look for

- SA's **constrained market size** makes it hard to create startups that will be worth USD100m within 10 years, but is a good test bed for concepts
- The size of the **private VC pool** (by any measure, including as a proportion of private equity) is minuscule
- The government-business **mistrust chasm** is creating huge blockages in the system
- FDI that could be attracted is inhibited by draconian policies on access and **visas**
- Government agencies and Development Finance Institutions (**DFIs**), and their ability to deploy, manage and get a return from investments, seemingly need attention
- SA is a bit **too shy**, silent and absent from the international startup race
- Unicorns are over-rated.

So the system could probably use a hand. Which is why, in Section 6, **we look for lateral solutions for accelerated advancement over and above current activity and what the 'recipes' propose**. We open the debate on what we have called 'leapfrogs' and ask if by harnessing a handful of dramatic shake-ups we might create a quantum shift in the South African startup space.
To sit on our hands would achieve nothing other than slow organic growth. And those with better alternatives elsewhere (both founders and capital providers) do not seem inclined to wait.

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The good progress already achieved on the current trajectory must continue: local-global collaborations; increased access to capital through avenues like VCCs and the SA SME Fund; more enlightened government participation; higher risk tolerances; publicity of success stories, etc.

Leapfrogs!

But the leapfrogs explored aim to benefit the ecosystem more dramatically and quickly, but possibly only in pockets at a time:

1. **SA as a resource hub:** We redeploy a lot of the capacity locked up in incubators that is currently being used to try and create underequipped, soon-to-be-disillusioned entrepreneurs, and use it to educate and up-skill talent that could be used in local and international startups. We then market South Africa (Cape Town particularly) as a destination for high quality, lower cost startup specific skills and resources. A pleasant startup location that is English speaking, has good infrastructure and is on the European time zone holds appeal.

2. **Impact investor haven:** We focus a lot of our startup capacity in the area of social innovation along commercial, but not super-profit, lines. We have a huge diversity of societal and practical problems that can be solved by innovation, and the hope would be that many of the solutions, once adapted, could be exported to other African and emerging markets. This specialised focus would aim to attract the increasing global funding in the impact space.

3. Access to public investment funds:

Here, the system lobbies government to direct public sector pension funds to release 0.5% of their funds under management into the market as venture capital. The Public Investment Corporation's (PIC's) share alone would be in the region of R10bn, and then startup demand is vigorously stimulated to meet capital supply.

4. Vertical, sector specialisation: Taking a cue from Poland and other Eastern European markets, we focus, and place a lot of the ecosystem's attention on two or three (maximum) verticals like fintech, healthtech and/or renewables, and we market that specialisation nationally and internationally.

These may only be thought-starters, but they possibly put the thinking on a new trajectory for debate and input. If such a plan could be agreed and actioned, there is a decent amount of belief that the impact could be great.

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3. ECOSYSTEM

a. Life stage

In his landmark book, Startup Communities, Brad Feld posits

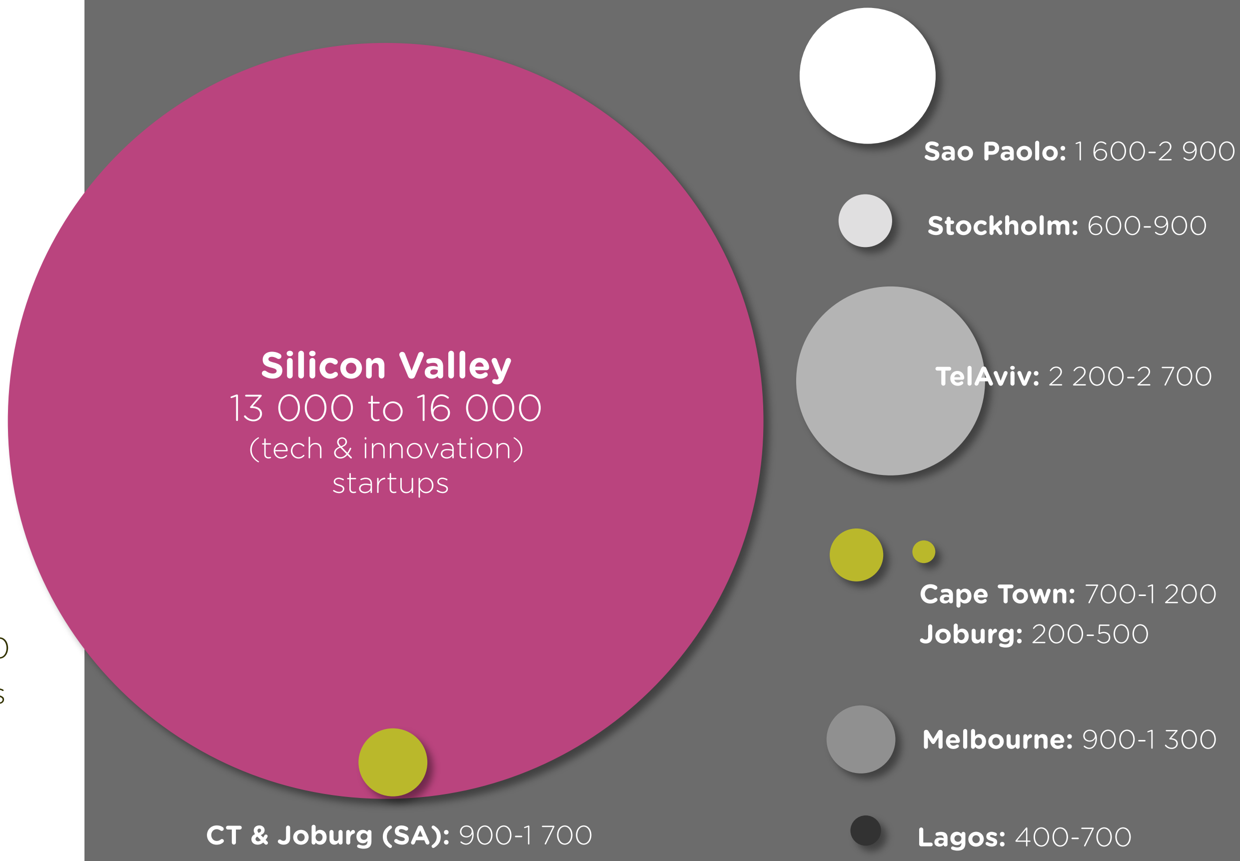
...that it takes about 20 years for a vibrant entrepreneurial ecosystem to develop in a city or region.
In New York City, where a vibrant startup ecosystem has coalesced in the last few years, the seeds were planted at least two decades ago.

Almost all the participants in the study agree the South African startup ecosystem is in its infancy. Most put it at five to 10 years old. And many point out that Silicon Valley, which does not really bear comparison, took more than 50 years to hit full swing.

That said, the basic ingredients are present:

- Industry bodies (SAVCA, SiMODiSA, GEN South Africa and Africa),
- An array of incubators, accelerators and capacity development providers,
- Some publicity and media coverage,
- An embryonic thought leadership and information-sharing system,
- A maturing capital supply incorporating angel investors, VCs (both local and foreign), impact investors, crowdfunding sources, government DFIs,
- And (most importantly), the startups themselves. Startup Genome' s Global Ecosystem Report 2016/17 estimates there is something in the region of 900 and 1 700 tech and innovation startups currently active in Joburg and Cape Town (by comparison, world no. 1 Silicon Valley has 13 000-16 000,
- World no. 6 Tel Aviv has 2 200-2 700; no. 14 Stockholm 600-900. Sao Paolo has 1 600-2 900 and Melbourne a similar number to SA, 900-1 700.

According to the GEDI 2017 report, and several of our interviewees, SA boasts the best ecosystem in sub-Saharan Africa. But the combined value of Joburg and Cape Town together is still less than the city of Lagos's ecosystem and about 40% of the size of Sao Paulo's, according to Startup Genome. (NB: Joburg's current figures are potentially inflated because of one-off funding activity on Vumatel and K2 *inter alia,* say Startup Genome).



On the map

The good news is we're a bit more on the map now. 2017 saw Joburg host Global Entrepreneurship Week, and both Joburg and Cape Town are included in the Startup Genome 2016/17 Global Startup Ecosystem Report.

Since 2015 we've had a CEO and some full-time staff for industry body, SiMODiSA; we have more than 300 incubators and development entities; Amazon has a presence in the country; over 35 Section 12J VCCs, and a recently launched ZAR1,5bn SME fund. There is clear progress.

WEF's 2014 report, Entrepreneurial Ecosystems Around the Globe, identifies eight pillars required for a healthy entrepreneurial ecosystem, and they are not dissimilar to the key five outlined by Startup Genome, which are:

1. Presence and development of **entrepreneurship, (English), education, culture,**
2. Local **connectedness** and community-building
3. **Series A funding** availability,
4. **Global Know How** (inward, outward programmes),
5. **Other (local-specific) issues** (which may be required to a greater or lesser degree by certain systems, including SA): adequate skills, progressive policies, access to capital, overcoming private-public disconnects/mistrust and reversing low tolerance of risk and failure.

(Photos courtesy of GEN SA)

Crawling, not yet walking?

Getting real movement in the entrepreneurial space needs more than great ideas, it needs action. Yes, South Africa is in its infancy, but how strong is our entrepreneurship ecosystem likely to become by simply sticking to the same trajectory?

Catherine Luckhoff, co-founder of Nichestreem, says: *"The ecosystem is in its very early stages, that includes all parts of it: support structures, capital, government, etc. But we have only been at it for five to eight years."*

Lianne du Toit, GSB (at UCT) VIP Programme Coordinator, agrees that although young, South Africa is starting to build solid foundations in the space. "*There has been a significant increase in activity and interest since 2012,*" she says, and *"we have seen a wave of activity recently*". She believes the increased momentum offers the opportunity to assess what is working and what is not. And pause to reflect that failure is okay. Du Toit isn't the only interviewee to stress that South Africans need to understand that it is acceptable to fail. By failing and coming back from failures, the ecosystem will fortify and progress itself.

Guillaume De Smedt of Startup Grind's view is: *"In five to eight years the whole national ecosystem will be really cool, then we'll see interesting things happening."*

The danger, of course, is that our ecosystem, like startups themselves, are all on a runway. If we don't get it airborne quickly enough, someone else takes the spot. And the active builders may start looking for other flights.

Proud history

South Africa is not backward. We can rightfully take pride in past business successes. We have Mark Shuttleworth's Thawte sale to Verisign in 1999 (about USD850m in current terms); Elon Musk spent his first, formative 17 years here; we have global successes in Sasol, Naspers, Shoprite, Aspen, Dimension Data, Nando's, healthcare group Discovery/Vitality and others.

Enterprise Room and Alites Financial's Niall Gahan explains: *"There are pundits, Nick Binedell [founder of the Gordon Institute of Business Science] among them, who point out that we have produced more globally recognised businesses for a country our size than any other."*

We have the potential, the writers and interviewees believe. But, realistically, an ecosystem producing largely early-stage startups is not going to create USD50m+ gazelles, let alone unicorns, no matter how attractive our past successes.

As a country and as an ecosystem, we should take heart. There are positive signs:
Amazon has a Development Centre and **Amazon Web Services hub in Cape Town; Omidyar Network has established an office in Joburg; The Creative Counsel, Fundamo, WooThemes and iKubu** have been sold to foreign bidders in significant multimillion-dollar deals; and many startups have attracted international funding. One interviewee, Gianfranco Crupi from the University of Milan, is exploring the impact startup space, and says: *"Effort is being made, and there is attention [being given to the space] by foreign countries."*

Parallel ecosystems

A point made by Niall Gahan and others is that we actually have parallel entrepreneurship systems:

1. Innovation entrepreneurs,
2. Lifestyle entrepreneurs,
   and a level down from that,
3. Subsistence entrepreneurs.

"We have two or three ecosystems running in parallel"

ELEVATION

Stumbling blocks

Only innovation entrepreneurship is what the rest of the world means when talking about high growth, high impact startups. Subsistence entrepreneurs, while of economic importance, aren't part of the global startup ecosystem discussion.

Locally, resources are split as they arguably should be, between advancing all three. This dichotomy of approach though, pervades South African society in many ways. Although it has downsides, it can be also be an opportunity. Read in Section 6. how our heterogeneous nature may make us an ideal impact investment haven.

So, do we need to be realistic about the levels of success that South Africa can achieve? **Jenny Retief, CEO of Riversands Incubation Hub**, points out that the country's rockstars are outliers, and these people would probably be exceptional no matter their circumstances. But she does counter: *"If you're a talented black entrepreneur, there is no better time to seize the access to support, resources and capital that is now available."*

Blockages

SiMODiSA produced a report outlying the biggest blockages in the system some years ago, and the most important (of 25 key factors identified) were:

1. Skills deficit
2. Constraining regulations and policy
3. Limited SME and venture funding
4. Private-public sector disconnects and trust issues
5. Low tolerance of risk and failure

There are hindrances to our advancement, and **Vinny Lingham, venture capitalist and serial startup success story-creator**, thinks it'll take time to overcome these. *"There has been some progress in the seven years since we started Silicon Cape, but probably not enough...Getting to where we want to be is going to take many years. It was launched with a 20-year vision."*

On another track, **Geoff Cohen, co-founder of DYDX Media**, refutes that skills are as big an issue as they've been drummed up to be, contesting that SA's market size is the biggest barrier to success, and pursuing the whole sub-Saharan market would be more viable. But it isn't necessarily easy because of the difficulty of doing business across borders and, one could argue, solving issues like visa red tape (more of that later). This hardly makes sense for a country that has listed the growth of entrepreneurship and the growth of SMMEs as a critical part of its 30-year National Development Plan.

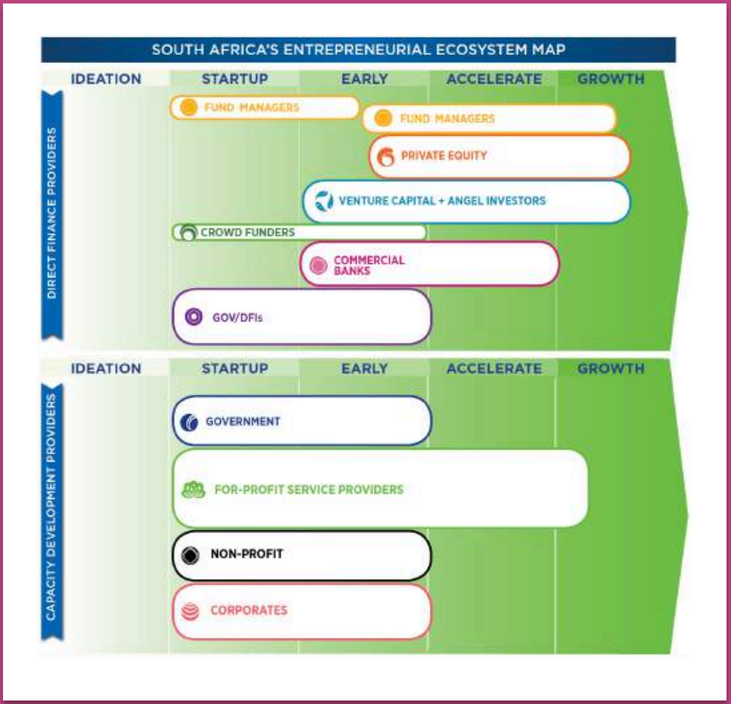
Gianfranco Crupi, as an outsider looking in, says South Africa's lack of sound political structures, together with other landscape and some organisational inhibitors, is decreasing the effectiveness of the startup space.

Reasons for a lack of government enthusiasm about startups, specifically tech ones, is discussed by many interviewees, including **Sean Donovan, CEO of TBWA\SA**. *"It simply doesn't create enough jobs for government to treat it with great urgency,"* he says.

Alesimo Mwanga of SEA Africa also mentions that while there are attempts, we are on the back foot in building a culture of innovation, and need more effort in the space of cohesive entrepreneurship communities.

The five ecosystem life stages, as highlighted by the **Aspen Network of Development Entrepreneurs (ANDE), pictured** alongside, show that government support is important in the formative stages, with private sector players largely coming into the equation after that. If the country cannot launch viable businesses beyond ideation and the startup phase, then the ecosystem will continue to tick over, but with few shining stars.

This WEF highlights the importance of 'support structures and mentorship', where these players are given the necessary help they need to succeed. Mentorship is frequently cited by the interviewees - **serial entrepreneur Elias Makhubo** and others among them - as having a huge role to play. **SA SME Fund CEO Quinton Dicks** points to initiatives like the National Mentorship Movement, spearheaded by heavyweights, Teddy Blacher, Gidon Novick and Paul Bacher, and the role it plays in filling the trust gap.



An excerpt from Aspen Network of Development Entrepreneurs (ANDE)'s useful resource,
SA Ecosystem Map 2017

How big is the market?

"I don't think skills is the biggest issue for where we're at, there is talent around. Even in the small Cape Town system, there is enough around for now...at a price. The real issue is that there are not enough problems that can be solved by tech
for enough people with enough money in South Africa. Maybe if you expand to sub-Saharan Africa as a broader market, but that isn't 1-2-3-easy," says **Geoff Cohen.**

Global connections win

A global view (coupled with exposure) is widely regarded as pivotal to accelerated growth in early-stage ecosystems.

Startup Genome's research, for instance, is clear on the view that startups, particularly tech and innovation ones, must focus on global customers from the outset. *"In the Waterloo Startup Ecosystem report, we established that startups which focused on foreign customers grow 2.1 times faster than others,"* says **Startup Genome.**

Young ecosystems that tap into a worldwide circulation of ideas, knowledge, talent, and capital grow faster. Through global networks, that are rooted in relationships between entrepreneurs, startups can access global customers at a very early stage and develop globally-leading products and business models. *"This is the foundation of unicorns and the trigger for evolution, as seen in the Lifecycle model,"* says Startup Genome.

It is also key to accelerated growth and attraction of international resources, and more global connections. Conversely, ecosystems that are not well-connected do not experience fast growth.

Global Startup Ecosystem Report 2017, Startup Genome

Is where we are okay?

Keet van Zyl, co-founder and partner of Knife Capital's view is that it takes the time it takes: *"There is nothing wrong with being in the very early growth stages. It is a mistake to try copy other ecosystems. South Africa needs to find its own path, and we're probably not going to get to the scale of an Israel who have a deep pool of talent and a multi-layered investment, including government and institutional."*

The writers agree, but question if the path we're on is one that is going to take us anywhere near world class. We need to accelerate, and maybe on a slightly different tack. Success requires an flowing tap, not drips and drops.

3a. Ecosystem | Life stage
Key takeouts

- SA's startup ecosystem may be in its infancy, but is has potential.
- SA is the best ecosystem in Sub-Saharan Africa and can hold its own against many emerging market competitors.
- Past successes have shown that SA could possibly produce unicorns, but there are many inhibitors in the current landscape.
- At least two parallel entrepreneurship models exist in SA, one focused on innovation and another on subsistence.
- Skills, policy and funding remain three key challenges.
- One of the best ways to accelerate the life stage is through global connectedness.

3. ECOSYSTEM

b. The state of capital

The subject of funding capital, and access to it, is one the most contentious in SA's startup ecosystem. And for good reason. Funding is a key requirement for growth, and there are differing feelings from our interviewees on whether or not there is enough in the system, with several local rockstars recently favouring international money: Yoco, Giraffe, Where is My Transport, Zoona, Luno (BitX) and Nomanini.

Sources of financial capital

Is it important to note that venture- (and even angel) capital represent a small proportion of startup funding in SA and, indeed, sub-Saharan Africa. This was borne out by some interviewees, but also in reports like the 2013 one on African Entrepreneurship by Omidyar Network and Monitor Group.

For **Claire Busetti**, this is an indictment. *"South Africa's private equity market is one of [the best], and it was kick started with [international money]. It is still, as a percentage of GDP, fifth in the world. South African VC, on the other hand, is at the bottom – lower than Albania."*

According to the SA Private Equity and Venture Capital Association (SAVCA), VentureBurn and other sources, roughly half of South African startups are boot-strapped by founders themselves, friends, family (the infamous 'FFF') or by incurring personal debt*. VC and angel funding together represent less than 15% (or under 10%, according to some sources) of total financing. As **Keet van Zyl** observes: *"VC is just one Lego piece in the overall funding, let alone entrepreneurship, puzzle."*

The Kauffman Foundation: sources of capital
Entrepreneurial Policy Digest, June 2015
(America's **Inc. 5,000** high growth companies)
Bank financing is a very fringe funding mechanism locally

*__VentureBurn's 2015 Startup Survey__ (n=197 founders) tested that 56% of local startups are boot-strapped, and 15% are 'FFF'-funded. Bank loans only represent 2% locally

And our market is ripe for angel investing, especially when you consider that other sources of investment return (listed equities, money markets, etc.) have largely disappointed in the last two years. Not surprisingly, there has been an increase in activity in the angel space, including the 2016 launch of SABAN (our local angel network), increased activity of Jozi Angels, and the likes of Shark Tank's Gil Oved (and business partner Ran Neu-Ner) getting into the space with big cheque books.

Corporate enterprise development spend has also boosted some VC coffers. Between it, personal investments under 12J VCCs (covered later in this chapter) and other injections, the likes of **Business Partners**' SMEs fund stands at ZAR400m, **Grovest** at ZAR125m+, **Edge Growth's** fund is reportedly sitting at over ZAR450m (with ZAR388m in the Vumela fund alone), and **4Di** with funds of more than ZAR350m. It is looking a lot better than a few years ago, but is still dwarfed by private equity funds.

Two views:

"There is enough. No, there isn't."

Many of the founders interviewed, as well as those quoted elsewhere, believe there isn't enough money in the ecosystem, especially early-stage capital. Local VC and investors counter that, while that may or may not be the case, only a small fraction of the businesses presented to them are investable.

Two opposing views: "There is enough. No, there isn't."

Brett Commaille, CEO of Angel Hub Ventures, explains: *"From the top of the funnel to actual deals, we fund one in 100 to 200 proposals. It's not a lot, but it's not out of kilter with international norms."*

According to Startup Genome, the case-by-case sum of early-stage funding in South African tech and innovation startups is tiny compared with the international average: about USD10 000 each in Joburg and USD20 000 each in Cape Town (versus a global average of USD252 000 per business). And even factoring in smaller sums of enterprise development-related funding into these averages, are high quality investable ideas being hamstrung by the amount of available capital (and the immaturity of the system) to fund them?

Given this low funding range, the total investment required is less than 10% of the global average across even 10 businesses, so there is an argument that the total financial risk is many times lower on a portfolio of 10 SA startups.

Let's talk skills

GEDI's 2016/17 report, which covers South Africa and sub-Saharan Africa, indicates that by far the major bottleneck in the South African system is 1. entrepreneurship skills (63% weighted attention required), followed by 2. risk capital (26%), with technology absorption the third priority (11%).

Rating the capital base

- The 2016/17 Global Entrepreneurship Monitor's **(GEM's)** Entrepreneurial Finance Indicator ranks South Africa **37 out of 66** nations polled, with a **score of 4,26**.
- Disrupt Africa says total **Africa** funding in 2016 was **USD129m or ZAR1,8bn**.
- The South African Venture Capital Association (**SAVCA**) says **ZAR1,87bn**, across more than 186 deals, was raised in SA between **2011 and 2015**, with ZAR146m in new capital over 43 deals in 2015 (heavily down on 2008-2012 levels, but up on 2014).
- By contrast, **private equity's** 2015 new money going into funds sat at ZAR29bn, with total funds under management of **ZAR165bn** (end-Dec 2015). Venture capital (as recorded) represents 1,1% of that.

SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

GEM

DISRUPT Africa

“The key bottlenecks in the local system are:

1. **Entrepreneurship skills (63%)**
2. **Risk capital (26%)**
3. **Technology absorption (11%)”**

GEDI’s 2016/17 report on sub-Saharan Africa

Financial capital vs. advisory capital

The VCs interviewed for this report felt that their deal flow was satisfactory. But that is subject to the important proviso that the captive private capital pool is very small and not that hard to satiate. The chicken and egg dilemma appears.

The stalemate has to be broken. SA needs a greater number of rockstar startups: preferably ones that seek local and not international money first. And we need either some, or a lot, more capital to support them. More on that later.

Another important comment that came up again and again was the shortage of 'advisory capital' or intellectual capital: guidance and heavyweight entrepreneurial mentorship.

A widely held view calls for more high-end coaching. The argument is that with that in place founders could get by with personal financing and maybe some angel money until they can support themselves out of cash flow. Then they could move on to later rounds of growth funding. As **Quinton Dicks** notes: *"Access to capital is only one of about 11 areas of challenge that require urgent attention to improve the ecosystem. Education and skills upliftment form the bedrock of such change."*

Risk mitigation & diversification

The relatively small amount of risk capital in the ecosystem (which even if underestimated, is still less than say 20% of private equity funds under management) is attributed to the high risk profile of startups, especially in a small (and corporate-dominated) market like ours. That said, SAVCA quotes the return on investment from member venture capitalists' 2015 investments as 20%: well ahead of listed equities.

While **Peter Bauer, Mimecast CEO and co-founder**, says: *"Access to financial- and knowledge capital is essential, the latter is important so you know what to do with the former."*

In the series of interviews, VCs spoke about the processes and procedures they put in place to mitigate risk in order to manage their downside. But some interviewees contend it's this risk-averse attitude that inhibits their upside. Among the big names who feel this way is **venture capitalist and entrepreneur Vinny Lingham**. *"Locally, lots of the guys don't get it. Firstly, they need to have their own money in the game, then they need to take greater risks, and more of them. Then you set a five-year horizon, and let it play out,"* he says.

It's a Catch-22 situation though, because the only real way to reduce that risk is to spread it across more (and more diverse) entities. But many South African VC funds are under ZAR100m and under 10 investments in size, so they have to contain risk as they can't afford the traditional 5% to 25% success rates. This begs the question: if capital supply flow improved in order to encourage demand, would more startups rise to the occasion and get funded? And would it stop rockstar founders seeking primarily international capital and/or re-locating off-shore?

Zach George of Startup Bootcamp says profitability is considered foremost in the SA landscape because of the low capital-risk equation here, as contrasted against the high burn rate of more mature markets. These work on a model of high degrees of spend increasing the chances of mega returns.

Seasoned German angel investor, Peter Jungen, who recently visited South Africa, says: *"As far as I'm concerned, 20 investments is a decent risk diversification strategy for a portfolio. If it's a young one, then okay, maybe you can get away with 10."*

Vinny Lingham Civic (USA, SA)

Zach George
Cactus Advisors & Startup Bootcamp (SA)

Peter Jungen Angel (Europe)

So, with a large number of new founders entering the game, along with some large local exits and some very large international ones (congratulations most recently to GetSmarter on their USD103m sale to US-listed U2 in April 2017) would the system not look very different? Add some stellar going-concern value building and a mid-field of double-digit positive return investments, and it feels like quite a different show.

This offers a leapfrog opportunity for South Africa, see Section 6. of this report.

SA SME Fund

The SA SME 'match' fund created by government and the private sector in 2015, gained its long-awaited CEO in early 2017. It is a pivotal initiative for the industry because the ZAR1,5bn pledged massively increases the size of the available capital pool. When interviewed, **CEO Quinton Dicks** said: *"A fund of this size is significant enough for us to hopefully make strides in supporting both businesses that focus on creating employment and ones that are high growth."*

Since then, however, government has indicated it will not be matching the corporate contribution. This may be seen as a severe blow to the system, but nonetheless the fund will start releasing the private sector funds (via third party venture capital intermediaries, fund of funds style) in the second half of 2017. And the hopes for impact are high.

"Government will not be matching"

National Treasury Director-General
Lungisa Fuzile

Section 12J VCCs

Good news for both startups and investors is that the Section 12J complexities have been ironed out for some time now, and capital is being released into the ecosystem. *"It's now really taking off, we were the first to properly establish three and a half years ago, but there are over 35 venture capital companies now, and growing,"* says **Jeff Miller, Chief Executive at Grovest.**

More VCC companies equals more capital. The Income Tax Act allows these funds to invest in businesses with assets up to ZAR50m, so it won't all be earmarked for micro enterprise or very small startups.

But, as we've said, at the top end of the startup pyramid (the rockstar space), local capital competes with international. Seedstars winner, recruitment startup **Giraffe** opted for 'foreign' VC from Omidyar Network over local. Says **Anish Shivdasani**, *"we had more sophisticated conversations and better chemistry with Omidyar than the local guys."* His view: *"The local investor community is understandably more risk averse, no one expects huge multiple ROI rates, but that doesn't work well for ambitious tech startups."*

While this is understandable, it opens the door to international players, and that is fine – it is, and should be, a global market. But for the sake of our ecosystem, we do want local capital to be a first, or at least prominent, choice.

Local VC approaches, although improving, need to advance. They are thought, by several interviewees, to be very traditional: dwelling on "old school" (physical world) business metrics like revenue, profit and cash flow, as opposed to the international VCs' focus on the likes of cost per acquisition, unit economics and marketplace liquidity.

"Omidyar demonstrated such a strong understanding of our business, we wanted the guy on our board," says Anish Shivdasani.

Anish Shivdasani CEO, Giraffe (SA)

OMIDYAR NETWORK

Crowdfunding

Crowdfunding may have had a slow start in South Africa and, indeed, there are few publicised success stories. Of course, there is Indiegogo and many international funding sites, but there is also growth in the local scene with Jumpstarter, Candystick, Thundafund, StartMe and more, all vying for attention. The Financial Services Board, at the time of writing, is determining whether to craft regulations for this space.

While it was mentioned only once or twice by the interviewees, crowdfunding should not be discounted. BRCK, the East African success story, got out of the blocks on Kickstarter. And **Nimuno Loops, a Cape Town Lego-like toy tape producer**, aimed to raise USD8 000 on Indiegogo and instead hit more than USD1,6m (over ZAR20m) in March 2017. This amount would have been near impossible to achieve using the traditional South African startup capital machine at the same stage of the company's existence.

Nimuno Loops (SA) was crowdfunded through Indiegogo

An unexpected perspective

Famous startup commentator, **Fred Wilson**, who has been in funding since dot-com/dot-bomb, has an interesting view on the global addiction to early stage funding: Don't do it.

"The fact is that the amount of money startups raise in their seed and Series A rounds is inversely correlated with success," says Wilson. *"Less money raised leads to more success. That is the data I stare at all the time. It makes little sense at face value but it is true based on more than two decades of experience in the startup world."*

We would challenge, that at less than 10% of the global average investment per startup locally, this doesn't apply verbatim to SA.

Fred Wilson VC & Commentator (USA)

Big capital injection

Against the close to 100 ecosystems across the globe that Startup Genome surveys, we don't have an issue with quantity as much as overall scale. Currently in Joburg and Cape Town, together, there are between 900 and 1 700 active startups against a global average of 1 762 per ecosystem. But there are many tiny players in there. So the total value is small.

One way of stimulating capital demand is by massively, and publicly, increasing capital supply. Countries like Isreal did it through military and other state spending, and created literally hundreds of startups that played to those budgets. The private equity market in South Africa spent many years getting legislation passed for pension funds to part with an increased percentage of their funds (Regulation 28 in 2011 increased the historic 2,5% to the current 10%), but have delivered good returns on it since.

There are no major public or private institutional funds that invest in the startup economy, and one suggestion is that if legislation is passed directing at least the Public Investment Corporation (PIC) and other public pension funds to deploy 0,5% of their capital into venture funding. The capital pipeline would increase overnight by billions of rands. **Would startups rise to meet the challenge?**

"The only way of getting the South African ecosystem sustainably to scale, in my mind, is through subordinated government funding being deployed via third party private venture capital partners."

Claire Busetti

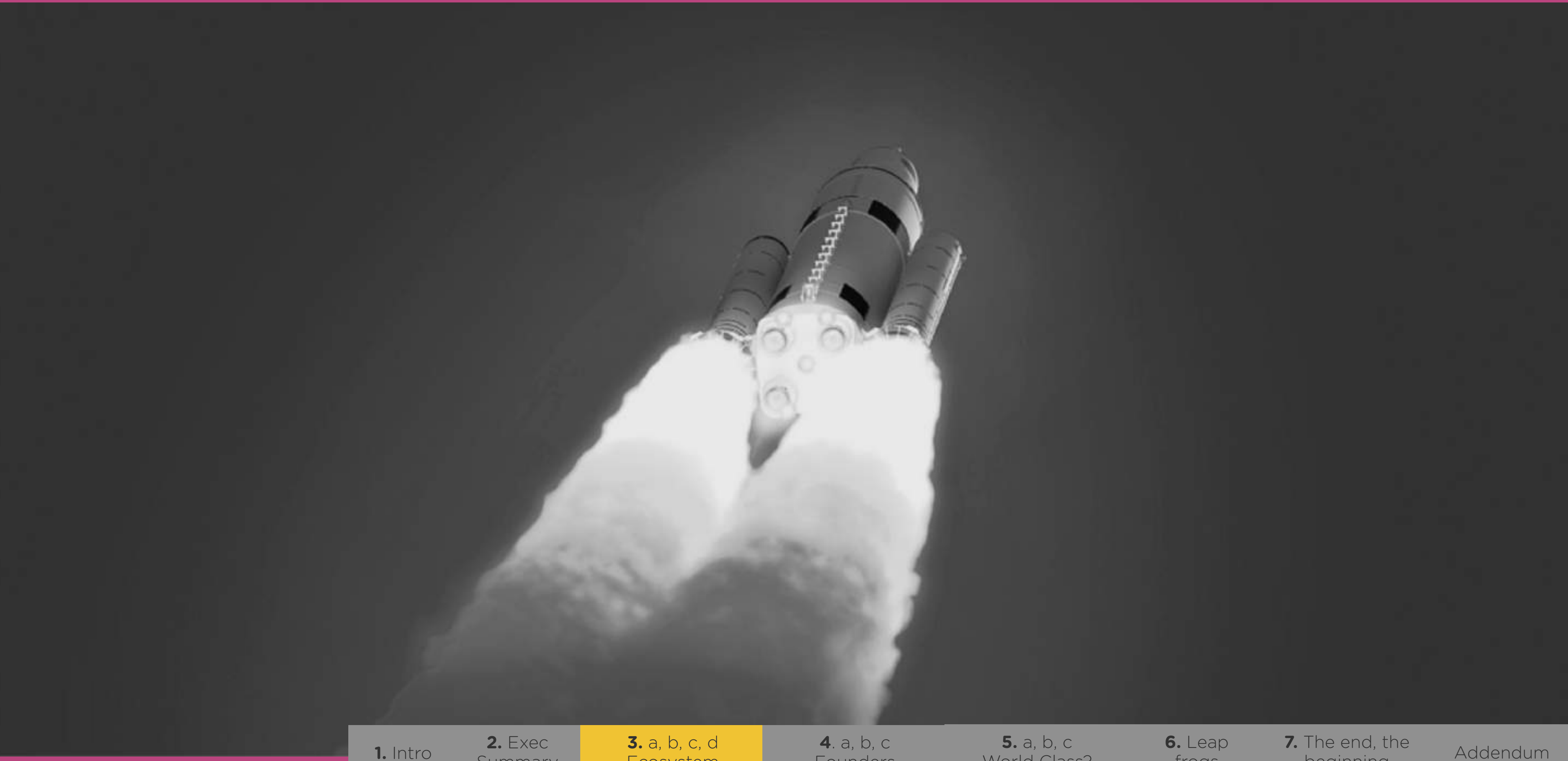
ELEVATION

3b. Ecosystem | The State of capital
Key takeouts

- Venture and angel capital are a small portion of startup funding in SA. Most SA startups are bootstrapped.
- Commentators and founders believe there isn't enough money in the ecosystem; while some VCs say that early-stage funding is not the problem.
- The amount of funding per project is, however, woefully below the global average, and the total pool is, even optimistically, less than 20% of SA's private equity one.
- Would pumping billions into the system make a difference? Would demand rise to meet supply? Or are problems like skills and market size a bigger problem? Answers are not clear cut, but we favour a large capital injection.

3. ECOSYSTEM

c. Incubators & accelerators



So many?

SA has a disproportionately high number of incubators, accelerators and 'capacity development providers': ANDE says more than 340 organisations across SA provide support (India has 140, and Israel 130, says NASSCOM). For several interviewees, including Giraffe co-founder, **Anish Shivdasani**, there are simply too many: *"We should be aiming for one or two really iconic accelerators like Y Combinator and 500 Start-Ups. Literally two great ones and that is it. Silicon Valley wasn't built on incubators."*

Interviewees' reactions to the type and quality of SA's incubators and accelerators are mixed, but overall there was concern. And frustration too, particularly when would-be entrepreneurs *"leave these courses with limited skills, a so-called pitch deck and little to no chance of getting funded."*

While some are highly rated in the market – SiMODiSA CEO **Matsi Modise** points out the likes of Aurik, SW7 and Endeavor as *"doing a great job"* – many others are ill-prepared, out of step and simply fail to impart even the most necessary skills to would-be entrepreneurs. As a result many incubators - more so than accelerators, it must be said – generally prop up average players, rather than nurturing hostshops towards gazelle status which would buoy up the ecosystem, help bring it scale and provide a guiding light to new entrants.

That said, these organisations do impart some skills and ensure opportunities for subsistence or small-scale entrepreneurs, but they are, on the whole (and with notable exceptions), failing to create high-potential, scalable startups. Even if all of Joburg and Cape Town's 900 to 1 700 tech and innovation startups (per Startup Genome) were incubated, the output

Next step or misstep?

of businesses to capacity development providers is disproportionate (a frightening ratio of something like five startups per provider). **Geoff Cohen** puts it, less tactfully: *"The danger, for me, is that incubator programmes add to noise rather than signal. And they can protract the Darwinian process."*

Jeff Miller's view is: *"The ecosystem can't just give either cash or tech skills, it needs to give both. The need for incubators in SA is partly fueled by the fact that there is limited seed-money around. Even early stage money. So incubators help reduce the risk of backing young startups."*

Jeff Miller and the executive team at Grovest, (which also oversees Seed Engine)

Some believe incubators give entrepreneurs the confidence to engage investors and take the next step in the business's life-cycle. *"Incubators play a very important role, especially for early-stage businesses, which have very little access to advice and best practice,"* says **Brett Commaille**.

But from a straight commercial success perspective and ratios like 5-to-1, it seems the desired outcomes are not being achieved. Or is that 'not yet'? Most interviewees believe decisive action is required in this space, because it could and should play a much more effective role in the ecosystem. Currently metrics are "a bit flaky", with a huge empasis on quantity over quality. The fact that there is no industry-wide set of guidelines, standard operating procedures and no industry body per sé*, means, as one VC says, "80% of them are bad."

So it seems an intervention is required to uplift standards, and put this capacity to good use. And it is our view, that the industry should look to self-regulation to address this: the bad give the good a poor reputation. The USA has The National Business Incubation Association (NBIA); India has more government intervention with 'Start-up India Stand-up India.

*Locally, the EDCSA (Enterprise Development Council of South Africa) has been constituted to look at this *as part* of their agenda, and support should be given to see it happen rapidly.

Scalarators

One route might call for a greater emphasis on more inclusive accelerators to scale promising startups into gazelles - a sifting out the wheat from the chaff, so to speak. This is aligend to the global move towards 'scalarators'. But this would likely jar in South Africa's developmental context, and understandably so. Many of the incubators are funded by enterprise development (ED) money mandatorily spent by corporates in order to comply with BBBEE codes, and these funds cannot be deployed elsewhere at will.

There are literally over 140 incubators/capacity development providers in South Africa, varying dramatically in quality and duration of training and support offered. Some are run directly by corporates themselves, while others are privately owned (but largely funded by coporate (BBBEE and other) budgets, and the latter, particularly, can be patchy.

And while much of this money can, and should, be used to advance previously disadvantaged individuals (PDI) entrepreneurs, the startup ecosystem benefits are arguably limited. Many, *not all*, such participants aim to own and run micro- or very small businesses. And while there is some economic and employment benefit in that, it is unlikely to spawn many high-growth high-impact businesses, let alone gazelles or unicorns.

We're not even near the level of worry. US angel investor, **Craig Mullett**, expresses: *"While some of the US programmes are good at getting well-known angels and VCs to interface early on, if what they're exposing them to aren't rockstar quality, funders will stop going, and credibility will be lost.*

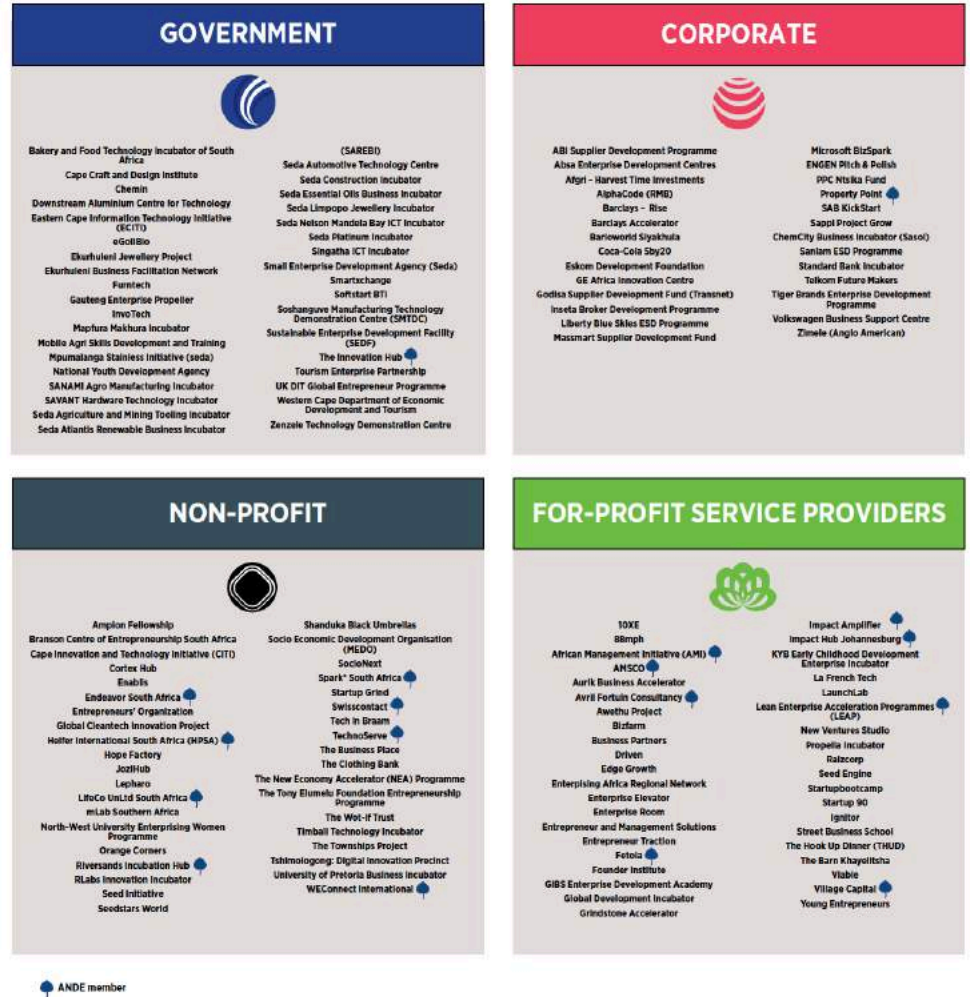
Down the line South Africa runs this risk if it continues to lobby funding for programmes producing startups that aren't of high quality and potential.

Increasing their value

A more sustainable model might be the Riversands Incubator Hub (RIH) approach, which, fairly uniquely (in the For Profit space), helps create mostly *secondary* industry companies that can be fairly big employers. About two and a half years old, and fully operational for 18 months, RIH looks set to help build many small manufacturing and processing employers, and it may even help create some world-class endeavours.
But it doesn't take on ideation stage entrepreneurs, and it requires anyone applying to be able to at least afford the subsidised minimum rental cost.

This begs the question whether – given the scale of incubators and the number of individuals going through these doors – SA might have an opportunity to rather re-direct a great number of the incubators to creating talent that are third-in-commands, or the fourths, eights, or 28th on the organogram of startups. Start-up ready team members rather than full-on entrepreneurs.

This could address government's job creation drive faster (and more effectively?). And potentially impact BBBEE scorecards in the future, as some of these individuals may even be able to negotiate a minority equity holding in the businesses they help to scale up.



Capacity development provider listing including incubators and accelerators (not all inclusive) from **ANDE's SA Ecosystem Map 2017**

Shuffling corporate compliance spend out of the ED pot and into the Skills Development and Supplier Development (SD) pots is also not impossible.

Usefulness

Actions like this could help thwart the stigma of incubator programmes being too generic to be of real value. *"They tend to be too cookie-cutter in their approach. They need to be more customised to each business's specific needs, if they are truly going to be useful,"* says **Catherine Luckhoff**.

But **Elias Makhubo** adds: *"They can only go so far, people and businesses are not homogenous products, so it is hard to satisfy all of their specific needs and wants."*

If they, even in ideal cases, have limited value, let's look at deploying more resource into creating startup talent than B-player entrepreneurs, or ones that leave ill-equipped to start and run any kind of business. Entities like CodeX and We Think Code are such talent builders, but imparting a broader skill set.

Some interviewed also criticised incubator initiatives for interfering with the actual running of businesses for short periods rather than approaches of long-term partnering. *"They distract the founders from the important stuff like getting in front of the client to make business happen,"* says Rethink Education founder **Doug Hoernle**. *"Three-month incubator and accelerator programmes are a problem. There is a graveyard full of incubator programmes that were too short to achieve their objectives."*

we think code_

codeX

Some also pointed out the 'post incubator funding gap': *"It takes three- to six-months to raise funds, so if you start raising at the end of your incubation run, you now have businesses that need to survive for another six months before funding, and even then, some need more time. Most incubators are not structured to support this,"* says **Brett Commaille**.

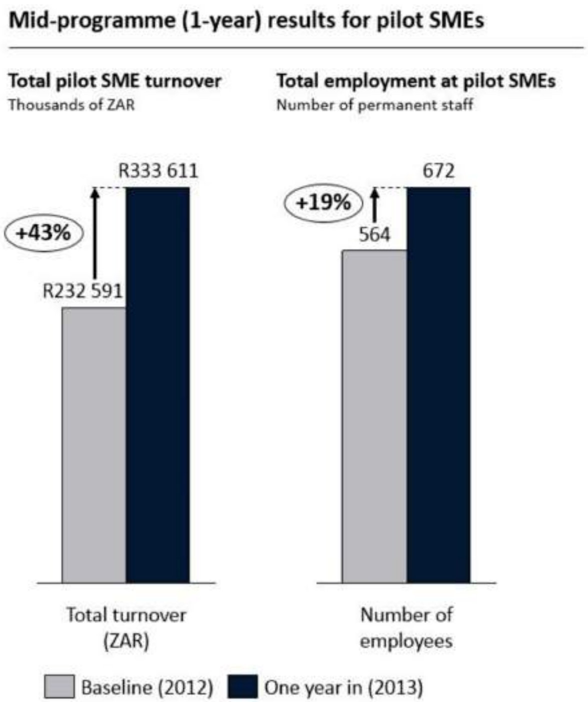
UK-based investor James Durrant is more forthright, saying *"incubators are possibly becoming defunct in fast-moving markets, especially for businesses with great ideas and great teams"*. He says incubators are not enabling top startups to move fast enough to catch the big fish. *"If the businesses are really good, you risk them being snapped up by others before the end of the runway."*

Quality of the outcomes

Others highlighted the link between the success – or not - of these programmes and the quality of the entrepreneurs entering them. *"Generally in incubation the chances of success are increased by 'extreme selection'. That process is expensive, and the alternative is to use that money to incrementally invest in people who have something promising already happening that could turn into a viable SME,"* explains **Jenny Retief, CEO of Riversands Incubation Hub.**

James Durrant notes that even under more ideal circumstances, *"it depends on the person and how it works for them, some may find incubators help with their progress"*. But he cautions: *"Some of them [incubators] tend to baby mediocre entrepreneurs into thinking that they're going to have successful businesses."*

ELEVATION



"We consider ourselves more of a corporate accelerator than an incubator, with a strong focus on giving the graduates of our programmes access to markets." says **Jayshree Naidoo, Head of the Standard Bank Incubator**. They believe in a deeper involvement in programme participants' fortunes, and have connected several to customers and revenue streams.

The flavor of support required by many may be something other than, "God helps those that help themselves". A fascinating local report by **Catalysts for Growth in 2014**, showed the benefit, at the higher end (they worked with Raizcorp and Aurik), of improving business development support (BDS) to startups. It increased turnover by 43% and employment by 19% in their pilot. So it can be done.

But the vast incubator and capacity development provider network, it seems, needs some regulation: self or otherwise to get there. But maybe also focus?

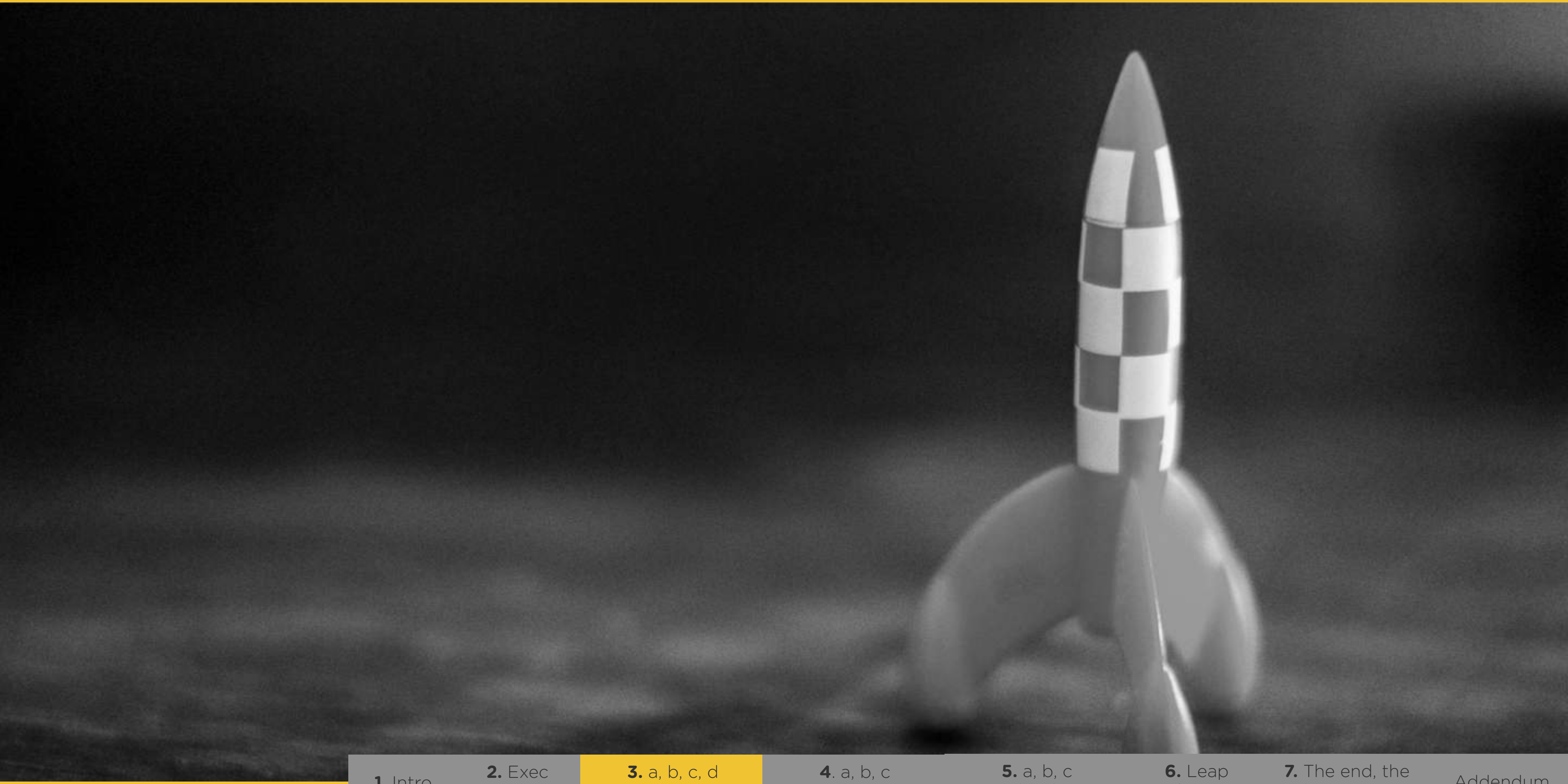
Above and beyond that, there may be a vital different role that they, and their many graduates can play, as specialised startup team members rather than full-on entrepreneurs. **But more of that in Section 6. Leapfrogs**.

3c. Ecosystem | Incubators & accelerators
Key takeouts

- South Africa has almost as many incubators, accelerators and startup support providers as Israel and India put together.
- Reactions to the type and quality of SA's incubators are more negative than positive. Some believe their approach is short-sighted and ineffective.
- Measurement and self-regulation could bring higher standards to the "patchy" outputs.
- The playing field is muddied by legislated entrepreneurship development funding which largely measures participation, not impact.
- Rather than graduating under-equipped would-be entrepreneurs, there is potentially a more valuable role, a leapfrog, that this huge infrastructure can play in developing the ecosystem.

3. ECOSYSTEM

d. The role of Government



Key driver or support system?

Interviewees are mixed in their feelings about the role government can and should play within South Africa's entrepreneurship ecosystem. Some advocate for more involvement, others less, and some none at all. Broadly government is not seen as a magic elixir, capable of waking up the ecosystem, although the state is vital in creating support mechanisms and infrastructure.

The interviewees, most attuned to the space, think that national government's involvement in the startup space should be efficient to the point of almost going unnoticed. The market should be allowed to do its work relatively unhindered, but with focus being applied to key areas:

- **Reliable infrastructure and ease of doing business,**
- **Policy that doesn't hamper the ecosystem and, ideally, supports it via, primarily, tax incentives and visas,**
- **Working to attract foreign interest, mentorship and investment,**
- **And a vastly improved education system.**

Catherine Luckhoff believes it is better for the state to be hands off and rather focus on fixing education. *"I think they should stay far away and rather focus on introducing coding as part of the school curriculum."*

Jeff Miller, Chief Executive at Grovest, says *"they are trying and relationships with the private sector are improving."*
Quinton Dicks, SA SME Fund CEO, advocates for *"more focused, efficient and results-driven government involvement."*

This was not the only call from interviewees for government to focus on education rather than tinkering in entrepreneurship, which is an area most governments just don't seem to get. It is broadly felt that government can better serve entrepreneurs by leaving matters to a privately-driven ecosystem that works to commercial imperatives.

Others feel that if national government remains involved, then it should intervene strongly, pour money into the ecosystem directly, or via incentives and rebates, and investment substantially. This could elevate the entire ecosystem, effects could be profound. But the cheque is billions, not millions.

Where does government fit in?

It makes sense when you look at the key actions for early-stage ecosystems, namely: 1. education and culture, 2. local connections and community building, 3. Series A funding and 4. global know-how. This requires support such as skills, policies, capital, private-public sector collaboration and a tolerance for risk and failure. Of these, only policies and a private-public sector contact need to involve government.

But there are some tasks only government can undertake. National government has a vital role in creating an enabling environment. This means dealing with broader policies affecting education, tax incentives, labour laws and overall investor friendliness. Provincial governments must tackle infrastructure, transport, power and water supplies and issues relating to the day-to-day running of a business that would otherwise be impacted.

At a national level, **Lianne du Toit** raises visas and the ease of doing business globally. *"To compete globally we need to rethink how we collaborate globally. We need to relook at visa restrictions and investor incentives. Rwanda, for example, has greater ease of doing business than South Africa."*

Some tasks only government can undertake

The results have been mixed

The view, on the whole, was that simply, government – national and provincial – must concern itself with running the country well and efficiently, and ensuring vital infrastructure is in place.

- Government must educate the youth of the country for the future, and not for today.
- Government must provide tax incentives and other tax policy structures that encourage locals and foreigners to set up startups in South Africa.
- Many feel that South African development finance institutions (DFIs) should pair themselves down to the absolute essential policymakers and strategists, and outsource the actual deployment of funds to the private sector that are specialised in doing it.

But national government has huge employment creation targets. Although the transformative effect of startups on any economy can be large, the real economic impact in the early stages is small, and it is unlikely to yield the sort of job creation government is seeking in its National Development Plan (NDP). As a result, several interviewees questioned whether government has the time, resources, or interest in engaging with SMEs broadly, let alone in the startup space.

Minister Lindiwe Zulu
Department of Small Business Development

Two clear views came from **Matsi Modise, CEO of SiMODiSA**, and **VC, Vinny Lingham**. *"We need government to cultivate job creators, not job seekers,"* says Modise. While Lingham believes: *"Government just doesn't have time for it. They have many bigger issues to deal with."*

That said, government's play is already underway: in the Small Business Development Department, its SME assistance agencies, and the ministries of Science and Technology and Economic Development among others. These are ongoing, and results are mixed (at best), with many projects currently iced, and an admission that "a more cohesive approach is required". A huge trust chasm has developed between government and South African business generally. Neither big business nor SMEs seem to be getting everything they want or need, but largely the startup ecosystem gets on with what it needs to do, using government where it's expedient to, and trying to bypass or overlook it where not.

The view, on the whole, was that simply, government – national and provincial – must concern itself with running the country well and efficiently, and ensuring vital infrastructure is in place.

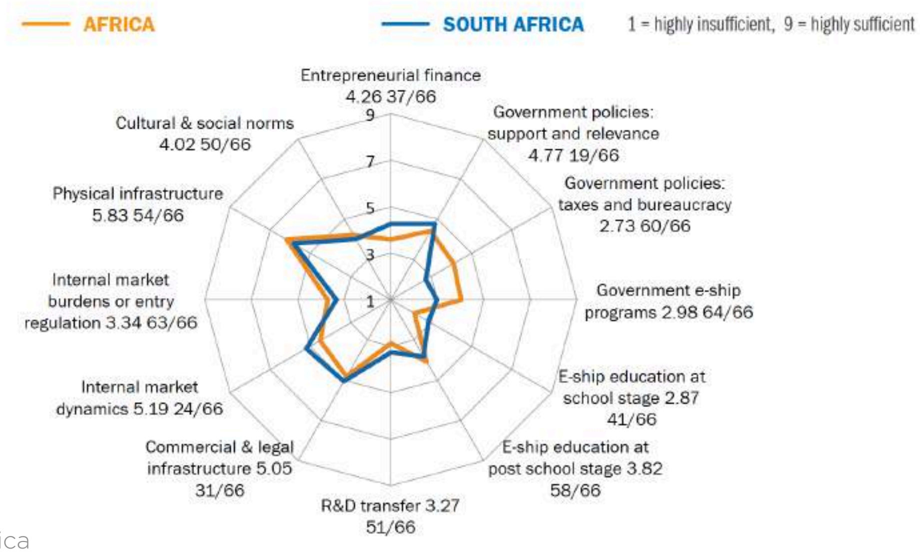
Education is key

An instrumental part of what government should be doing is fostering the right type of education system. SA has an entrepreneurial education score of 3,82 (on a scale of 0 to 9) according to the Global Entrepreneurship Monitor (GEM). When it comes to entrepreneurial education at school stage, the GEM report ranks SA at 41st out of 66 countries.

Post school education ranks at 58 out of 66. Global bodies like the Organisation for Economic Cooperation and Development (OECD) say South Africa's education system ranks 75th out of 76th (2015 figures). So it is clear where government can intervene for impact. Better educated citizens make better entrepreneurs, say many interviewees.

But SA is falling woefully behind the global curve. Education needs to change say many of those who gave us input. *"We should also be focused on ensuring the next generation is skilled for the 21st Century economy – or the Fourth Industrial Revolution. We are falling further behind, which makes catch up almost impossible as things are changing so quickly. And trying to address it at tertiary level is too late,"* says **Quinton Dicks**.

Expert Ratings of the Entrepreneurial Eco-system (ranked out of 66)



There is a direct relationship between educational background and entrepreneurial success, says **Niall Gahan of Enterprise Room.** With most South African success stories in the fintech and medtech spaces *"coming from highly educated backgrounds"*, the country will continue to lag the world unless government gets this right.

Skills development

Hand-in-hand with education is the need for skills development, say many interviewees.

Matsi Modise does not mince her words, saying outright that South Africa has a skills deficit. *"We have entered the Fourth Industrial Revolution, but the South Africa system is still very light on digital and tech training, and entrepreneurship education. Township entrepreneurs are still very basic (and under-ambitious) in their idea generation."* While Lianne du Toit says the problem is as much a *"mindset shortage as a skills shortage"*.

Craig Mullett agrees that *"fixing the South African education and entrepreneurial skills gaps are a priority to enable South Africa to compete."*

While most comments support this view, **Jeff Miller** feels SA certainly has the right resources, they just need to be tapped effectively. *"The basics are all there: SA has enough of the requisite skills: willing entrepreneurs, the landscape, and all the rest."*

Matsi Modise SiMODiSA (SA)

Entrepreneurial education in the doldrums

Key indicators, South Africa	2015 score	2015 rank /62	2016 score	2016 rank /66
GDP per capita			$5,700	
Overall TEA score (9,2 and 6,9)		38		52
SME contribution to GDP	45% (2014)		36% (2015)	
Improvement (vs. Need) driven entrepreneurship	1,1	50	1,8	40
Entrepreneurship Finance	4,01	34	4,26	37
Government policy: support	4,13	29	4,77	19
Government policy: tax	3,08	49	2,73	60
Government programmes	3,00	60	2,98	64
Entrepreneurship education: school	3,06	29	2,87	41
Entrepreneurship education: tertiary	4,21	41	3,82	56
R&D transfer	3,44	47	3,27	51
Commercial & legal infrastructure	4,85	33	5,05	31
Internal market dynamics	4,46	40	5,19	24
Internal market burdens, entry regulation	3,93	38	3,34	63
Physical infrastructure	5,85	48	5,83	54
Cultural & social norms	3,42	59	4,02	50

Source: Global Entrepreneurship Monitor 2016-2017

Funding

The question of funding saw a divergence of views amongst interviewees. **Probably the biggest question lies in whether or not government should make capital available at all, and directly or indirectly invest in the startup ecosystem.**

And while some of this terrain has been covered in 3b. State of Capital, it's worth re-stating that many of the most successful entrepreneurial ecosystems around the world benefit from this kind of paternalistic approach, including London and Singapore. While others have outgrown it, for instance Silicon Valley and New York. In SA, where the system is embryonic, there is a strong case to call for as much support as possible, but the track record of South African government has proved that too many poorly equipped cooks can spoil the broth.

There is a strong desire on the part of founders to access government capital. But it seems hard to get at for most part. In addition, government funding institutions, appear to e a fool's paradise. Historically, not all of those investments have been deployed wisely via DFIs, and very few of them seem to be tracked rigorously post-investment.

Either way, of the tech and innovation founders looking for seed capital through government channels, a small proportion will succeed. The ecosystem's consensus seems to be that if government is going to deploy capital into the system it should be via the private players who are arguably better versed, and more invested, in making startup money work for a return.

technology innovation AGENCY

IDC Industrial Development Corporation

sefa Small Enterprise Finance Agency

seda Small Enterprise Development Agency

National Empowerment Fund Growing Black Economic Participation

GEP Gauteng Enterprise Propeller

The Jobs Fund South Africa. Siyasebenza

Some of the South African DFIs and agencies

Jeff Miller is amongst those who feel government should be assisting VCs with funding rather than pumping money into state organisations and DFIs like the Industrial Development Corporation. *"These public institutions just don't have the capacity and mindset for proper post-investment management. They provide inadequate support, business introductions, shared services, etc. to assure success,"* he says.

Some interviewees feel that although private money is available, government needs to up its game. **Guillaume De Smedt** says: *"Government should have a medium level of involvement. They should match funds."*

But, in April 2017, as stated, Treasury said they no longer intended to match the R1.5 billion which 48 large South African companies pledged to the SA SME Fund. This despite Deputy President Cyril Ramaphosa's statement a year earlier that government would match private sector contributions.
This does little to foster trust between the private and public sectors.

Other areas of investment like government procurement 'set asides' could have a huge impact on South African small business. In the 2015 Budget Speech, 30% of total government spend was mooted for SME allocation. That's an amount of somewhere between ZAR50bn and ZAR150bn. Staggering. Then there was a lull. But it was Gazetted in January 2017, so we now look forward to the flow. But our government, like many, can be erratic; policy roll-out is fraught and slow; and the definition of SME is far more embracing that just startups. Can this financial injection be relied on?

sa sme FUND

Leapfrog?

One possible route to significant growth is to provide improved access to public purse capital and a shift in entrepreneurial dynamics. For instance, a directive for all public sector pension funds - most notably and obviously, the PIC - to allocate just 0,5% of funds under management to SMEs, would massively shift the goalposts in the startup space. By around ZAR10bn. Radical? But worthy of discussion.

Trust and collaboration

While not all interviewees agree on the degree of government involvement, there is general consensus that more collaboration among all stakeholders in the ecosystem is vital. As noted, there is a significant *"trust gap"*, it seems.

This was reiterated by several interviewees who don't think government and the private sector are likely to bridge this gap convincingly foreseeably. Therefore, the ecosystem will have to skirt around this problem in the short to medium term.

Where trust is in place, there is greater success, say the interviewees. Many point to the Western Cape as leading the way in terms of the entrepreneurial landscape. The Cape players are good at organising themselves as a cluster, and then profiling that cluster well, says **Matsi Modise**. *"There is also better support from local government; Alan Winde [Western Cape Economic Development MEC], for example, is a great catalyst and supporter."*

Winde got another mention from **Keet van Zyl**: *"Alan Winde and colleagues, in the Western Cape, understand things better and try to foster partnerships, but the big stuff will come from national government."*

Alan Winde
MEC of Economic Opportunities
Western Cape

Largely interviewees were positive about the attitude of the Western Cape to startup entrepreneurs. **Lianne Du Toit** describes the City of Cape Town as *"open-minded and open-spirited, and really creative and progressive in their involvement,"* she says the city offers *"lessons for other local governments."*

Niall Gahan believes the work being done by the Gauteng Provincial Government is as significant as the Western Cape. *"There are more asset management and insurers there, so there is a strong market for fintech for instance. And the Gauteng government is now on board. The SBP Entrepreneurship Report indicates that Joburg and surrounds has the highest concentration of startup activity, so the Cape Town thing is a bit of a misnomer."*

Long-term leadership & focus

But, apart from a view that it is a necessary kick starter, there is not a lot of evidence to support the idea that an ongoing heavy government hand drives an ecosystem forward. In reports like Startup Genome 2017, the phrase dotted around is "government support", rather than government drivers. And as we've said the DFIs in SA, and many other countries, have limited success. The efforts to create jobs out of the top end of the startup space may also be limited, so the case for deep government intervention may not be strong.

Jenny Retief, CEO of the Joburg-based Riversands Incubation Hub, says: *"Government and its agencies are tackling the task of creating the required one million new jobs a year in various ways, and their involvement here at Riversands is one of the more inventive ones, albeit at a scale that could never compare to a large public works project, for instance."*

But even if government intervention is not in the 'success recipe' and the job creation targets set for the SME and startup sector are too bullish, large scale national leadership always has an inspirational effect. Rather than many small misguided interventions, some interviewees want government to focus on two areas: **innovation and thinking big.**

Right now government is thinking too small, and it shows. *"They are sometimes well intentioned, and there are funding agencies that are doing stuff, but it is not flowing through. The ecosystem is not set up for it. It focuses on grassroots initiatives, 90-plus percent of funds go to very basic SMEs, only 1% of which will be world class,"* says **Niall Gahan**.

"The biggest requirement for success is better leadership - at all levels; people with a '4D' view of the world. We need government to cultivate job creators, not job seekers," says **Matsi Modise**.

That is no mean feat say many interviewees.

3d. Ecosystem | The role of Government
Key takeouts

- Most interviewees feel national government should step away from most aspects of the startup space and leave it to the market (but some feel government needs to intervene deeply and rapidly).
- National government is a central touchpoint and has the resources required to boost the ecosystem, but has not had many successes to date.
- One of the primary focuses of government should be to fix an education system that currently is not cultivating the right skills for the modern marketplace.
- If large amounts of government capital, privately deployed, are not going to be forthcoming, an enabling environment and positive policy would probably be of most benefit to startups.

4. FOUNDERS

a. Personal drivers

The founders of SA startups are often driven by the desire to make things better, or at least fix aspects of society.

The interviews conducted for this study bore out the widely-held belief that **founders are disruptors. Anish Shivdasani** notes: *"We just knew it could be done better."* This is a sentiment shared in one form or another by many of the interviewees. **VentureBurn's 2015 Startup Survey** said founder motivation was 1. capitalising on a market gap (17%) followed by 2. desire to innovate or pioneer in an area (15%).

Another motivation is the **desire for freedom.** Founders revolt against the tedium of corporate life, and rather launch headlong into the risk and potential heartache of entrepreneurship. In fact, a similar view is quite widely held by venture capitalists and other key ecosystem players.

An appreciation of the fact that the workload is more intense in entrepreneurial ventures, and startups in particular, is outweighed by the allure of captaincy over oneself. Walking one's own path is not only intoxicating, it's non-negotiable. *"Now in my 40s, I will only operate businesses that I wholly control,"* says **Gavin Rooke**, owner of export quality design startup, Dutchmann and The New Order.

Also the motivation to **'prove' themselves** is frequently a factor. According to Raizcorp founder and CEO **Allon Raiz**: *"Even very successful entrepreneurs feel like fakes deep into their careers, the quest towards legitimate mastery is what drives many."*

Courtesy of Entrepreneurfaiil.com

ELEVATION

But for many, the exhilaration of conquering a daunting challenge is what propels them. **Doug Hoernle** is a case in point. He has been in business since the age of 16 and now, at age 27, attributes much of his success to the fact that he is a 'dreamer', who was able to operationalise these dreams. Working well under pressure is also a big plus, he says. Like Doug, the rockstars in the system are over-achievers, and very commonly ones who want to **improve the world**. It comes up over and over again – success comes from passionately addressing a real and pressing pain point.

Upbringing also plays a big role. Mention of growing up in an entrepreneurial-minded household recurs as the first step on many founders' business paths. The more innovative the entrepreneurial spirit people are exposed to, the more high-end their thinking is. Tesla and SpaceX founder Elon Musk is a case in point, especially when juxtaposed against the stars that programmes like Awethu have to work hard (but seemingly succeed) to find in SA's townships. Too often township entrepreneurship is more about *"hawking and selling life policies than innovation,"* says one interviewee.

Angel and entrepreneur, **Abu Cassim** of Jozi Angels, says: *"I worked in corporate for 10 years, and because those environments don't challenge people they are fundamentally flawed. I grew up in a family business, and that put entrepreneurial blood in my veins."*

Maye Musk with Elon, left, sister Tosca and brother Kimbal, on their way to school
(Family photograph courtesy of Maye Musk, via *Vanity Fair*)

It’s all about the person

We think understanding the successful founder’s mindset is critcal to ecosystem success. Especially since every VC and capital provider interviewed spoke about the single most important criterion in potential investments being the founder and his/her team, and their bias towards **“backing the jockey more than the horse”**.

But it’s not a given. Reports like the Aspen Network of Development Entrepreneurs (ANDE) ‘What’s Working in Startup Acceleration’ do not focus on the traits of founder, which is surprising, but rather on external factors that drive entrepreneurial success. This is similar to GEDI’s 2017 report, which makes passing reference to the role of the founder, or entrepreneur, but says: *“There is growing recognition that entrepreneurship focused only on the entrepreneur may be too narrow.”*

Most global reports do cover off the role of entrepreneurial culture though. *“Culture in SA has an important role to play in choosing entrepreneurship as a career choice, and many families and community members do not find this choice sustainable,”* the GEDI report states.

The 2016-2017 GEM report digs into the issue a bit further. The report looks at self-perceptions about entrepreneurship and the intrinsic personality traits of founders, such as **self-belief.** The GEM report also notes the negative role a fear of failure can have on a new founder. According to GEM, only 31.2% of South Africans are undeterred in their entrepreneurial endeavours by fear of failure, ranking the country 44th out of 65. Not surprisingly the country’s entrepreneurial intentions sit at just 10.1%.

GEDI THE GLOBAL ENTREPRENEURSHIP AND DEVELOPMENT INSTITUTE

In an effort to understand the motivators around startup activity, GEM has created a Motivational Index which unpacks need-driven entrepreneurship from improvement-driven. It is improvement-driven founders who are likely to generally impact the economy and create jobs, with need-driven entrepreneurs largely focused on supporting themselves and their families.

SA scores poorly, ranking 50 out of 62 economies in 2015, improving to 40 out of 66 in 2016. In well-developed, innovation-driven economies – like Sweden and Finland – GEM found *"there are 10 or more times as many innovation entrepreneurs as those motivated by necessity"*. GEM ranks South Africa as an efficiency-driven economy. This hybrid mindset between subsistence and something greater hampers the country's collective ambition to push into more innovation-focused entrepreneurship.

"The regulatory environment doesn't necessarily foster innovation," says **Nic Bednall of WiGroup**, by way of explanation. **Chris Peters, MD and co-founder of Like Digital**, also believes innovation in South African tech startups is fairly rare: *"The local tendency is to import and modify development thinking and then tweak and improve it, rather than create from scratch."* **Lianne du Toit** is more positive, saying: *"Our history of isolation showed innovation and, currently, SA is a pressure pot of challenges and tension, and that creates a problem-solver mindset."*

"SA was 50th, now 40th, out of 62 countries on innovation-driven entrepreneurship"

Chris Peters
MD and co-founder of Like Digital (SA)

Increase in improvement-driven entrepreneurship in SA

Key indicators, South Africa	2015 score	2015 rank /62	2016 score	2016 rank /66
GDP per capita			$5,700	
Overall TEA score (9,2 and 6,9)		38		52
SME contribution to GDP	45% (2014)	-	36% (2015)	-
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Physical infrastructure	5,85	48	5,83	54
Cultural & social norms	3,42	59	4,02	50

Source: Global Entrepreneurship Monitor 2016-2017

ELEVATION

4a. Founders | Personal drivers
Key takeouts

- Founders share certain characteristics which drive them to succeed, such as a desire for freedom and the will to prove themselves, but mostly a passion for solving a specific problem.
- Upbringing has played a pivotal role in many success stories.
- The role of the individual, and their character and abilities – while minimalised in many ecosystem reports – is central to everything, not least capital providers' go or no-go decisions.

4. FOUNDERS

b. Personal learnings

Mistakes & advice

As anyone with exposure to an entrepreneurial venture knows, founders must steel themselves to confront frequent and significant challenges. The founders who succeed – as our interviewees have – do so by getting to know a lot about the startup world. They foster intimacy with their chosen sector and get to understand their customers and their needs deeply. **They are also often graduates of the School of Hard Knocks.**

The Holy Grail of 'product-market' fits doesn't just pitch up: lessons often come in fast and furious, and learning curves can be steep and heart-breaking. So what were the mistakes and corrections shared by our interviews?

Well, no particular clusters emerged, but a litany of war wounds and warnings valuable to would-be founders and others include:

- Master interpersonal relations
- Get organisational structure right
- "Know your problem, know your market, work to craft the best product-market fit"
- Work hard, but "watch your health", and "don't expect that your whole team will work as hard a you do"
- Build and maintain the culture and ethos of the company
- Don't trust too easily
- "Don't outsource dev"
- Think big from the start, "but don't think too big". And think strategically
- Be open to criticism and input

"AirBnB was my saving grace when I was building our client base in London. I'd hustle by day, and AirBnB by night."

Scott Cundill
Founder & CEO, Majestic 3 (UK, SA)

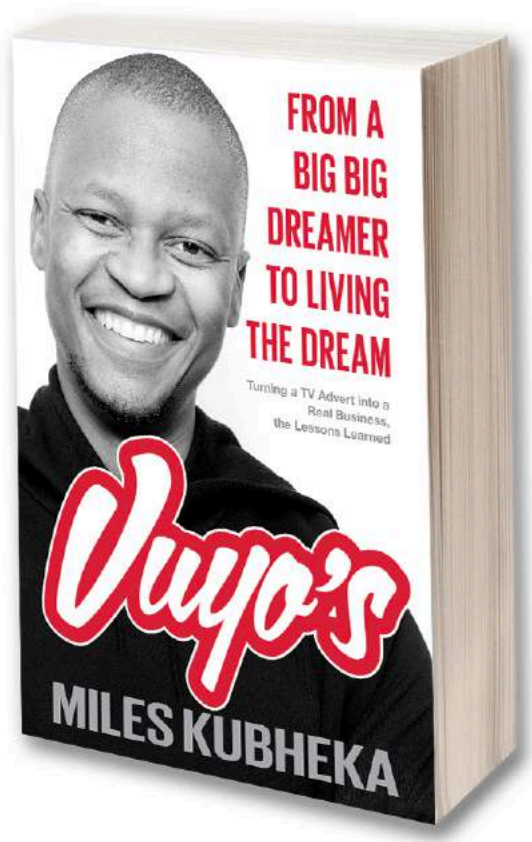
ELEVATION

- Be persistent, and aggressive when you need to be, "master the art of bouncing back"
- Be invested in your chosen markets
- Be prepared to understand every facet of the business
- Stay humble
- "Don't do a B2C tech business unless you have a big marketing budget"
- Do the boring stuff and ensure compliance and regulation are in order
- "If you're going to fail, try fail fast"
- And "don't show crazy revenues, be real."

Finally, several interviewees, including UK-based investor **James Durrant, and Elias Makhubo** note that **"partnerships are dangerous"** and should be guarded against with the "necessary legal agreements". Entrepreneurs' need for skills and capital often makes them too indiscriminate when securing business and venture partners. Beware.

Interviewees also warn against **greed**. Entrepreneurs who undermine the purpose of the business to pursue immediate financial gains endanger the business's future. A venture which aims to scale prematurely risks jeopardising an otherwise successful business.

"Don't do a B2C tech business unless you have a big marketing budget."



Another kind of character

Miles Kubheka (SA) created his fast food chain, Vuyo's, when he discovered that the success story in the beer commercials was purely fictional

The ethos of entrepreneurial businesses also came under the spotlight. Entrepreneurs who are money-orientated open themselves up to external influence where funding is concerned. This can leave a startup directionless or captive to larger companies. Also as **Matsi Modise** points out: *"[We have a] culture of 'I have an idea, I need money'. There is too little understanding of going through the pre-funding fundamentals: idea stress testing, to business model creation, to market testing."*

The interviewees feel that, largely, entrepreneurship is **character driven**. Strength of character and the ability to *"[be] creative within constraints"* as Adii Pienaar, Co-founder of Woo Themes says, is the hallmark of good entrepreneurship. An incompetent founder will squander whatever team, publicity and funding he/she creates. So a lack of business mindedness can have a significant impact.

This is an issue of particularly importance to angel investor **Craig Mullett**. He expressed a concern that SA's incubators are graduating too many 'starter-uppers' who were being launched into a vacuum after these programmes, with insufficient business skills, access to finance and a lack of mentorship.

There is always potential

There are, of course, hugely successful startups in the same ecosystem which have A+ founders and the potential to become great. **Craig Mullett** says there are always dynamic avenues of potential simply waiting to be discovered by mindful entrepreneurs.

Where are entrepreneurs falling and failing? Is it a lack of early entrepreneurial education? Or is it down to SA's entrepreneurial mindset?

It seems aspiring founders, who frequently lament a lack of funding and partners, could be looking in the wrong place for support. The interviewees in this study have collapsed, dragged themselves up, made mistakes and turned it around – they have a wealth of knowledge to share. And so it is good to see some of the ecosystem's founders paying it forward in community building initiatives likes Startup Grind, Suits and Sneakers and others.

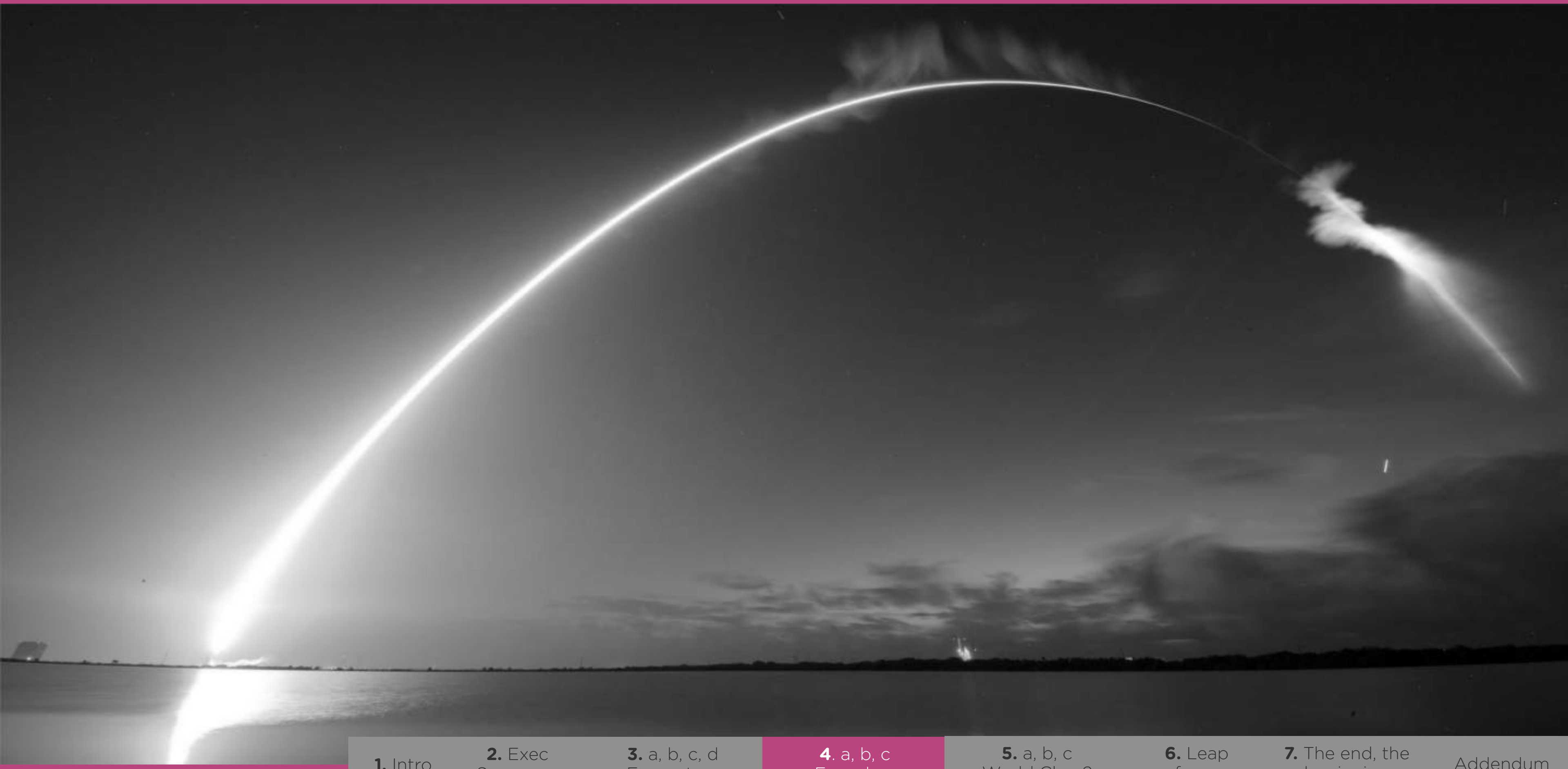
We encourage local and expatriate founders to lend a hand to newbies, share their mistakes and solutions and help accelerate the ecosystem with practical and usable knowledge.

4b. Founders | Personal learnings
Key takeouts

- Successful founders, and truly entrepreneurial individuals, are in the extreme minority in SA and the world. The road can be heart-breaking.
- They hold much knowledge which can be of benefit to the broader system and to new startups, including views around partnerships, funding options and personal mastery.
- Most interviewees feel that entrepeneurship is character driven….and character building.
- Failure will happen. Either small or large. Try to fail fast, and learn to bounce back.

4. FOUNDERS

c. Ingredients for success



Brothers, **Sam and Rob Paddock**, sold Cape-based edtech startup GetSmarter to US-listed 2U for USD103m in April 2017. A great example of all the right ingredients.

Courtesy of Entrepreneurrmag.co.za

What has driven the success of the founders we interviewed? What can others learn from them and how can these stories inspire other founders?

Typical ingredients for success are pretty well covered in the available literature – maybe more so globally than locally. From our interviews in Joburg and Cape Town, the themes also appear fairly universal:

1. Passion and tenacity
2. Patience
3. An ability to build a culture, to sell the vision and rally a strong team around it
4. Sales skill
5. People management abilities
6. Flexibility: a founder who knows when to start, when to stop, and when to pivot.

The traits & abilities

On **culture**, **James Durrant, an expatriate entrepreneur based in London**, says *"I am a conductor, more than a bus driver, and I focus a lot on building culture in the businesses I'm involved in, it's pivotal."*

1. Passion & tenacity
2. Patience
3. An ability to build a culture, to sell the vision and rally a strong team around it
4. Sales skill
5. People management abilities
6. Flexibility

[A founder/s who knows when to start, when to stop, and when to pivot]

On **sales, Doug Hoernle, from startup, Rethink Education:**
"Rather be out selling, than at The Barn speculating. It's a skill I've been working on since I was 16."

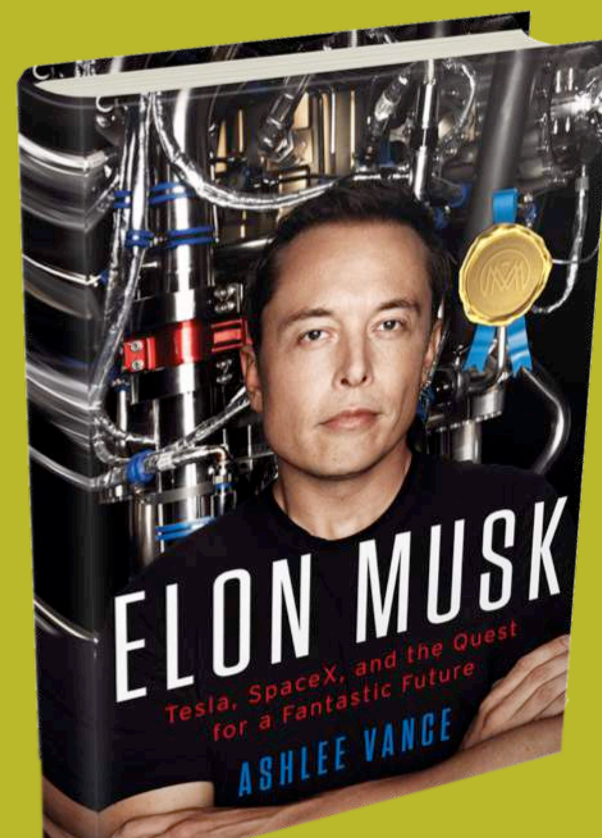
There are a batch of other highly successful habits that draw less consensus: rapier-sharp focus; deep customer advocacy; good listening skills; strong detail orientation; independent decision-making abilities; fear of failing; generosity; avoidance of micro-management; and even clarity of speech.

What matters

But what comes out glaringly in most other studies, and equally in this one, is **passion**: an alignment of purpose between the founder's values and the startup's vision to the point where the two are almost a DNA match. At a philosophical level, it seems success springs from the soul. For example, Elon Musk deeply wants to solve the clean energy problem. In the same way, Cape Town's Catherine Luckhoff is obsessed with music, and GetSmarter's Paddocks are with the digitisation of learning.

"I particularly enjoy spending time with entrepreneurs: the passion they exude is contagious," says **Abu Cassim** of Jozi Angels.

Of course a strong skills base is a strong catalyst for a robust ecosystem: Silicon Valley was founded on deep tech- and engineering expertise. And Boston on robotics.
Capable, skilled founders are the engine room of a successful ecosystem. But the truth is that nine out of ten capable - or at least mostly competent - founders see their businesses fail. It's the stuff that's fuzzier and less measurable than just skill that defines success.



The golden thread

That said, the one thing present in the founders we spoke to, and absent in others, is education. This takes the form of both quality formal education right up to post-graduate level (much mention was made of UCT's and Stellenbosch's quality, and some of WITS's and UJ's), but also practical education and entrepreneurial exposure from parents, role models and environments. **Craig Mullett, James Durrant, Matsi Modise, Doug Hoernle** and others all spoke about how this had been formative for them.

Solving the education crisis in South Africa - and there is no other word for it - is imperative in advancing the ecosystem: GEM, GEDI and Startup Genome all dwell on it, and so did our interviewees. **Expatriate US angel, Craig Mullett**, warns: *"Fixing education and the entrepreneurial skills gap are a priority in allowing South Africa to compete".*

"Fixing education and the entrepreneurial skills gap are a priority in allowing South Africa to compete."

Raizcorp founder, Allon Raiz comments: *"Entrepreneurial talent has to be nurtured from very young. We've now started a school based purely on those principles because we believe that's what it will take."* (He refers to Radley Private School in Joburg that, from 2017, drives entrepreneurship hard as an integral part of the curriculum).

"Free, free...and rich, at last!"

Another important driver, at least during the early days of a startup, is the quest for freedom. Vinny Lingham and Ran Neu-Ner of The Creative Counsel, among others, proclaim themselves "practically unemployable". And **ecosystem stalwart, Guillaume De Smedt**, says: *"I just knew I couldn't do a clock-in, clock-out 8-to-5 job. You do work doubly hard, but at least it's on your own terms."*

And most founders want to be prosperous. Or **get very rich**. A critical distinction to reiterate at this point is that between need-driven entrepreneurship and improvement-driven startups. The latest GEM and GEDI reports both identify this importance, and the impact each can have. The former makes small businesses, or self-employment, and the latter, when successful, makes high-growth, high-impact startups. In our sample, and in this paper as we said, we're not covering lifestyle or subsistence entrepreneurs.

Also, the dynamics of formal employment also matter. The cushier corporate life is, the less would-be founders are propelled to go 'starting up' is one argument.

Allon Raiz CEO, Raizcorp (SA)

Guillaume De Smedt
Startup Grind (Global)

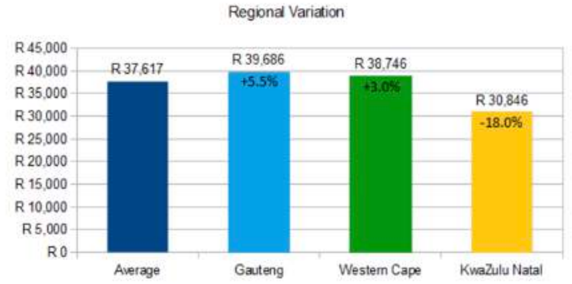
Cape Town vs. Joburg

As **Vinny Lingham** puts it: *"The reason Cape Town creates more startups, other than the general creativity there, is that the corporate vibe of Joburg offers a lot of highly-paid employment, so the hunger to start your own thing there is less."*

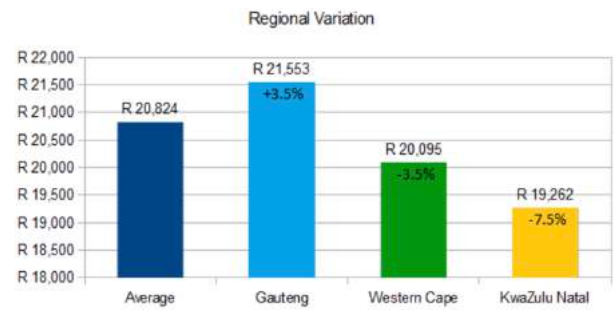
As one interviewee put it *"South Africa is a slow cooker, not a pressure cooker.* And went onto say that other markets had created impressive businesses and very good emerging market entrepreneurs out of desperate times – *"they are pressure cookers".*

And there's a corollary to that which **Allon Raiz** points out: *"I, personally, see a lot of potential from white, middle class Afrikaans entrepreneurs. Their opportunities in corporate are limited, and they're applying their skills to creating businesses with global ambitions."*

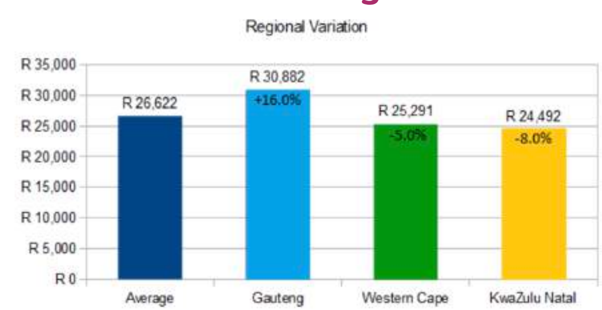
Information & Communication Technology



Design, Media & Arts



Marketing



Source: Career Junction Salary Survey, 2016 (SA) via Business Tech

Work it!

These environmental factors work in unison with the 'must-have' traits of successful founders. In addition, the virtues of business-mindedness are extolled by **Gianfranco Crupi**. He says, not unexpectedly, it was clear in his work in SA that the even the most well-intentioned startups that lacked commercial acumen failed.

Gavin Rooke adds: *"Understand how business works: revenue, margins, profit. Know it well. The lessons you learn on that front otherwise are very painful both emotionally and financially."* Imparting such practical business skills is the core focus of GIBS Enterprise Development Academy and other strong programmes, says Director, **Yogavelli Nambiar**.

But most successful entrepreneurs also admit to a good dose of luck, beyond the hard work required. **Guillaume De Smedt** adds another dimension: *"The successful guys I have interviewed are highly responsive, they work hard, and they are accessible. I also buy the theory that startup success is a* **mixture of luck, persistence and money: and two out of three is good enough**.*"*

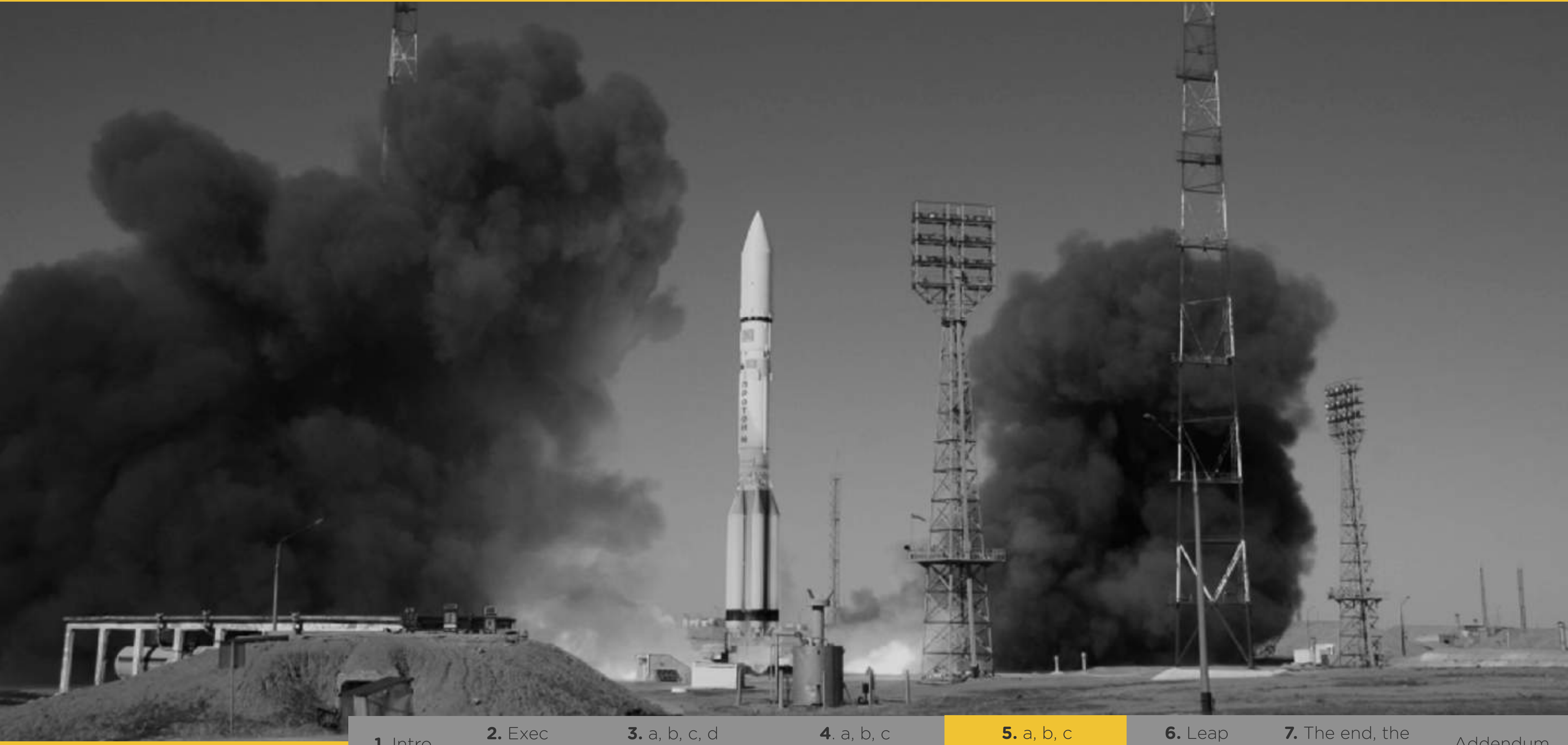
Gavin Rooke CEO The New Order (SA) & The Dutchmann (Global)

4c. Founders | Ingredients for success Key takeouts

- Passion, passion, passion. Founders' ingredients for success include patience and flexibility; vision (and the ability to create a culture around it); people management; sales skills, but most importantly, passion.
- A quality, rounded, academic *and* practical education is also close to essential if founders are to compete at the top.
- SA suffers from a lack of financial and business acumen in many startup founders.

5. WORLD CLASS

a. What are the chances?



Key ecosystem indicators: SA vs. Brazil, Antipodea & Nigeria

Indicators (with global ave.)	Sao Paulo	New Zealand	Melbourne	Lagos	Cape Town	Joburg
Ecosystem value ($267bn)	3,45bn	807m	1,6bn	2bn	172m	1,36bn*
Metro GDP (New Zealand measured as country)	431bn	179bn	253bn	75bn	59bn	83bn
Startup Output (1,762)	1 600-2 900	400-600	900-1 300	400-700	700-1200	200-500
Growth Index	4,6	4,8	6,0	6,6	4,5	6,3
Early stage funding per ($252k)	85k	301k	157k	77,8k	20,2k	10,4k
Early stage funding growth (5)	4,6	5,2	7,1	4,2	4,8	8,2
Experienced VC index (7)	6,5	6,6	6,2	5,1	5,3	6,0
Talent: Engineers (72%)	71%	65%	73%	77%	76%	75%
Talent: Growth employees (60%)	62%	48%	56%	63%	50%	55%
Engineer salary ($49k)	26,1k	52k	64k	14,1k	20,1k	20k
Resource attraction: Entrepreneurs (300)	378	110	260	56	228	94
Resource attraction: Startups (83)	36	11	5	15	18	0
Foreign customers (23%)	7%	32%	24%	6%	14%	11%
Global connections (6,1)	4,3	4,8	8,6	3,8	4,9	5,8

Source: Startup Genome Global Ecosystem Report 2016-2017

= highest in class, and near misses
= lowest in class, and near misses

ELEVATION

Can South Africa be a world class ecosystem?

Overall, driven by reason or by out-and-out unbridled optimism, the general feeling in this study was that, yes we can be. Lots of provisos were thrown in about what 'world class' means but, overall, our interviewees felt strongly that South Africa could have a highly successful ecosystem.

That said, at least half of the interviewees put important 'ifs' in. These were the key ones:

- A deep and dramatic intervention must be made by **government** (again many comments were made about education and skills development);
- A **long time** horizon *("we're still very young", "it's going to take a long time", "we're not there yet"*); and
- A leader in **Africa and emerging markets**, yes, but not among US and European competitors.

Anish Shivdasani is among the interviewees that are upbeat about SA's potential. He cites the following reasons:

1. World-class telecoms infrastructure and high mobile penetration.
2. Same time zone as UK, and good English language skills ("I definitely see an opportunity as a service provider ecosystem given lower labour costs").
3. Strong development talent pool ("but we need many more developers, especially ones that want to found/work at startups").
4. A strong financial services industry, from which he believes a world-class South African fintech startup could emerge.

> " I definitely see an opportunity as a service provider ecosystem given our labour costs"

ELEVATION

Be a contender

Angel, Craig Mullett, believes we may not be a Top 10 (in the world) contender, but we do have the ability to be "formidable". And he adds: *"I can definitely see great tech talent being willing to live in Cape Town, even if for a period."*

Niall Gahan says: *"At the higher end, we have some really world-class entrepreneurial ventures, especially in the fintech and medtech spaces. But we don't have a single homogenous ecosystem, and the bulk of the time, money and effort is spent on entry level entrepreneurs who are not going to be, or aiming to be, world class."*

Apart from the growth and structural imperatives, **Geoff Cohen** believes we are fundamentally hamstrung from being world class by pure market size. *"The local market is small. Internet access is largely there, but usage depth and duration is low. And our socio-economics make pockets of attractive customers too small to really be viable."*

While **James Durrant** says we won't reach the world-class bar for a few reasons:

- Our location in Africa and, therefore, the world
- SA's missed opportunity to become the gateway to Africa
- A lack of political and government support to bring it all together
- The lack of national bodies driving the agenda
- No tax incentives for investors or relief for entrepreneurs; and
- An unhelpful political climate, coupled with a roller-coaster currency and infrastructure concerns.

Optimism

WiGroup's Nic Bednall is more optimistic for the following reasons:

- SA has great exportable entrepreneurial skills
- Locally (like globally) there is a massive groundswell around startups and entrepreneurship
- Fairly decent tertiary education infrastructure
- A maturing market. The ecosystem is changing and growing from a cash and expertise perspective; and
- South Africa has a deep understanding of where mobile can work well.

But, like **James Durrant, Nic Bednall** points to SA's missed opportunity to be the African trailblazer. In the absence of SA stepping up, the rest of Africa is pioneering mobile payments and currency. *"Maybe that's why Germans, Americans and Israelis are going to Kenya's Silicon Savannah rather than South Africa,"* he says.

Across 340 criteria analysed, these are the 6 areas in which South Africa shows the most strength (out of 61 rated nations):

1. Cost of living (1st)
2. Secondary school enrollment (1st)
3. Cost of office rent (2nd)
4. Export concentration (2nd)
5. Effective personal income tax (2nd)
6. Stock market capitalization (2nd)

However, on the downside - massive labour and health problems, coupled with high levels of inequality and a poor education system. These are the 18 South African worst performance areas (out of 61 rated nations):

1. Unemployment rate (61st)
2. Relocation threats of production (61st)
3. Labor relations (61st)
4. Life expectancy at birth (61st)
5. Health problems (61st)
6. Youth unemployment (60th)
7. Employment % (60th)
8. Relocation threats of R&D facilities (60th)
9. Relocation threats of services (60th)
10. Gini coefficient (60th)

The International Institute for Management Development (IMD) Competitiveness Report, May 2016

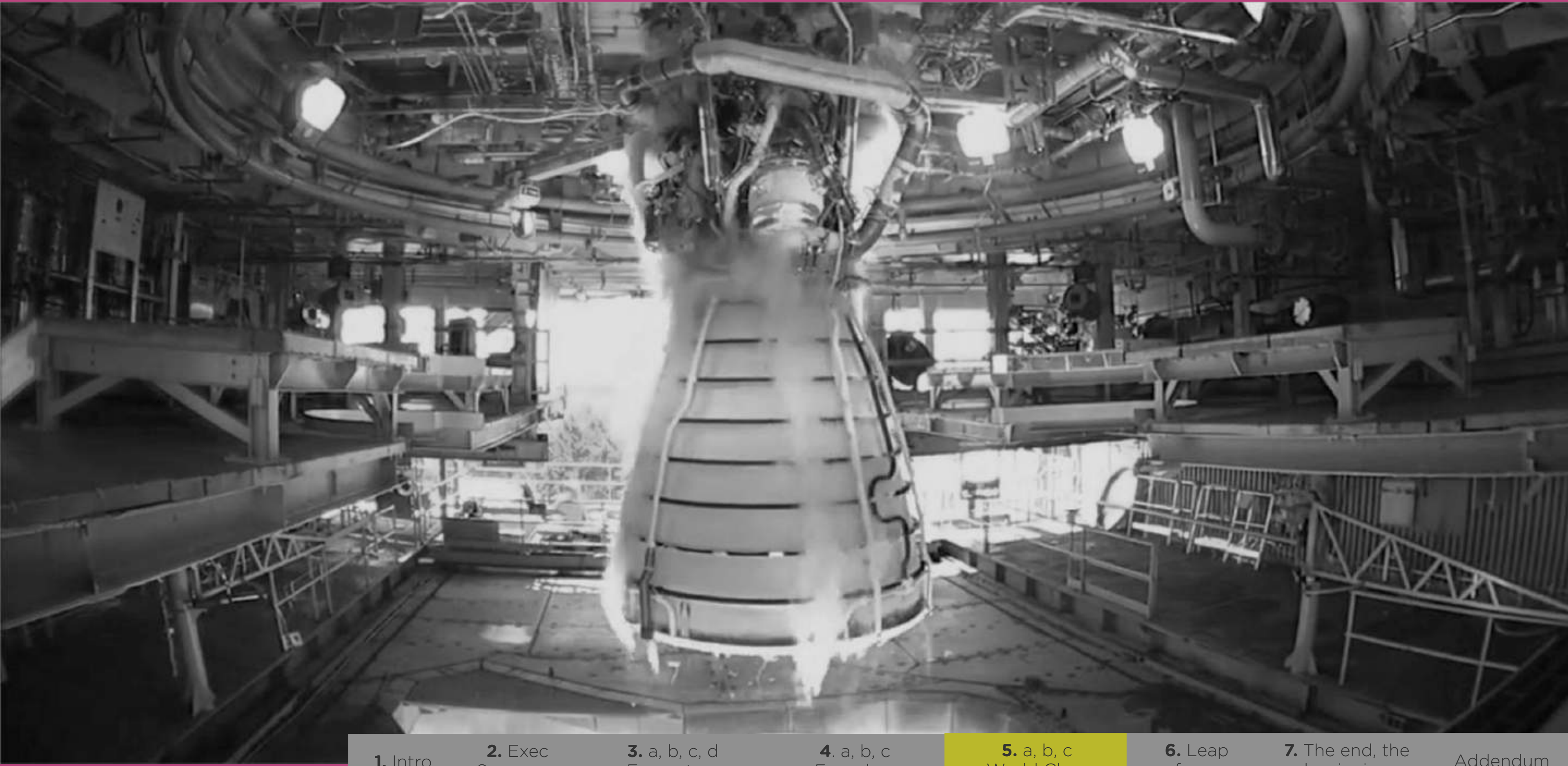
IMD

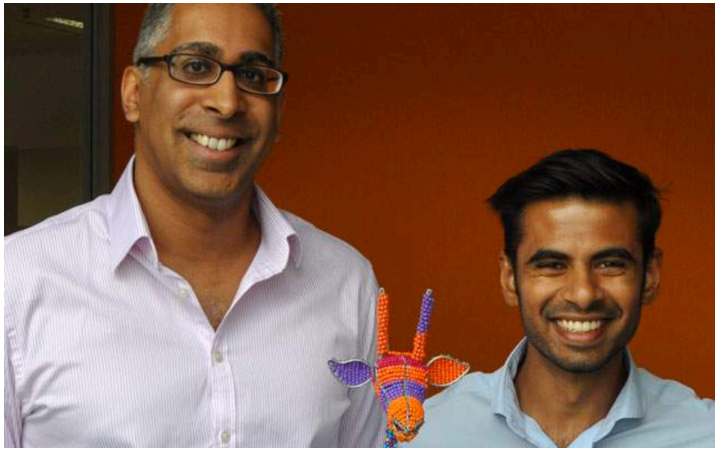
5a. World class | What are the chances? Key takeouts

- ‘Partly-founded’ optimism aside, views are split on whether or not SA has what it takes to deliver a world-class startup ecosystem.
- On the whole, international interviewees are less bullish about SA’s prospects than local ones.
- SA has strengths to build on, such as its maturing market and decent infrastructure.
- But we may have missed the boat on our first-mover advantage into Africa, and our political and economic climate is challenging.

5. WORLD CLASS

b. Drivers of growth & success




(Courtesy of TechCentral)

Giraffe co-founders, **Anish Shivdasani** & **Shafin Anwarsha** (SA)

So, start by **getting the basics right**, says founder, **Anish Shivdasani**: *"The ecosystem can't blossom in an environment of weak economic growth and political instability."* The importance of this foundation cannot be overstated. Other interviewees noted that the peripheral landscape and "soft stuff" – like social cohesion and socio-political stability – *"can make or break the ecosystem"*.

Healthy early-stage ecosystems create more successful startups, it's as simple as that. So getting all the ingredients for success to work together is essential if startups are to come into their own, and if rockstars, gazelles or even unicorns are to be created.

Our interviewees highlighted numerous drivers required for success, from government to education, the role of the private sector to investment and mindset. Each one is a cog of greater or lesser importance in a working machine.

The secret recipe?

But how do you build a healthy ecosystem? Well, **GEM, GEDI and Startup Genome** all give strong pointers, and to a lesser extent maybe ANDE and WEF too. But the mechanistic, best-of-breed methods for steady progression are not the core subject of this paper, but they are important to check off regardless. We do that here. Now.

You have to be hungry, says **angel investor Vuyisa Qabaka**, who believes other parts of the African continent are beating us in this regard. *"I have just been to Morocco, it's a three-year-old ecosystem that is gunning it. They are hungry, they are only now getting co-working spaces up and going, but they have completely the right attitude,"* he says.
"South Africans are good at finding opportunities or loopholes. The market is, in some respects, less regulated, and is not as over-traded as some others," says **Niall Gahan**.

Lianne du Toit adds that the system itself needs to be **passionate about helping** and growing entrepreneurs. There is, many interviewees agree, much to support. Several interviewees felt there is an innate **creativity** in South African entrepreneurship. **Doug Hoernle** believes SA has huge potential, particularly in low-income communities: *"If we could harness the creativity I see in townships for startups, including tech and services, it could be amazing."* He believes SA's potential is let down by poor quality maths and science education. So, as a country, we should stop flogging a dead horse and rather focus on local strengths, such as arts and humanities, he suggests.

Speaking about his experiences breaking into the London market, **Scott Cundill** says that pairing South African tenacity with world class solution construction and presentation is where he found a sweet spot. *"You have to be present and you have to be good,"* he says.

Vuyisa Qabaka Entrepreneur Traction (SA)

“

Get hungrier.

Get hungry like you see in Morocco and Nigeria.

”

While **Russell Southwood, of Balancing Act and Smart Monkey TV**, adds: *"White South Africa is schizophrenic. It wants to compare itself to the rest of world but rarely thinks about how it sits within Africa and the markets here. Do you want to be in sophisticated markets or do you want to be in other African markets?"*

In attempting to answer the big question of what makes average ecosystems great or at least on their way there, Startup Genome conducts exhaustive, cross-border research with technology and innovation startups around the world and distils the success drivers down for systems in each of their four designated phases:

1. Activation
2. Globalisation
3. Expansion
4. Integration

(South Africa is at the Activation stage, moving to Globalisation).

Startup Genome's model of the life stages of ecosystems
Global Startup Ecosystem Report, 2016/17

Taken together with GEDI's 2016/17 report, which highlights key focus areas, namely: 1. human capital and skills improvement, 2. depth and quality of risk capital, and 3. technology absorption, a well-rounded idea of a healthy ecosystem begins to emerge.

The insights from GEDI and Startup Genome tally broadly with the opinions of our interviewees. A concerted, cohesive national approach that spirals out internationally is mentioned as something we need to get right.

Many interviewees drilled down on that, noting the need for local and global **knowledge sharing and collaboration**. SA must stop feeding off itself and competing within its borders. We are not an island and neither are the two major city systems, was the feeling from many interviewees including **Guillaume De Smedt**. *"The important thing is the two ecosystems (Cape Town and Gauteng) are not in competition. They can attract international interest and investment if they have conversations, and openly collaborate. For that to happen, the whole national ecosystem has to work together."*

Interviewees almost unanimously agree that although the SA ecosystem is in its infancy, Cape Town will remain key to startup activity thanks to its proximity to wealth and talent, its ecosystem 'clustering', its proactive business-friendly government and the lifestyle it offers. Where possible, these drivers for success should be replicated around the country to drive similar, collaborative ecosystems.

"SA must stop feeding off itself and competing within its borders."

Where do we start?

Geoff Cohen poo-poos the Cape Town and Joburg ecosystem division: *"They're two hours apart, and it's the 10th most trafficked flight path in the world, he says.* **The whole 'Silicon Valley' vs. 'Silicon Alley' discussion is the product of a very small, parochial view**." The two South African cities were measured separately by Startup Genome in their research, while New Zealand's cities were toted together as a single market. The data is useful to have separately, but the drive to world class should be in unison.

Taking the insights from our interviewees, and blending them with Startup Genome and GEDI's work (and to some extent GEM's), and we arrive at a plan of structural action that looks something like this:

1. Improve skills and talent

This starts at a macro level in secondary and tertiary institutions particularly, and is clearly something that falls on the shoulders of government. But 'quick and dirty fixes' can be achieved by both public and private institutions in the short term, such as coding courses, and basic business skill interventions.

Peter Bauer (USA)
CEO and co-founder, Mimecast
on incentives via PAYE

Another notion related to talent not education or training per sé, but rather the cost thereof, was raised by **Peter Bauer** and others, and aligns to a GEDI recommendation. It is offering wage subsidies or PAYE tax breaks for startups. *"In the beginning, Mimecast never paid salaries, we lived on our own cash."* Tax on salaries cut a startup's runway by 20-45%, *"so maybe forget the programmes, rather just give tax subsidies on what is a huge cost to startups: PAYE,"* says Bauer.

This is much more useful than company tax breaks, as there is no corporate profit early on. Only 17% of the SA startups surveyed by **VentureBurn** in 2015 were in the black.

Brazil's small business agency, Sebrae, recently conducted a study which highlighted the successful impact of tax breaks on SMEs. The result: 83% of small and micro firms that started in 2012 and subscribed to 'Simples' tax [in Brazil], survived in their first two years in business – compared to 38% of those that paid ordinary business tax (by presumed profit or real profit).

2. Ensure better banking and greater financial inclusion

Among its recommendations, GEDI noted the need to *"improve the financing of SME and entrepreneurs by engaging in bank reform, mobile banking and crowdfunding for all South Africans"*. This lubricates the market and opens the window to greater fintech innovation at scale.

3. Focus on technology infrastructure and absorption

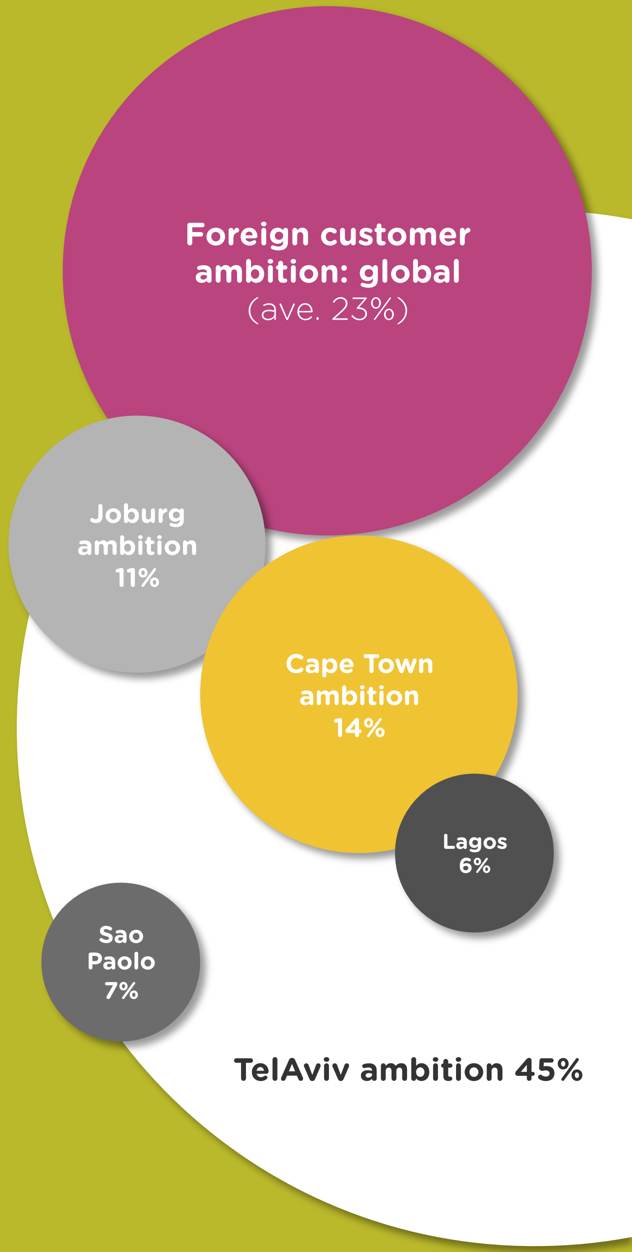
GEDI ranks SA low on technology absorption (22 out of 100 points). *"This suggests that SA is not very good at absorbing technology from the rest of the world,"* says GEDI. The weakness is less obvious at institutional level, but is a hindrance at an individual level. *"This implies that training and technical education are needed,"* says GEDI.

4. Think global and be open to sharing knowledge

GEDI tells us *"there is a vibrant [proportion of growth-oriented entrepreneurs] engaged with the global economy"*. Startup Genome's view, as we have outlined, is similar: global connectedness wins. On the whole, we are not there yet: just 11% and 14% of Joburg's and Cape Town's tech and innovation startups respectively have their sights on a global customer base (against a global average of 23%). As one interviewee said, *"we need fewer government delegations visiting Silicon Valley and more* real *international idea sharing and exposure."*

5. Fix education

GEDI calls SA's education system "the weakest pillar for the country as a whole". Interviewees like **Quinton Dicks** agree: *"There are urban and rural areas that perform way above what one would expect based on their education spend. Strong principals, passionate teachers and good school governance help. But these are the minority; the overall levels of language and math literacy are shocking."* This view was repeated often by interviewees. Not a small challenge, but not an optional one either.



Source: Startup Genome Global Ecosystems Report 2017

6. Build a better entrepreneurial culture

In SA's case this means addressing the dominant corporate culture of our economy. This could, says GEDI, be achieved by improving market access that *"could help ease large firm dominance".* Public and private sector programmes, to grow a culture of entrepreneurship, are important in this, but so is widely sewing the value of ideas. Techpreneurship, job creation (versus employment) and risk acceptance can all take hold amongst SA's rising – but disillusioned – Millennials. This is not an impossible task to drive harder through the education system and social media campaigns.

7. Improved access to early-stage capital and better deployment

According to **Matsi Modise**: *"In SA, early-stage investment is still hard to come by, and so very solid approaches and lots of legwork have to be done to attract it."* This confirmed the view of many interviewees that there was insufficient capital in the South African system (particularly early-stage money). The way that government and its agencies, particularly, manages and deploys capital, as well as returns received, drew few favourable reviews. FDI flow is also seen as important to fix, measure, and encourage if it is done the right way.

8. Redirect the work of incubators and acclelerators

Numerous interviewees noted deficiencies in current entrepreneurship programmes and incubator approaches. This was elaborated on in Section 3c. It seems that many of SA's incubators and accelerators need re-focusing around an agreed framework of metrics in order to generate real benefit. **Whether or not this will address the real challenge, which is that we have insufficient raw human talent to create hundreds of A+ founders annually, regardless of the system, remains to be se**en. But a body has been established, at least, to set the wheels in motion: EDCSA (Enterprise Development Council of South Africa). Catalyst for Growth has also completed a very interesting SA pilot showing that a 43% improvement in turnover, and 19% increase in employment in startups when BDS (business development services) was properly delivered and acted on.

9. Lay private-public sector mistrust to rest

Trust was an issue raised by a number of interviewees. Recognising the disconnect between business and government is not hard, but is challenging to fix. Shifting the stalemate will take time, communication, and aligned intentions. Ongoing collaborations, like the CEO Initiative* are pivotal. But there are no easy solutions here, and several initiatives have failed in the past.

10. Learning to fail and get up again

The South African ecosystem's low tolerance for risk and failure was noted by several interviewees with many calling for a change in mindset and an appreciation for the fact that *"it's okay to fail"*.

Bumps in the road

Despite most of our local interviewees' optimism, there is no getting away from the major structural issues that need to be dealt with before our ecosystem can compete at anything like a world class level. It has to be stressed that there are structural blockages at a government-, big business- and policy level that are hard to shift, hence the leapfrogs highlighted in this paper, which look for a way around while we are trying simultaneously to plough through.

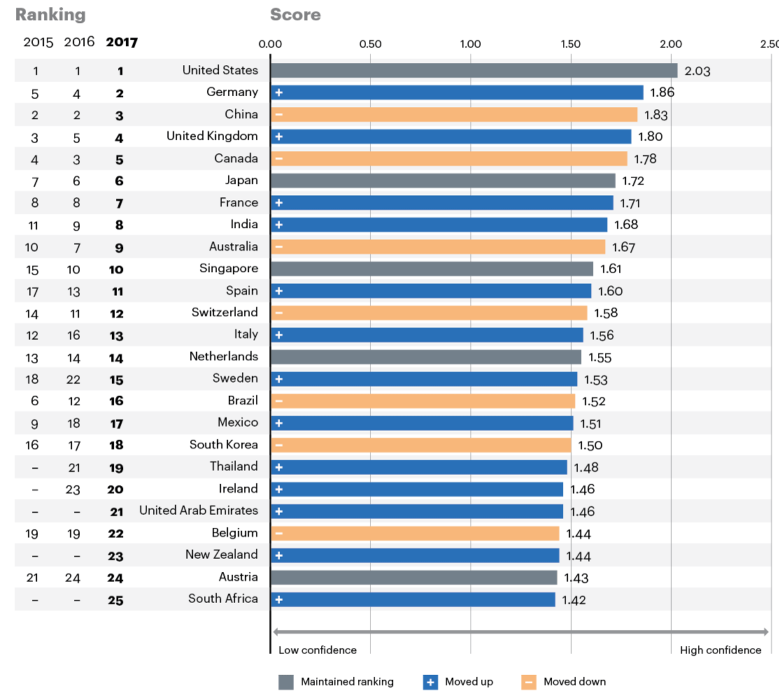
* This was formed by business engaging with Treasury and labour unions following the 2015 'Nenegate' market crisis. The team focusing on a handful of strategic projects, together with government and labour, managed to prevent a ratings downgrade throughout Pravin Gordhan's difficult second tenure as Finance Minister.

Despite its challenges SA remains an investor friendly hub, with good financial and fair tech infrastructure. In April 2017, despite credit rating downgrades and amidst political concerns, the country climbed back into the **2017 AT Kearney Foreign Direct Investment (FDI) Confidence Index.** With FDI flows into Africa overall down 5% in 2016, SA's 38% increase in inflows over the same period is encouraging.

But if we hope to circulate in world-class company, it requires government to address the ease of starting and doing business, including visas. Among his key ingredients for building successful startups, **Vuyisa Qabaka** cited "foreign access and visa policy" as No 1, followed by:

- More early stage capital
- Better global connectedness, visiting other markets instead of "talk shops"
- Enlightened government participation
- Competition in the capital providers space
- Scalerator-ness in the attitude and culture of our entrepreneurs; and
- A greater sense of hunger and urgency.

Low growth is proving to be one of the biggest inhibitors to entrepreneurial advancement in the country. So, it is agreed, improving SA's low growth rate of less than 1% per annum could be helped by more FDI, but visa policy at the very least has to be eased. On the regulatory side, the view is that to support the dynamism of the startup environment, labour laws too must support the creation and operation of new businesses, say many interviewees.



Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

The **AT Kearney** FDI Confidence Index
SA has re-entered at no. 25 (April 2017)

ELEVATION

While FDI is desirable, it could also challenge our fairly immature VC market. **Vinny Lingham's** view: *"The big issue is that VCs are unsophisticated here...they don't have enough insight and alignment of interest".*

Catherine Luckhoff believes investors need to be more aware of a good opportunity when it comes knocking. Quite simply: **South African investors are too cautious** and *"there is a lack of understanding of Seed and A-round funding. SA has a high degree of risk aversion."*

The structural improvements required to advance the local ecosystem may feel insurmountable, spanning as they do issues of socio-economics, politics and government and private sectors interests. Nonetheless these issues have to be tackled. We have a ministry allocated to it, with an admittedly comparatively small budget, but ZAR1,5bn nonetheless. And total government entrepreneurial development spend is sizeable, at more than R15bn p.a. That said, it's not just a government, or a budget, issue. Pressure must be applied inwardly and outwardly for all resources to work for the system.

There are some encouraging signs, including the 2017 budget speech announcement and subsequent Reserve Bank movement to unblock some of the challenges around **cross-border intellectual property (IP) transactions.**

This development – which has since seen Vinny Lingham tell *Ventureburn* that he will now look to open an office for his new startup, Civic, in SA - was in part driven by the power of the ecosystem led by SiMODiSA to lobby government effectively. We would all welcome more wins like it.

Vinny Lingham's Civic announces re-entry into the Cape Town market after IP tax announcement

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Exclusive: Vinny Lingham to open Civic office in SA following IP rule changes

By Stephen Timm: Editor on 2 May, 2017

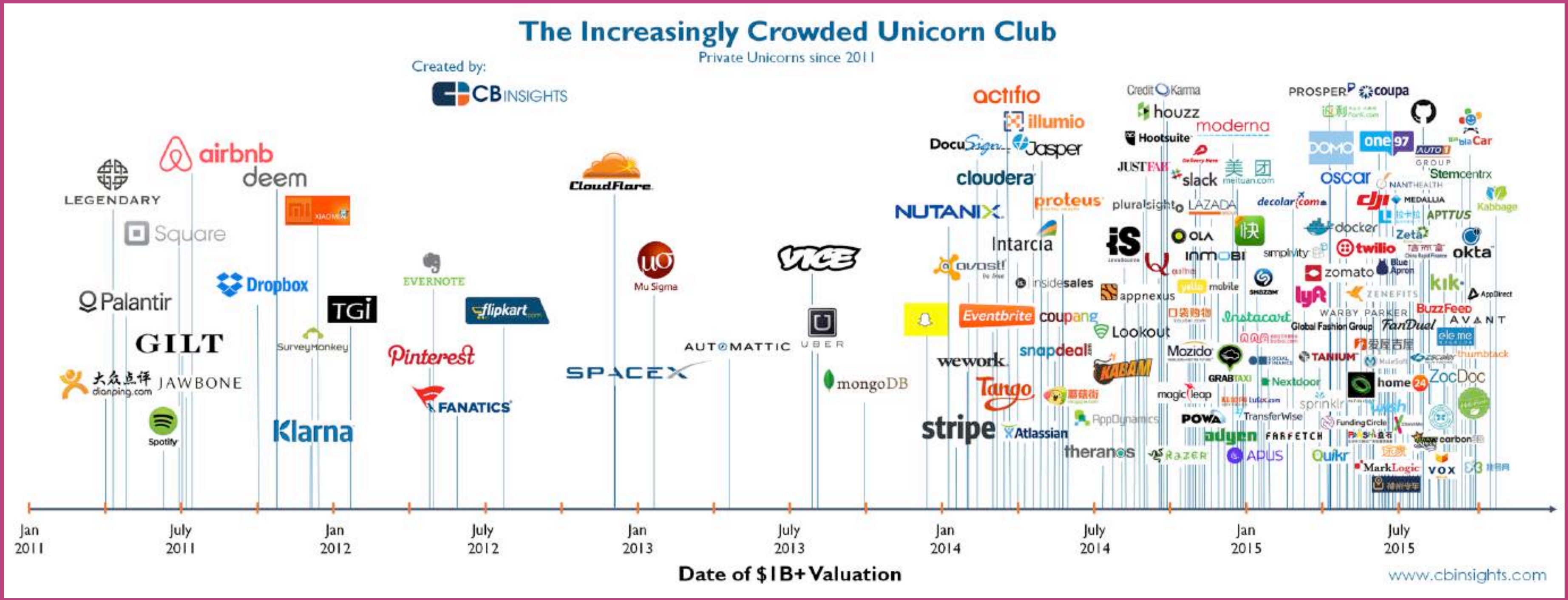
Silicon Valley based SA entrepreneur Vinny Lingham says he plans to open an office in Cape Town to hire developers for his new startup Civic, following reforms to South Africa's Intellectual Property

5b. World class | Drivers of growth & success
Key takeouts

- Healthy early-stage ecosystems create more successful startups (and there are good 'recipes' around to achieve this systemically)
- Key drivers for local success are generally considered to be:
  - improved skills and talent
  - better banking and greater financial inclusion
  - focus on technology infrastructure and absorption
  - thinking globally and being open to sharing knowledge
  - strong education structures
  - a culture of entrepreneurship
  - improved access to, and deployment of, early-stage capital
  - effective incubators and accelerators
  - trust across the ecosystem
  - and an appreciation that failure is okay
- SA needs to fix a number of these drivers. Doing so requires a systematic approach, but also possibly a two-lane strategy where these and leapfrog strategies are pursued in tandem.

5. WORLD CLASS

c. The case for a unicorn



Source: CB Insights

All the nay-saying aside, there is a unique appeal to unicorns: that a 15-month old tech venture, that isn't even wholly unique and has only 13 employees, can be courted, and bought, by Facebook for USD1bn is a **modern-day fairytale**. We think tales **like Instagram's** are vital catalysts for great startup thinking and hungry action. But it is acknowledged that these "pipe dreams" can be as counter-productive as they are inspirational.

This paper started out in search of the recipe for a South African unicorn. We have Naspers, Didata, Bidvest, MTN and lesser known Promasidor, all of which have market caps of (or are privately valued) at USD1bn+. But none are venture-backed, scalable and younger than 10 years old. We don't have a unicorn, in the strict definition.

Mimecast comes close: it's market cap was USD1,2bn in April 2017, but was conceived a year after its South African founders left the country. And **CEO, Peter Bauer** advises: *"Unicorn is a bit of derogatory term here [in the USA]. I'd say they're a [vanity thing not worth chasing]. In fact, they're probably toxic."*

Also, some commentators and some of the interviewees, believe that many of the quoted unicorns' values are (hyper-) inflated. It is hard to value unicorns ahead of IPOs since they are valued on a variety of private company methodologies, and often ones that suit the situation at hand.

Instagram

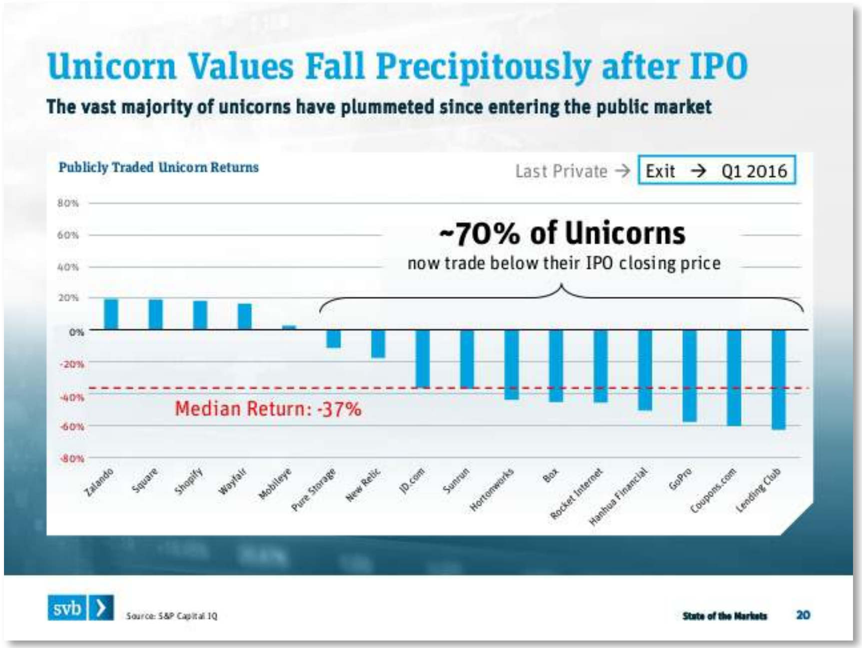
"They're a vanity thing. In fact, they're probably toxic."

mimecast

Also, not all unicorns soar after public listings. In fact, more of them lose value rather than gain it after their IPO debut: 71% according to S&P Capital. With the notable exceptions of companies like Shopify, Mobileye and Twilio which all rose in value by more than 20% since their IPO. (Mimecast, as a matter of interest, listed at around USD540 million in late-2015, and 12 months later was trading at USD1bn).

At the time of writing, CrunchBase counts 221 members in the global 'Unicorn Club'. This is an elite group but, it is worth noting, that some (like *Business Insider*) believe the 'Unicorn Club' is close to *"imploding under the weight of its own vanity"*.

So watch this space. For now the top five in the club are **1. Uber (USA, USD62bn, 2. ANT Financial (China, USD60bn), 3. Didi Chuxing (China, USD50bn), 4. Xiaomi (China, USD45bn) and 5. AirBnB (USA, R31bn)**.



Source: State of Markets Report, May 2016 (Silicon Valley Bank)

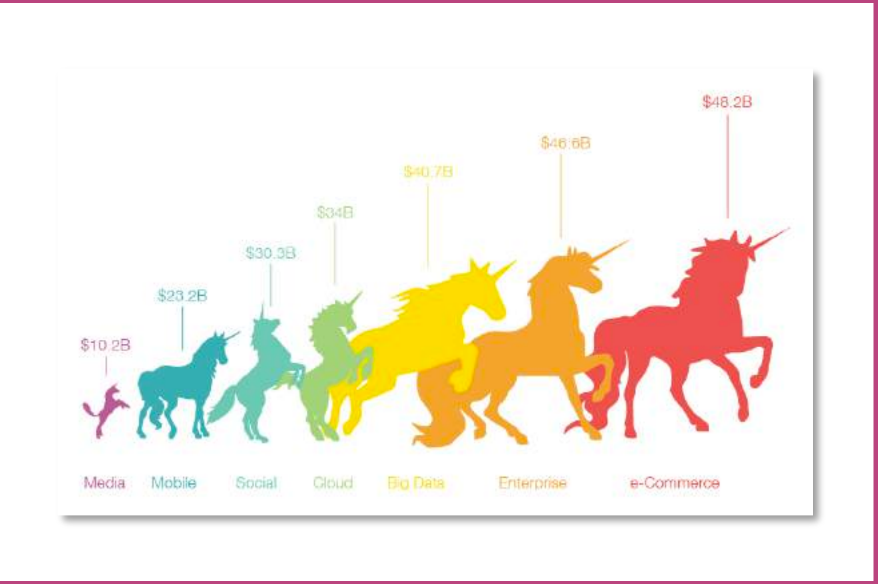
S&P Capital's analysis of unicorns' (via SVB) failure to fulfill promise after listing

ELEVATION

This top five tallies with what Brian Solis ('Unicorns, Startups and Giants') tells us are the top three categories of global tech unicorn value:

1. Ecommerce (about 24% share of total unicorn value)
2. Enterprise (about 23% share)
3. Big Data (20%).

Apart from the debate about the merits of actual unicorn production, SA is pretty bad at capturing the intellectual capital and unicorn-generating expertise of the **Roelof Bothas, Peter Bauers and Dave Frankels** who have left the country. We think the ecosystem could benefit greatly from mobilising such members of the diaspora to pay it forward locally. At various levels: a podcast series, mass videocasts, mentoring, etc. (The cost of this phenomenon was explored at a continental level by SEA Africa in the report: 'Africans from the Outside').
Ambitions for us to deliver unicorns are not overly zealous as there is definitely unicorn activity in small markets. According to the WEF, Poland already has two unicorns, **CD Projekt** and **Allegro** (ironically, up until recently, Naspers-owned, and valued at over USD3bn), and two more potentially on the way: **Sales Manago and GrowBots**.



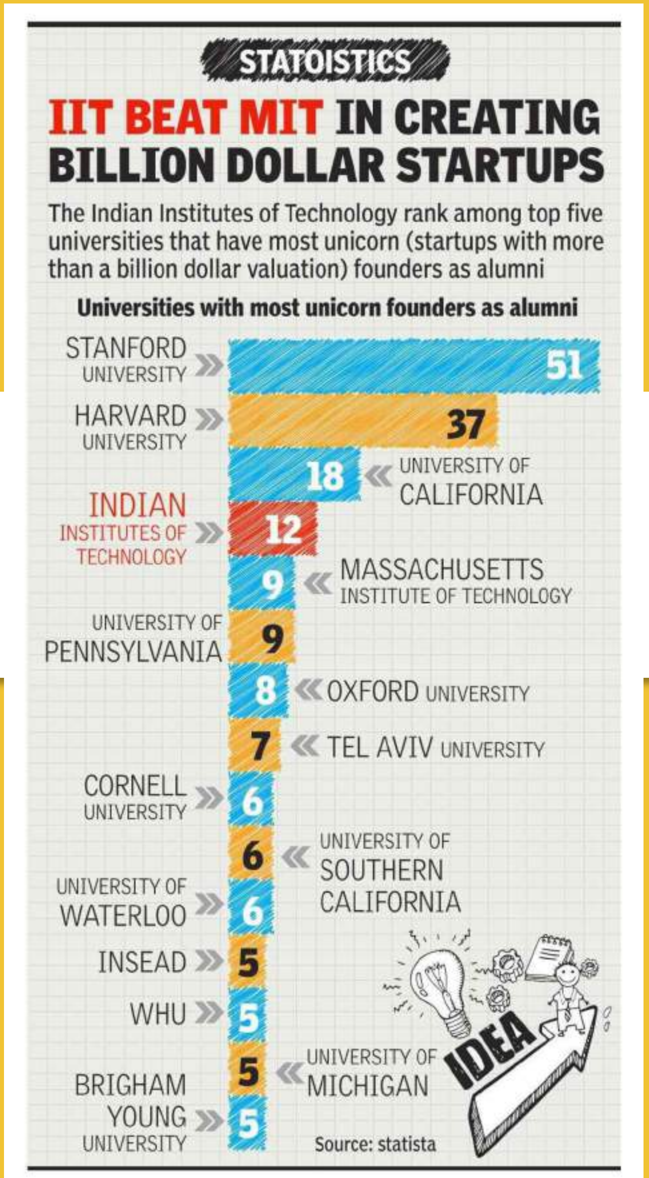
Source: 'Unicorns, Startups and Giants', **Brian Solis**

Portugal-born **Farfetch** was valued at USD1,5bn in 2016. Sweden, with a population of under 10-million people, has five unicorns, including: **Spotify, Mojang, Klarna, King and Skype**. Bulgarian software development company, **Telerik**, was acquired by Progress Software for USD262m in 2014, beating out the biggest of the South African success stories mentioned in any interview, other than Thawte, to date.

Nigeria has joined the club with AIG (and Jumia, its ecommerce portal). It is a subsidiary of (Germany's) Rocket Internet and was valued at USD1,1bn in 2016, Regardless of the method of valuation, it is a unicorn, or close to it. But Jumia, even though it is an adapted clone of other marketplaces, also answers African needs. And **Doug Hoernle** believes that is the way to go: *"I see too much focus on London, Europe and the USA. We can create real value by solving South African and emerging market problems."*

"You need to be able to crack your home market before you dream of 'world domination'," says **Russell Southward**. *"Sadly there are not enough startups that are operating at scale in their home market."*

This might be the starting point, but the big driver of unicorns and high-value startups is often the degree of global ambition of the startup and its founders. As we saw earlier, Startup Genome tells us the 'Foreign Customers' measure (a baked-in export view, abeit a European and US one) as a global average is 23%. Cape Town weighs in at 14% and Joburg at 11%. South Africa needs to think bigger.



Source: Sage, UK via Statista, May 2017

Can we even handle a unicorn?

Whether SA could even handle the beast was questioned.
So we think bigger, we think globally. Then what? **Geoff Cohen** says we couldn't handle a unicorn, even if we struck it lucky. *"The local market, quite simply, is too small to sustain a unicorn. It's harsh, but true - we have to understand the local realities. Maybe we could have a locally conceived one, but it would need to be mostly funded by foreign money, and have mostly international custom."*

The writers concur. Under current circumstances, the revenues and prospects to maintain unicorn status as a SA tech or innovation startup would be tough to conjure. But in a global market context, we don't think we're expecting unicorns to be confined to our borders, just to be born within them.

If SA were to create a unicorn it would come from the tech space, says **Vinny Lingham**. "*But as far as unicorns go, it may be a case of 'who cares?' There are more important considerations, like the state of the capital set-up in South Africa."*

So do we want a unicorn? Probably not. And now, with the rand hovering around a rate of ZAR12-15 : USD1, we're unlikely to produce a dollar-denominated one soon.
But in the absence of the mythical creature itself, don't we need a hero, a beacon, a story to write home about?

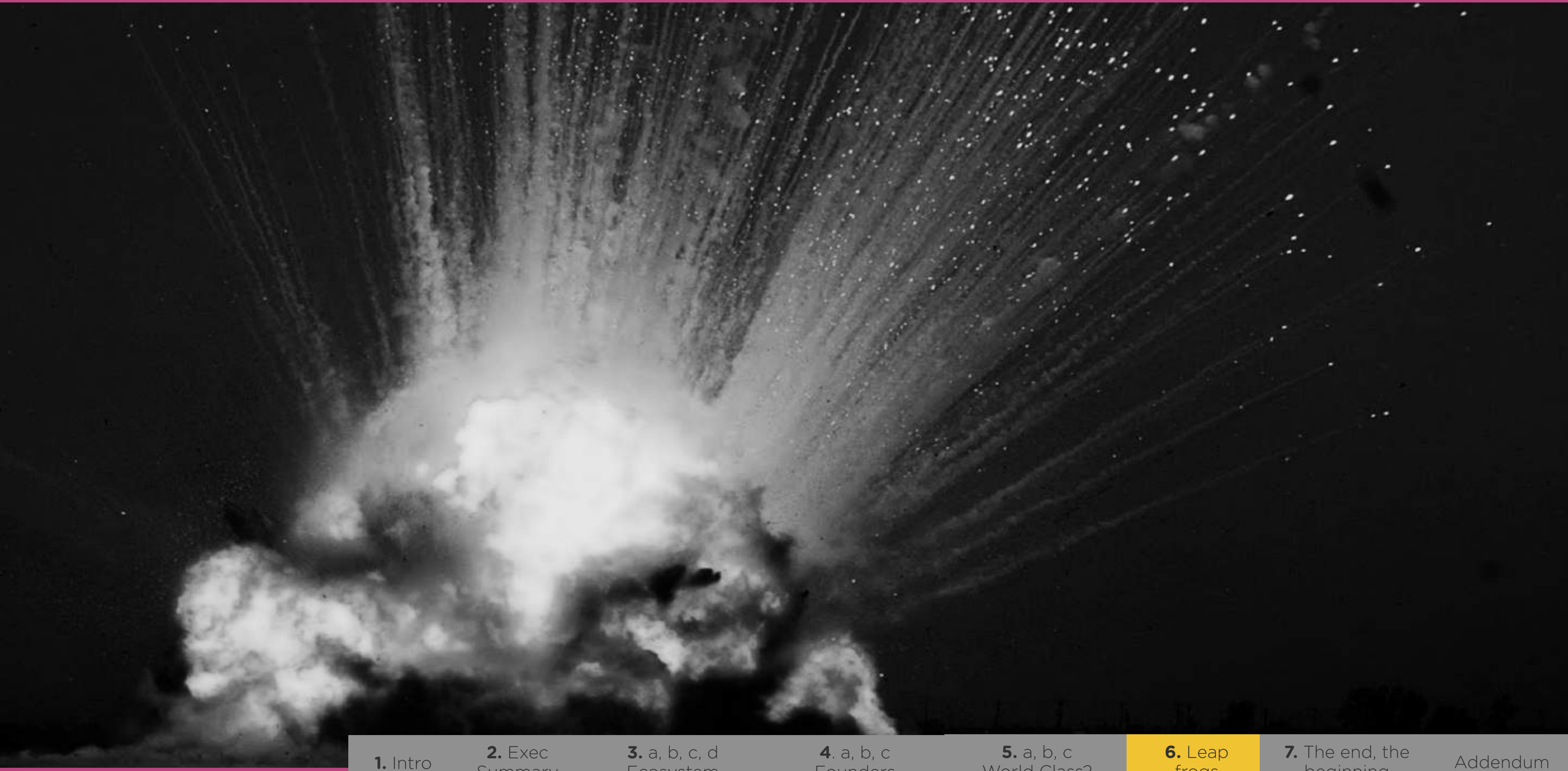
In one interviewee's opinion we do, and don't, want one. Gazelles that have the potential to become unicorns are ideal, but it's not an either/or, we should want both. "Unicorns create a standard, a benchmark, but can become bullies and monopolies, a balance is required."

5c. World class | The case for a unicorn
Key takeouts

- This paper started out on the hunt for a unicorn. But the current ecosystem seems unable to support one, and probably not create one either.
- Despite the fact that many small markets produce them, most interviewees don't want us to strive for a unicorn; they'd rather have tens of gazelles (and/or other things).
- Unicorns are hard to value, hard to predict, and seldom deliver their 'dream value' after IPO.
- For morale and 'guiding light' reasons, we will hold out hope.

6. LEAPFROGS

A faster way?



Box clever, box fast

If we want to accelerate the SA startup ecosystem, and fast, we need to box clever.

One route would be right now, without delay, to seek out 10 to 20 probable rockstar stories: LifeQ, Giraffe, Snapplify, WiGroup, Jumo, Yoco, ID Work, Zoona and other appropriate 'oonas,' and put real guns behind them.
This may galvanize the entire system. Or create sufficient buzz that we begin, as a country, to hear and believe our own press, punch above our weight, and most importantly, work to create more of them.

For the majority of interviewees (with notable asides about the quality of graduates from some of the major public universities), the inadequacy of South Africa's education system was seen as a significant drawback to the ecosystem. And is likely to continue to hold up rapid progress for a long time. **The 2017 Basic and Higher Education budgets jointly exceed ZAR320bn (about 20% of the total fiscus pot, and the biggest spend area by a whopping ZAR130bn)**, and there is still no guarantee this will reap fruit, certainly not in the short term, or for the startup ecosystem.

So, is what we need now quick wins and lateral strategies, rather than linear ones?

The actions proposed here aim to give the startup ecosystem a needed boost, instill confidence and create the 'we can' momentum to catapult the entire system forward. If we want a generation of dynamic startup entrepreneurs, the system needs to captivate the Millennials coming up; they need role models; success stories and an easier ride than the system has provided to date. Only if we can harness their enthusiasm and ideas can we revolutionise rather than just evolve things.

To get this right, we need key players to all come to the party. The likes of **SiMODiSA, Silicon Cape, SAVCA, the SA SME Fund, even the Department of Small Business Development**, can make these leapfrogs happen if there is agreement, after discussion, that some are worth pursuing.

That said, if we are going to employ a focus strategy/ies, not all parts of the ecosystem will benefit equally or directly, the view being: *"there is no single-mindedness without sacrifice"* and *"trying to be all things to all people results in you being nothing much to anyone."*

The problem is, many in the ecosystem – including some of those interviewed for this report – already sound a little **'battle weary'** from banging their heads against very resistant walls. We need a plan of action for accelerated advancement, over and above the evolutionary, structural progress we are all hopeful for regardless. The leapfogs we propose for further analysis and discussion follow.

"There is no single-minded will without sacrifice"

Leapfrog #1 South Africa as a resource hub

Resource hubs are capable of offering startups all the resources they need to function optimally, especially in early stages: tech connectivity, access to finance and markets, and - most importantly - a support structure in the form of well-trained people who can grow businesses. **By offering a complete startup solution (to local and foreign founders) in a competitively priced environment, this could be one of the 'easiest' ways to attract FDI**, create employment and share entrepreneurial knowledge inside and outside the local SA ecosystem. Global connectedness wins per the prevailing intelligence.

But how? If many of SA's incubator programmes are re-routed towards developing strong startup minded team members, rather that out-and-out entrepreneurs, we could force a quick shift. The current system is, per interviewees, producing A, B and C players. Maybe some A+ ones among them, but the ratios are wrong, because in startup economies, only A+ players win. And according to Startup Genome, Cape Town's ability to provide 'growth employees' (non-dev staff who can help grow a startup) is 50% (against a global average of 60%) and Joburg's 55% - much better than many of our other key indicators.

Could some of the positions filled by these incubator graduates not be made to be 'intrapreneurial' bearing small equity stakes? According to VentureBurn's 2015 Ecosystem Report, and others, this inclusion tactic is under-utilised locally.

By focusing on end-to-end holistic execution (with the trained talent to back it up) – for homegrown ideas as well as those of African or global origin – SA could position itself as an execution hub capable of translating ideas into action. And the employment creation opportunities would be of interest to the Jobs Fund, other agencies, and surely government overall.

Angel, Craig Mullett believes this is a strong solution to growing the local entrepreneurial scene. *"Setting up the SA ecosystem as a tech delivery hub for Europe particularly, could work, but with a focus on softer tech [since] deep- or sharp edge tech is not SA's strength. I think we can only deliver there in shallow pockets."*

“Harambee doesn't have a focus specifically on developing youth talent for startups. But [it is an important area] for us to consider. We have already moved into self-employment as a key pillar.

The current state of the economy means there is not going to be a lot of [new employment] in corporates.”

Alexandra Hadfield & Alex Beyers, Harambee

harambee
YOUTH EMPLOYMENT ACCELERATOR

South Africa has a number of aces up its sleeve to make this happen: we are English speaking and our time zone is aligned to the UK and Europe. As a country we have a decent depth and breadth of talent to support founders at all levels, be it tech, engineering, design or marketing. In the case of Cape Town, the city is also a highly appealing global destination which many international startups would be happy to call home during the first two years (or more) of their startup lifecycle.

Zach George, ex Wall Street investment banker, and now the director of Africa's first **Startup Bootcamp** series did it in 2010, and has been here ever since.

Cape Town, particularly, is already building traction on this front when measured by Startup Genome's **'Resource Attraction' score**. This assesses track record in attracting national and international capital, founders and activity to an ecosystem. Cape Town scores **228 (the global average is 300**, Joburg scores 94) for Entrepreneurs/Founders, and 18 (the global average of 83, Joburg is 0) for Startup Businesses.

Business visas and entrepreneurial access? Yes, a signifiicant obstacle. And one that has been on SiMODiSA's lobbying agenda for at least three years. We have to make strides here. But recent developments are promising: the African visa relaxation debate amongst them. **GIBS's Marius Oosthuizen** has some impressive creative thinking in this space.

In addition, government may do well to consider formalising this talent development approach with tax incentives (see 3d. The Role of Government) to get the ball rolling for what are currently incubators. This may catalyse them towards creating entrepreneurial support talent more readily and rapidly.

Incubators need to come to the party of course, says **Vuyisa Qabaka**:
"There are guys getting money hand over foot, and the quality [is not there].
Independent metrics must urgently be put in place. The bulk of incubator graduates go nowhere because what they're getting is inferior."

Another dynamic is that even where there are programmes to try make up the shortfall in the education system, they tend to try and prepare youth for placement into the very established, formal sector:
"Too many youth development programmes are creating employees for corporates as opposed to ready-to-go employees for startups," contests **Jayshree Naidoo of the Standard Bank Incubator**.

Missing the mark?

Commentator, **Stephen Timm** on *Small Business Insight* says he believes SA is missing the mark when it comes to incubators. Speaking about Chile and Malaysia, he says*: "A key difference between SA and its emerging country peers — such as Brazil, Chile and Malaysia — is that while the latter use incubation as a tool to stimulate innovation, here at home there is no real strategic focus."*

"The conundrum for [SMEs] is that they need experienced, independent workers, but do not have the management systems or [brand appeal] to [attract] and develop first time work seekers in-house. [And they lose out to] large corporates in the fight for experienced talent." say **Alexandra Hadfield and Alex Beyers from human capital star player, Harambee**.

Another key dynamic is mentorship of talent by rockstar founders (and other experienced stalwarts). Matching key support staff to the right entrepreneur will equate to valuable knowledge transfer. This could create almost a mini-university for what could be star employees seeking first-hand exposure to startup development, in a way that they themselves could replicate or emulate in years to come.

Bridgit Evans of the SAB Foundation, believes this resource hub approach is a good idea to give the ecosystem the boost it needs, but adds: "*We need to see senior mentoring of startup talent broadly. And then matching of people with entrepreneurial hustle to the great ideas coming out of academic staff and students."*

Leapfrog #2
Impact investor haven

The one thing South Africa is not short of is problems that need solving. And this creates fertile ground for a deep concentration in our ecosystem on impact investment and social innovation/entrepreneurship. This is not a 'grant haven' approach, but rather a focus on creating startups that solve local and other problems and deliver a commercial return (although not super-profit) in so doing. We develop an expertise in it as a specialisation, market it, fund it and attract FDI to it, is the suggestion.

Interviewees asked about building companies with a social focus were generally upbeat about the idea. **Craig Mullett** says: "*By driving the SA ecosystem as a specialised impact investor haven, we can address the problems that impact investors are interested in solving. And we have pretty solid skills to make headway there. Those solutions, once realised, can be exported to Africa and other emerging markets. This approach is likely to garner government support too.*"

He, and others, say SA has the upper hand over its neighbours when it comes to foreign investment; another plus. "*I sense foreign impact investors would rather visit Cape Town than some of the more frontier African markets.*"

Geoff Cohen is not convinced that the current approach is working, and agrees with the principles behind impact investing: "*That is much more interesting than some of the other ecosystem growth strategies I've heard. I could maybe buy that.*"

ELEVATION

Bridgit Evans, who has worked in the impact investing space, says organisations like the SAB Foundation are already seeing the potential in impact investing. *"We will disperse about ZAR80m, and about ZAR50m of that will go to enterprise development but in small batches. SAB is thinking of doing more growth investing, as well as seed capital, as a broad spectrum of investment is needed to create opportunity and employment."*

But is the pot of money available in this space large enough to warrant a specialisation? Local funds like **Ashburton Impact Fund, Emergent Growth Fund, LifeCo Unltd.** and **Cadiz High Impact Fund** are promising. **Goodwell** is now active in the space. But so are more recent international players like the deep-pocketed **Omidyar Network** and **European Business Angel Network (EBAN)**.

"I think there is enough money in the system for a focus on impact investment to work, but the question is if there is an enabling environment and the will to make it available," says **Standard Bank's Jayshree Naidoo**.

Eastern Europe and India opted for specialisation to put their ecosystems on the map. Boston/ Massachusetts did it in robotics (by virtue of their academic interest in it), so is it an option worth discussing for SA?

Does the pot of available money warrant a specialisation?

ELEVATION

Leapfrog #3
Pick a vertical and specialise

A third idea, and maybe a longer shot, is to focus on, and develop, **two or three key verticals. In other words, pick sectors like edtech, healthtech and fintech, maybe renewables** (notably solar). And then dive all the way down the vertical to increase the chances of us becoming world class in it.

The problem, of course, is that by focusing on the few we might close the door to other options and new innovations, and, in the process, limit real entrepreneurial growth. It might also prove a risky strategy for a developing country to employ in a global context. But Poland has created unicorns. And there are learnings to borrow there. This approach is possible.

Poland carefully picked the sectors they want to develop, and have also chosen an 'angle' to its development, honing in on B2C innovation and cost-effective softer tech. Admittedly the country has the added benefit of a national savings culture (that enabled entrepreneurs to bootstrap their own businesses, without relying heavily on funding). Not only does this give them more freedom to innovate, but also makes them more profitable earlier on. And when it comes to ensuring that its best entrepreneurs get the breaks, the country has made sure that it identifies and nurtures its top businesses, as it did with its unicorn, and runners-up.

And finally, Poland has done well at marketing itself as a regional hub of expertise. It hosts global events, it draws attention to itself and positions itself as the gateway for bigger markets.

Vuyisa Qabaka also believes this might be a viable option for SA, but stresses that government and business would have to plan and understand where the country's strengths lie. "*Maybe it's an option, but only if it's fintech and renewables. I see those as the really high-growth areas."* He adds: *"Things like edtech and healthtech need government as their main customer, and government isn't buying."*

Leapfrog #4
Government and public capital

There is a view that **not small, but huge, amounts of capital injected into the right businesses in the system would accelerate it forward**. And demand would indeed meet supply (see Section 3b.).

Government has spend and pension funds to bring to the table. Such capital deployment, correctly managed, could turn South African entrepreneurship on its head by 'flooding' the market with government money. It may seem a radical idea, but so did Regulation 28 at a time. It would be tough to pull off, but it's worth debating.

An ecosystem of action

Assuming an ecosystem culture of action and ambition, let's imagine what this leapfrog might look like. If all stakeholders, along with provincial government, business and civil society, lobby national government for a directive for all public sector pension funds – most notably and obviously, the PIC – to allocate (just) 0,5% of funds under management directly to high growth SME development this may forever shift the goalposts. 0,5% of the PIC's funds under management alone translate to close to ZAR10bn.

It is important to note that this is not a new idea: it would essentially be building on the 2011 Regulation 28 update, which empowered Treasury to regulate how asset managers diversify their investments. This proposal would merely make startup and SME investment part of the government pension fund portfolio.

The view – partly informed by the interview series covered herein – is that the capital should be privately deployed – for reasons of both efficiency and effectiveness. Friction costs in the system, assuming deployment in this way, via third party VC providers, need to be managed.

Bridgit Evans adds: *"It would need rigorous measurement, monitoring and independent reporting to come out of the institutions managing the funds."*

SME development expert and SiMODiSA board member, Claire Busetti's view:
"Every successful ecosystem was catalysed early on through government capital and incentives being managed by the private sector: Silicon Valley, London, Israel all included."

6. Leapfrogs
Key takeouts

Some options for catapulting the ecosystem forward are outlined:

1. **SA as a resource hub:** Re-deploy incubator capacity away from creating soon-to-be-disillusioned entrepreneurs, towards upskilling talent for local and international startups. Then market South Africa (Cape Town particularly) as a destination for high quality, lower cost skills and resources that are startup-specific.
2. **Impact investor haven:** Focus capacity and attention on social innovation along commercial, but not super-profit, lines. Look to solve a huge diversity of societal and practical problems, and export those solutions to other African and emerging markets, thereby attracting global impact funding.
3. **Access to public investment funds:** The ecosystem lobbies government to direct public sector pension funds to release 0.5% of their funds under management into venture funding, and vigorously stimulate startup activity to meet capital supply.
4. **Vertical, sector specialisation:** Focus a lot of the ecosystem's attention on two or three (maximum) verticals like fintech, healthtech and/or renewables. Then market that specialisation nationally and internationally.

7. THE END,

the beginning

From the horse's mouth

Developing this paper has been a fascinating ride. Sometimes interviewees' opinions intersected, and sometimes they collided. Both gave great insight into the status quo. **And yes, that 'from the horse's mouth' content, is of value in itself.**

But that wasn't really the point. Rather than to just snapshot the current landscape, the main objective of the paper is to look at revolutionising it in parallel as it naturally or incrementally evolves. And that isn't a matter of plotting it on paper, and hoping it will happen. Ideally it could morph to become a collaborative, debated and accepted action plan. Hopefully robust discussion and action will ensue from here, because we don't think incremental advancement is an option: it isn't anywhere in modern business.

Where does that leave startup SA?

It seems it is going to be tough to shift the ecosystem rapidly. But this doesn't change the urgent need to hasten delivery of the right conditions for a sector that really wants to flourish.

Some of the **gems and revelations**, for me, unearthed include:

- **The capital debate.** Regardless of some views, there is very probably not enough capital in the system: less than 15-20% of the private equity pot. And/or it is not being deployed properly.
- Catering to the South African market, and maybe even the sub-Saharan market could not easily produce a unicorn or even half unicorns. Or the scale of business that would turbo-boost the ecosystem. Our own region is important, but we need to think bigger. **Too few South African startups begin with a global vision.**
- **We very probably don't need a unicorn**, but would benefit greatly from some 'beacons of light' - really impressive startup success stories that cast a halo on the ecosystem. And, for economic, morale, marketing and employment reasons we need a lot of gazelles and great businesses that are high profile success stories.

- **Incubators and 'assistors'**. We have more than Israel and India put together. Outcomes are out of proportion to size. This resource could fairly quickly be re-focused or re-deployed into producing better outcomes.
- **Education.** Despite being the biggest item on the national budget by far, both formal education and entrepreneurial skills development are in crisis. This shouldn't come as a huge surprise, but the importance of addressing it cannot be over-emphasised. There are some quicker wins available here, partly out of the incubator and BDS space. And also by more heavily leveraging (and entrepreneurial matching of) the high quality of what can be produced by SA's public institutions: GIBS's Academy, GSB's VIP (and other) programme/s, Stellenbosch's LaunchLab, UJ's Resolution Circle, *inter alia*.
- The importance of building **an entrepreneurial culture**, especially amongst Millennials, where it is much easier because of fewer pre-cast views, and the penetration of influential social media.
- The need to get on with it **with or without government**. Most early stage ecosystems have been boosted by strong government policy- and financial support, and we must keep banging away for that. But, in parallel, getting on with doing what needs to be done, as if it were not coming.

"Some quicker wins are available here, partly out of the incubator and BDS space"

ELEVATION

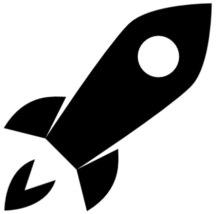
- In the absence of any intervention, we're on a **10 to 20 year path** to be a world-competitive ecosystem: pretty much the norm working to expected timelines. And that is without accounting for the specificities of the erratic SA context. There is a strong chance of being dramatically beaten out by Eastern Europe, other African countries and/or South America in that time.

Things like the proposed leapfrogs are not easy or cheap to execute, but action is a priority. And financial and intellectual support must be forthcoming. It normally is when the thinking is big enough. Let's activate these leapfrogs or others - as modified - that have potential, by holding forums able to endorse the way forward, and then rally support. The next step would be to market and communicate the intention to the country and beyond. We want to be on the Forbes list of the best places in the world to launch a startup.

Let's tell the world about what we offer, before Cairo, Warsaw, Lagos, Nairobi, Sao Paolo, Bangalore and others drown us out completely.

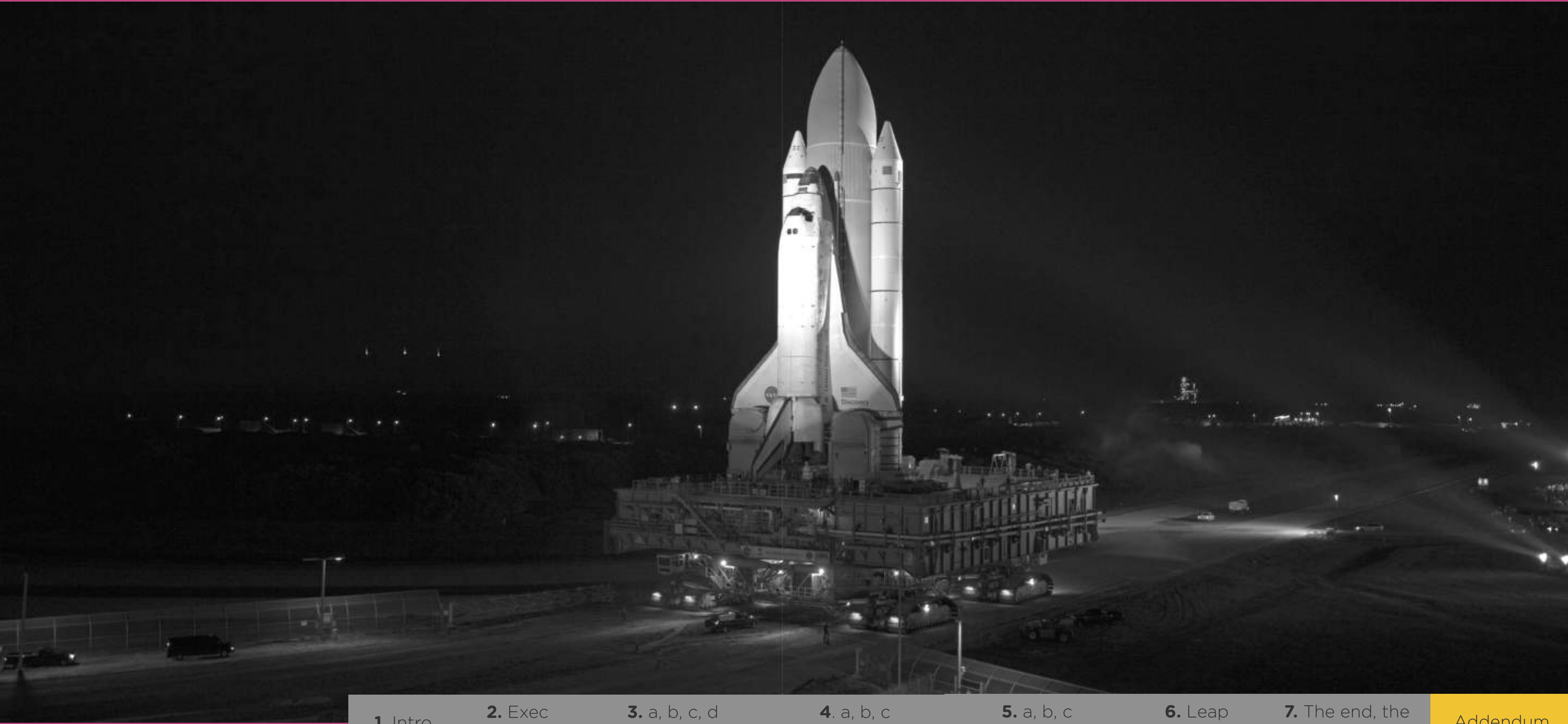
Our interviewees, even the jaded ones, have shallow or deep faith in our ecosystem, or they wouldn't be in it (or have given their views on it from abroad). We have a favourable location, a history of entrepreneurial success, world class universities, a capital machine that can work, pockets of willing government (including local and provincial) and decent infrastructure.
And we have momentum. It now just needs to be matched by a sense of urgency and a will to win.

Let's get bold. Let's pick a plan, panel beat it into shape, throw everything we have at it, and reap the benefits.



ADDENDUM

Interviewees & glossary



Study interviewees

1.

Peter Bauer, Founder
CEO, Mimecast, Global

Craig Mullett, Angel
Branison Group, USA

Matsi Modise, Ecosystem
CEO, SiMODiSA, SA

Vinny Lingham, VC & Entrepreneur, USA
Civic, Newtown Partners

Jenny Retief, Ecosystem
CEO, Riversands Incubation Hub, SA

Gavin Rooke, Founder
CEO, Dutchmann & The New Order, SA

Anish Shivdasani, Founder
CEO, Giraffe, SA

Allon Raiz, Ecosystem
CEO, Raizcorp, SA

Doug Hoernle, Founder
CEO, Rethink Education

Vuyisa Qabaka, Angel
CEO, Entrepreneur Traction, SABAN, SA

'G' De Smedt, Ecosystem
Startup Grind SA & Global Coordinator

Sean Donovan, Entrepreneur+
CEO, TBWA\SA

Chris Peters, Founder
CEO, Like Digital, SA

Niall Gahan, Ecosystem
Enterprise Room, SA

Lianne du Toit, Ecosystem
GSB, VIP Programme

Many thanks to the study participants, who between November 2016 and May 2017 completed face-to-face or telephonic interviews with Jason Levin

Study interviewees

2.

Catherine Luckhoff, Founder
CEO, Nichestreem

Abu Cassim, Angel
Jozi Angels, SA

Jeff Miller, VC
Director, Grovest, SA

Nic Bednall, Entrepreneur
Director, WiGroup

Scott Cundill, Founder
CEO, Majestic 3, UK

Quinton Dicks, Ecosystem
CEO, SA SME Fund

Russell Southwood, Ecosystem
Balancing Act, UK & SA

Gianfranco Crupi
Academic, Italy

Elias Makhubo, Founder
Black Star Coffee ++

Keet Van Zyl, VC
Director, Knife Capital

James Durrant
Blue Sky, Entrepreneur, UK

Geoff Cohen, Founder
CEO, DyDx, SA

Zach George, Ecosystem
Startup Bootcamp, SA

Brett Commaille, VC
Director, AngelHubVentures

Input providers

Bridgit Evans, Ecosystem
Director, SAB Foundation, SA

Nadine Todd, Ecosystem
Managing Editor, Entrepreneur Magazine, SA

Craig Mullett, Angel
Branison Group, USA

Dr. Graunt Kruger, Commentator
DCM Group, USA & SA
London School of Economics

Jayshree Naidoo, Ecosystem
Standard Bank
Incubator, SA

Claire Busetti, Ecosystem
SME development expert &
SiMODiSA board member, SA

Vuyisa Qabaka, Angel
CEO, Entrepreneur Traction,
SABAN, SA

Many thanks to this panel who kindly let us soundboard them on some of the findings, conclusions and recommendations of the report.

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Glossary

Basic glossary & abbreviation listing for entities and terms used in this report

- ANDE: Aspen Network of Development Entrepreneurs
- BBBEE: Broad-based Black Economic Empowerment
- BDS: Business development services
- DFI: Development finance institutions
- ED: Enterprise development (entrepreneurial development and funding as specifically directed by SA's BBBEE codes of conduct)
- DTI: Department of Trade & Industry
- FDI: Foreign direct investment
- Gazelles: Post-commercialisation phase, high-growth businesses (normally well in excess of 20% annually) that are ready and able to scale
- GEDI: Global Entrepreneurship & Development Institute (producer of the report, The Entrepreneurial Ecosystem of South Africa: A Strategy for Global Leadership)
- GEM: Global Entrepreneurship Monitor (producer of the annual GEM Global Entrepreneurship Report)
- IDC: Industrial Development Corporation (government agency)
- IPO: Initial public offering (listing on a stock market)
- OECD: Organisation for Economic Development and Cooperation
- Rockstars: A colloquialism for startups, and/or their founders, with great promise
- SD: Skills development (human capital development and funding as specficially directed by SA's BBBEE codes of conduct)
- SEDA: Small Enterprise Development Agency (government agency)
- Seed capital: The initial capital required to start a business, normally at ideation stage (from whatever source)
- SMEs: Small and medium enterprises. Small would be turnovers of under about ZAR10m-ZAR15m p.a. (sector specific), and medium under ZAR25m-ZAR30m turnover p.a.
- SMMEs: Small, medium and micro-sized enterprises
- Unicorns: Venture-backed high-growth, high-impact businesses/startups valued at USD1bn or more, normally pre-public listing (IPO)
- VC: Venture capital
- WBG: World Bank Group
- WEF: World Economic Forum

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The print version of this report includes key extracts only

This full 144-page report is available for download as an e-book from Elevation's website. Elevation Holdings is a boutique angel investing, business development services (BDS) & advisory firm. Elevation is passionate about what can be achieved by startup ecosystems, entrepreneurs and South Africa.

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