

SA's entrepreneurial activity has declined post-pandemic, says Global Entrepreneurship Monitor

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

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

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

Although South Africa effectively rose 5 places (46/50 countries in 2021 to 40/51 countries in 2022) on the [GEM National Entrepreneurial Context Index](#) (NECI), a measure of the favourability of the environment for entrepreneurship and starting a new business, it was one of only three countries where all 13 of the enabling conditions for entrepreneurship were rated as insufficient.

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

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

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

The GEM SA report is released by Stellenbosch Business School in partnership with the Global Entrepreneurship Monitor (GEM) and sponsored by the Small Enterprise Development Agency (Seda) and Standard Bank.

Natanya Meyer, associate professor in the SARChI Chair for Entrepreneurship Education at the University of Johannesburg and co-author of the report, said, "A particular concern is the low intentions to start a new business, ownership of new businesses (in existence between 3 months and 3.5 years) and established businesses (more than 3.5 years) seen as South Africa emerged from the Covid-19 pandemic. All had declined to pre-pandemic levels, and below, in the latest survey."

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

Total Entrepreneurial Activity (TEA), consisting of active businesses less than 3 months old and new businesses up to 3.5 years old, declined from a pandemic high of 17.5% to 8.5% in 2022/23, below the 2019 level of 11%.

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

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

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

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

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

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

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

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

In 2019, 3 in 10 new business owners expected to employ an additional 6 people or more in the next five years, but this fell to just 2 in 10 in 2022 – reflecting the generally weak economic conditions and enabling environment, Bowmaker-Falconer said.

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

South Africa showed year-on-year improvement in 10 of the 13 framework conditions, including those directly dependent on government as well as the levels of and access to finance, leading to the country improving its global ranking by 5 places.

“However, all 13 conditions remain ranked as insufficient, scoring less than 5 out of 10.

“All of the conditions of the entrepreneurial framework, those factors that either support or hinder business startup and growth, need strengthening. Some require a medium- to long-term views, such as policy change, deepening a culture of entrepreneurship, and improving the physical infrastructure of logistics, utilities and communications that enable investment.

“Others can be addressed and vitalized over a shorter timeline, including improvement in coordination of government support programmes, entrepreneurship education in schools, and financial and market access,” Bowmaker-Falconer said.

The annual GEM report is considered the most authoritative global trend study of the state of entrepreneurship, measuring entrepreneurial activity levels and attitudes, the contribution of entrepreneurship to national economies, and the quality of the enabling environment.

Bowmaker-Falconer said the GEM SA report provided a comprehensive picture of the state of entrepreneurial activity and the needs of entrepreneurs in the local economy and also on an international comparative level.

“Entrepreneurship remains a vital economic and social lever to grow the economy and create employment. This is a pressing need in South Africa, given the high levels of inequality and unemployment, and the need to accelerate the pace of economic and social transformation towards an inclusive society and economy.

“Joined-up thinking to create an effective entrepreneurial ecosystem is a key support mechanism. Our research for the GEM provides a clear understanding of the components of this ecosystem and lays the groundwork for practical and policy advice to create a more entrepreneurial South Africa,” he said.

Meyer indicated, that although the findings in the report seem to shed a gloomy picture of the state of entrepreneurship in South Africa, we must remember that we still have many challenges to overcome as a result of the aftermath of the Covid-19 pandemic added to already existing socio-economic problems faced by the country.

“As can be seen by the featured case studies in the report, South Africans are resilient and with a better ecosystem environment factors in place more and better-performing businesses will emerge. Therefore, improving policies and creating a more conducive enabling environment should be a main priority for policymakers and other stakeholders” Meyer said.

“New businesses in South Africa are insufficiently focused on sustainability considerations in their business strategies and operations. This is likely due to a combination of awareness and business distress. New digital technology adoption post the Covid pandemic aligns with international trends, and it appears that women entrepreneurs in South Africa adopted new technologies at a greater rate than men since then.”

The full report can be downloaded from the Stellenbosch Business School [here](#).

ABOUT THE REPORT

Titled *Entrepreneurial resilience during economic turbulence*, the GEM SA report was authored by Bowmaker-Falconer with Natanya Meyer and Stellenbosch Business School visiting research fellow Mahsa Samsami, of the University of Agder, Norway.

Stellenbosch Business School is the leader of the GEM study team for South Africa, as part of a large-scale international research collaboration. The South African leg of the study included a survey sample of 3 000 people and the input of 36 national experts in diverse fields, while the global report covers 51 countries across geographic regions and different income levels.